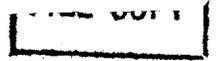


WORLD BANK
COMPARATIVE STUDIES

8227



Liberalizing Foreign Trade

The Experience of Greece

George C. Kottis



Liberalizing Foreign Trade

The Experience of Greece

George C. Kottis

WORLD BANK
COMPARATIVE STUDIES



The World Bank
Washington, D.C.

Copyright © 1989
The International Bank for Reconstruction
and Development/THE WORLD BANK
1818 H Street, N.W.
Washington, D.C. 20433

All rights reserved
Manufactured in the United States of America
First printing December 1989

World Bank Comparative Studies are undertaken to increase the Bank's capacity to offer sound and relevant policy recommendations to its member countries. Each series of studies, of which Liberalizing Foreign Trade is one, comprises several empirical, multicountry analyses of key economic policies. A synthesis report on each series compares the findings of the studies of individual countries to identify common patterns in the relation between policy and outcome—and thus to increase understanding of development and economic policy.

The series Liberalizing Foreign Trade, under the direction of Armeane M. Choksi, Michael Michaely, and Demetris Papageorgiou, is published by Basil Blackwell. It examines the attempts of nineteen countries to liberalize trade. The study set out to cover all liberalizations in market-based developing countries in the post-world war period. Given some inadequacy of data, and a requirement that a liberalization policy should be of some minimum duration to qualify as a subject of analysis, the experiences of the following nineteen countries were actually studied: Argentina, Brazil, Chile, Colombia, Indonesia, Israel, Korea, New Zealand, Pakistan, Peru, Portugal, Singapore, Spain, Sri Lanka, the Philippines, Turkey, Uruguay, and Yugoslavia.

The study of Greece is published by the World Bank separately from the above series because of the unique nature of its experience. The findings, interpretations, and conclusions in this series are entirely those of the authors and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to members of its Board of Executive Directors or the countries they represent.

The material in this publication is copyrighted. Requests for permission to reproduce portions of it should be sent to the Director, Publications Department at the address in the copyright notice above. The World Bank encourages dissemination of its work and will normally give permission promptly and, when the reproduction is for noncommercial purposes, without asking a fee. Permission to photocopy portions for classroom use is not required, though notification of such use having been made will be appreciated.

The complete backlist of World Bank publications is shown in the annual Index of Publications, which contains an alphabetical title list and indexes of subjects, authors, and countries and regions; it is of value principally to libraries and institutional purchasers. The latest edition is available free of charge from the Publications Sales Unit, Department F, The World Bank, 1818 H Street, N.W., Washington, D.C. 20433, U.S.A., or from Publications, The World Bank, 66, avenue d'Iéna, 75116 Paris, France.

George C. Kottis is a professor of economics at the Economics University of Athens; he was a consultant to the World Bank for the preparation of this study.

Library of Congress Cataloging-in-Publication Data

Kottis, George C., 1933-

Liberalizing foreign trade : the experience of Greece / George C. Kottis.

p. cm.

Includes bibliographical references.

ISBN 0-8213-1385-1

1. Greece--Commercial policy. 2. Free trade--Greece. I. Title.

HF1582.5.K68 1989

362'.3'09495--dc20

89-29489

CIP

Editors' Preface

The General Objective

"Protection," said the British statesman Benjamin Disraeli in 1845, "is not a principle, but an expedient," and this pronouncement can serve very well as the text for our study of trade liberalization. The benefits of open trading have by now been sufficiently demonstrated and described by economic historians and analysts. In this study, we take them for granted and turn our minds from the "whether" to the "how."

The Delectable Mountains of open trading confront the pilgrim with formidable obstacles and there are many paths to the top. The direct route seldom turns out to be the best in practice. It may bring on rapid exhaustion and early collapse, while a more devious approach, skirting areas of excessive transition costs, may offer the best prospects of long-term survival.

Given the sharp diversity of economic background and experience between different countries, and indeed, between different periods in the same country, we should not expect the most favorable route to turn out the same for each country, except perhaps by accident. There are fundamental principles underlying the diversities and it is our thesis that a survey and analysis of a sufficiently broad spectrum of countries over sufficiently long development periods may serve to uncover them.

With this object in view, we set out to study as many liberalization experiences as possible and aimed at including all liberalizations in developing countries in the post-world war period. However, the actual scope of this study had three limitations. First, we restricted the study to market-based economies. Second, experiences with highly inadequate data had to be excluded. Third, to be an appropriate object of study, an experience had to be of some minimum duration.

The trade liberalization study on Greece has been published separately from the main body of 18 country studies because of the unique nature of the study. The Greek study is a modern economic history. Because of Greece's important ties with the EEC, one of the two episodes--20 years long--is defined by the country's association with the EEC. The duration and uniqueness of this last episode do not allow for meaningful comparison with the other countries' shorter and more sharply defined episodes. Indeed, the smaller, recognizable phases throughout the long episode do not deviate enough from the overall trend of the episode to warrant dividing it into smaller ones. The Greek experience is relevant, however, and important enough to stand alone.

Definitions

"Trade liberalization" implies any change which leads a country's trade system toward neutrality in the sense of bringing its economy closer to the situation which would prevail if there were no governmental interference in the trade system. Put in words, the new trade system

confers no discernible incentives to either the importable or the exportable actors of the economy.

By "episode" we mean a period long enough to accommodate a significant run of liberalization acts terminating either in a swing away from liberalization or in a period where policy changes one way or another cease to be apparent.

The "episode of liberalization" thus defined is the unit of observation and analysis employed in each of our country studies.

Identification of Liberalization Episodes

There are three main indicators of a move in the direction of neutrality: (a) a change in the price system; (b) a change in the form of intervention; (c) changes in the foreign exchange rate.

Price System

The prices in question are nominal protection rates determining consumption patterns and, more importantly, effective protection rates affecting production activities. Any change which lowered the average level and distribution of rates of protection would count as a move toward neutrality. Typically, such a change would arise from a general reduction in tariffs, but it might also be indicated by the introduction, rather than the removal, of instruments of government intervention, or even, indeed, by the raising rather than the lowering of the incidence of government intervention. An instance of this might be the introduction of export subsidies in a protective regime previously biased against exports and favoring import substitution. Another instance might be the introduction or increase of tariffs on imported raw materials and capital goods in a regime where tariffs have previously escalated over the whole field, with the zero and lower rates applying on these imports.

Form of Intervention

The form of intervention may be effected by a change in the quantitative restriction (QR) system itself or by replacing QRs with tariffs. Although the actual changes might be assigned price equivalents, it is not feasible to assign price equivalents to their actual effects. Moreover, the reactions they induce are so different from responses to price signals that they are better treated as a separate category.

The Exchange Rate

A change in the level of a uniform rate of exchange, since it does not discriminate between one tradeable activity and another, is not of itself an instrument of intervention. A move from a multiple to a uniform rate would, however, be equivalent to intervention through commercial policy instruments, and changes in the rate would modify the effect of commercial policy instruments already in being, for example, where QR systems are operated through the exchange control mechanism itself or where tariffs effective at an existing rate become redundant at a higher rate.

Failing detailed studies of the impact of exchange rate changes on QRs or tariffs we take as a general rule that a formal and real devaluation constitutes a step towards liberalization.

Policies and Results

We do not take the actual degree of openness of the economy as an indicator in itself of a liberalization episode. Liberalization policies may commonly be expected to lead to an increase in the share of external trade but this is not an inevitable result. For instance, if, starting from a state of disequilibrium, liberalization is associated with a formal devaluation, imports may actually fall. Therefore, attempts to detect liberalization by reference to the import-export ratio rather than to policy intentions would be misleading. Exceptionally, however, the authors of the country studies have used trade performance as an indication of liberalization, particularly where actual changes in imports can be used to measure the degree of relaxation, or otherwise, of QRs.

Measurement of Degrees of Liberalization

In each country study we have attempted to indicate the degree of liberalization progressively attained by assigning to each year a mark for performance on a scale ranging from 1 to 20. A mark of 20 would indicate virtually free trade, or perfect neutrality, a mark of 1 would indicate the highest possible degree of intervention. These indices are subjective and peculiar to each country studied and in no way comparable between countries. They are a rough and ready measure of the progress, or otherwise, of liberalization as perceived by the authors of the country study in question. They reflect, for instance, assessments of nominal and effective rates of protection, the restrictiveness of QRs, and the gap between the formal exchange rate and its equilibrium level.

Analysis of Successful Liberalization Exercises

To arrive at criteria of what makes for success in applying liberalization policies, the following questions might be asked in our studies.

1. What is the appropriate speed and intensity of liberalization?
2. Is it desirable to have a separate policy stage of replacement of nonprice forms of trade restrictions by price measures?
3. Is it desirable to treat productive activities during the process of trade liberalization uniformly or differentially?
4. If uniform treatment is indicated, how should it be formulated?

5. On what pattern of performance of the economy is the fate of liberalization likely to hinge?
6. Is it desirable to have a stage of export promotion? If so, what should its timing be in relationship to import liberalization?
7. What are the appropriate circumstances for the introduction of a liberalization policy?
8. How important are exogenous developments in deciding the sustainability of liberalization?
9. Finally, what other policy measures are important, either in their existence or absence, for a successful policy of trade liberalization?

Lurking behind many of these issues are the (potential) probable costs of adjustment of a liberalization policy and, in particular, its possible impact on the employment of labor.

Scope and Intention of our Study

The general purpose of our analysis is to throw up some practical guidance for policymakers and, in particular, for policymakers in developing countries where the economic (and political) climate tends to present the greatest obstacles to successful reform. It is for this reason that (as already explained) we have based our studies on the experience of a wide spread of countries throughout the developing world. This approach should yield inferences on the questions raised above in two distinctly different ways; via the conclusions reached in the country studies themselves, and via the synthesis volume of the comparative experience of trade liberalization in these countries.

The presence of a common pattern of inquiry in no way implies that all country studies cover the same questions in a uniform manner. Not all questions are of equal importance in each country and the same quantity and quality of data were not available in all countries. Naturally, the country studies differ on the issues they cover, in the form of the analysis, and in the structure of their presentation.

This country study is self-contained. Beyond addressing the questions of the project, each study contains sufficient background material on the country's attributes and history of trade policy to be of interest to the general reader.

The 19 countries studied, classified within three major regions, are as follows.

Latin America

| | |
|-----------|-----------------------------------------------|
| Argentina | by Domingo Cavallo and Joaquín Cottani |
| Brazil | by Donald V. Coes |
| Chile | by Sergio de la Cuadra and Dominique Hachette |
| Colombia | by Jorge García García |
| Peru | by Julio J. Nogués |
| Uruguay | by Edgardo Favaro and Pablo T. Spiller |

Asia and the Pacific

| | |
|-------------|------------------------------------------------------|
| Indonesia | by Mark M. Pitt |
| Korea | by Kwang Suk Kim |
| New Zealand | by Anthony C. Rayner and Ralph Lattimore |
| Pakistan | by Stephen Guisinger and Gerald Scully |
| Philippines | by Florian Albuero and Geoffrey Shepherd |
| Singapore | by Bee-Yan Aw |
| Sri Lanka | by Andrew G. Cuthbertson and Premachandra Athukorala |

The Mediterranean

| | |
|------------|----------------------------------------------------------------|
| Greece | by George C. Kottis |
| Israel | by Nadav Halevi and Joseph Baruh |
| Portugal | by Jorge B. de Macedo, Cristina Corado, and Manuel L. Porto |
| Spain | by Guillermo de la Dehesa, José Juan Ruiz and Angel Torres |
| Turkey | by Tercan Baysan and Charles Blitzer |
| Yugoslavia | by Oli Havrylyshyn |

Coordination of the Project

Armeane M. Choksi, Michael Michaely, and Demetris Papageorgiou, of the World Bank's Latin American and Caribbean Region, are the directors of this research project. Participants in the project met frequently to exchange views. Before the country studies were launched, the common framework of the study was discussed extensively at a plenary conference. Another plenary conference was held to discuss early versions of the completed country studies, as well as some emerging general inferences. In between, three regional meetings in each region were held to review phases of the work under way. An external Review Board consisting of Robert Baldwin (University of Wisconsin), Mario Blejer (International Monetary Fund), Jacob Frenkel (University of Chicago and Director of Research, International Monetary Fund), Arnold Harberger (University of Chicago and University of California--Los Angeles) Richard Snape (Monash University), and Martin Wolf (Chief Economic Leader Writer, Financial Times), contributed in the reviewing process of the country studies and of the synthesis volume.

The Series

Greece is presented in this volume. The series' other publications are the following:

- Volume 1: Liberalizing Foreign Trade. The Experience of Argentina, Chile and Uruguay
- Volume 2: Liberalizing Foreign Trade. The Experience of Korea, the Philippines, and Singapore
- Volume 3: Liberalizing Foreign Trade. The Experience of Israel and Yugoslavia
- Volume 4: Liberalizing Foreign Trade. The Experience of Brazil, Colombia, and Peru
- Volume 5: Liberalizing Foreign Trade. The Experience of Indonesia, Pakistan, and Sri Lanka
- Volume 6: Liberalizing Foreign Trade. The Experience of New Zealand, Spain, and Turkey
- Volume 7: Liberalizing Foreign Trade. Lessons of Experience in the Developing World

TABLE OF CONTENTS

| | |
|---------------------------------------------------------------------------|------|
| Acknowledgments..... | xiii |
| 1. <u>GREECE AND TRADE LIBERALIZATION</u> | 1 |
| Historical Overview..... | 1 |
| Political Overview..... | 2 |
| Overview of Trade Policies..... | 2 |
| Major Characteristics of the Greek Economy..... | 4 |
| Growth of the Economy..... | 11 |
| The External Sector..... | 14 |
| Footnotes | 15 |
| 2. <u>THE FIRST ATTEMPT AT LIBERALIZATION: THE REFORM OF 1953</u> | 16 |
| Economic Conditions prior to 1953..... | 16 |
| Trade Policies before the 1953 Reform..... | 21 |
| The Nature of the Liberalization Reform of 1953..... | 24 |
| Political Conditions and Public Reaction..... | 24 |
| Appropriateness of the Timing of Reform..... | 25 |
| Measures to Moderate the Impact of Devaluation..... | 25 |
| Implementation of the Reform..... | 26 |
| The Increase in Trade Resulting from Liberalization..... | 27 |
| Economic Policies and Performance after the 1953 Reform..... | 30 |
| Conclusions about the 1953 Liberalization Episode..... | 36 |
| Chronology of Policy Changes during 1953 Liberalization..... | 37 |
| Main Characteristics of 1953 Episode..... | 38 |
| Footnotes..... | 40 |
| 3. <u>THE SECOND PERIOD OF LIBERALIZATION: GREECE AND THE EEC</u> | 41 |
| Association with the EEC..... | 41 |
| Political Reaction and Popular Attitudes..... | 43 |
| Appropriateness of the Timing of Liberalization..... | 44 |
| Appropriateness of Length, Speed, and Sequencing..... | 45 |
| Implementation of Liberalization after 1961..... | 46 |
| Changes in Protectionism, 1961-1979..... | 49 |
| Export Promotion Policies..... | 54 |
| The Exchange Rate..... | 56 |
| Chronology of Second Period..... | 58 |
| Summary of Characteristics of Second Period..... | 60 |
| Footnotes..... | 62 |
| 4. <u>PERFORMANCE OF THE GREEK ECONOMY AFTER JOINING THE THE EEC</u> | 64 |
| Product and Income: Growth, Structure, and Distribution..... | 64 |
| Savings and Investment..... | 65 |
| Capacity Utilization and Profitability in Manufacturing..... | 69 |
| Money and Prices..... | 69 |
| Fiscal Policy and Expansion of the Public Sector..... | 71 |
| Labor Market Conditions and Labor Costs..... | 71 |

| | |
|------------------------------------------------------------------------------|-----|
| Greece's Import Performance after the 1961 Agreement of Association..... | 73 |
| Greek Export Performance after Association with the EEC..... | 81 |
| Balance of Payments Position and External Indebtedness..... | 90 |
| The Effect of Changes in Imports on Employment..... | 92 |
| Business Failures..... | 94 |
| Impact of Liberalization on the Government Budget..... | 96 |
| Appropriateness of Circumstances for Sustaining Liberalization..... | 97 |
| Assessment of Liberalization during the 1961-1981 Period..... | 99 |
| Footnotes..... | 103 |
| 5. <u>EPILOGUE</u> | 105 |
| The Relation of Trade Liberalization to Recent Economic Difficulties..... | 106 |
| <u>APPENDIX TABLES</u> | 109 |
| <u>REFERENCES</u> | 123 |

FIGURE

- 1.1 Index of Liberalization in Greece, 1950-1982

TABLES

- 1.1 Population Characteristics of Greece, 1951-1981
1.2 Total Population and Economically Active Population by Age
Group
1.3 Emigration and Repatriation -- Annual Average for Various
Periods, 1955-1977
1.4 Economically Active Population, 1951-1981
1.5 Total Economically Active Population, by Level of Education,
Selected Years, 1961-1982
1.6 Occupational Structure of Economically Active Population
1.7 Index of Gross Real Wages and Salaries in Manufacturing
1.8 Gross Domestic Product (GDP) at Factor Cost, by Major Sector
1.9 Gross Asset Formation (GAF) and Gross Fixed Asset Formation
(GFAF) as Percentage of Gross Domestic Product (GDP)
1.10 Contribution of Public Sector to Gross Fixed Asset Formation
(GFAF), Annual Average
1.11 Greece's Balance of Payments Position, Selected Years

- 2.1 Foreign Assistance from Marshall Plan and Mutual Security Agency, 1949-1953
- 2.2 Main Monetary and Fiscal Variables, 1951-1957
- 2.3 The External Sector, 1951-1957
- 2.4 GDP Growth and Structure, 1951-1957
- 2.5 Investment, Capacity Utilization, and Profitability, 1951-1957
- 2.6 Duties and Excise Taxes, 1953
- 2.7 Special Levies on Imports, 1953
- 2.8 Direct Export Subsidies
- 2.9 Growth of Imports and Exports and Openness of Greek Economy, 1953-1956
- 2.10 Structure of Greek Imports, 1952-1956
- 2.11 Inflation Rates in Greece and in Nine Main Trading Partners, 1951-1958
- 2.12 Percentage Change in Minimum Wage of Males and Females in Greek Industrial Sector, 1952-1956
- 2.13 Nominal and Real Interest Rates in Greece, 1951-1956
- 2.14 Product per Worker and Hours Worked per Week in Manufacturing Industries, 1952-1956
- 2.15 Annual Change in Real Value of Production of Greek Manufacturing Industries, 1951-1956
- 2.16 Debt Service Payments on Publicly Held Debt as Percentage of Exports, Aggregate Foreign Exchange Receipts, and Gross National Income (GNI), 1951-1956
- 2.17 Government Budget Accounts Affected by Liberalization

- 3.1 Planned Tariff Rates
- 3.2 Realized Average Tariff and Excise Tax Rates, 1961, 1970, 1976, 1979
- 3.3 Average Subsidy Payments for Exports, 1962-1978
- 3.4 Exchange Rate, 1961-1981

- 4.1 Growth and Structure, Gross Domestic Product, 1960-1981
- 4.2 Saving, Investment, Capacity Utilization, and Profitability in Greece, 1961-1981
- 4.3 Sources of Financing of Total Gross Fixed Investment, Selected Years, 1960-1982
- 4.4 Approved and Realized Investments under Legislative Decree 2687 (1953)
- 4.5 Greek Commercial Fleet and Total World Fleet, Selected Years
- 4.6 Monetary and Fiscal Variables, 1960-1981
- 4.7 Corporations with Public Ownership or Public Participation, 1983
- 4.8 Total Public Debt of Greece, Selected Years, 1970-1984
- 4.9 Ranking of Sectors by Employment Growth, 1961-1980
- 4.10 Growth of Value Added by Sector, 1961-1981
- 4.11 Indices of Real Wages and Salaries in Industry
- 4.12 Trade Data for Greece, 1961-1981

- 4.13 Annual Average Percentage Change in Value of Imports
- 4.14 Imports by Major Category, 1952-1982
- 4.15 Average Rate of Annual Growth in Imports by Sector,
1961-1980
- 4.16 Annual Average Percentage Change in Value of Exports
- 4.17 Structure of Greek Exports, Selected Years
- 4.18 Average Rate of Annual Growth of Exports, by Sector
- 4.19 Exports of Greek Manufacturing Industries, Selected Years
- 4.20 Relative Importance of Factors Affecting the Growth of Greek
Exports
- 4.21 Balance of Payments, 1961-1981
- 4.22 Components of Balance of Trade, Selected Years
- 4.23 Invisibles Receipts and Payments, 1961-1981
- 4.24 Annual Inflow of Foreign Capital, 1961-1981
- 4.25 External Payments, 1961-1981
- 4.26 External Debt of Greece
- 4.27 Average Annual Rate of Growth of Value Added per Employed
Person by Sector, 1961-1980
- 4.28 Budget Magnitudes, Actual and Hypothetical

Tables: Appendix

- A.1 Number of Products in Greek Import Tables, 1953-1975
- A.2 Actual and Imputed Payments for Export Subsidies, and Total
Exports, 1953-82
- A.3 Trade Ratios (Exports/Imports) By Major Product Group,
1951-1982
- A.4 Nominal and Effective Protection Estimated from Collected
Tariff and Excise Tax Revenues and Realized Imports,
Selected Years
- A.5 Changes in Income Velocity, in Monetary Base, and in
Contribution of the Government Sector to the Monetary
Base, 1960-1981
- A.6 Dependence of Greek Economy on Imports for Production of
Gross Domestic Product, 1952-1982
- A.7 Import Penetration Ratio by Industry, 1959-1975
- A.8 Greek Imports by Source, Selected Years, 1955-1981
- A.9 Greek Exports by Destination, Selected Years, 1955-1983
- A.10 Ratio of Bankruptcies per 1,000 Establishments in
Manufacturing, Selected Years, 1958-1978

ACKNOWLEDGMENTS

This study is largely based on material in the author's much longer three-part report with the same title, which was submitted to the World Bank in 1986. The study covers the period 1951-81, but reference is also made to developments after 1981. The author wishes to express his sincere thanks to the Country Trade Policy Division of the World Bank for financial support, and to Armeane M. Choksi, Michael Michaely, and Demetris Papageorgiou for their guidance during the preparation of the study. He thanks also for their constructive comments the Bank's external and internal advisers to this project, the authors of other country studies who acted as discussants, and all participants in the conferences at which various parts of the study were presented.

The collecting of data and its subsequent processing were done largely by the Institute of Economic and Industrial Research in Athens. Several researchers assisted in that task or wrote drafts of certain sections, which were taken into account by the author in writing this study. Thanks are due to all those who took part in any capacity in this project, particularly Vassilis Patsouratis, Iannis Chalikias, George Katsos, Michael Dimitriadis, Dionissis Chionis, and Irene Hatjigiakoumis.

CHAPTER 1

GREECE AND TRADE LIBERALIZATION

This is a study of the adoption of liberalized trade policies in Greece in the post-World War II era. The main topics examined are the nature and scope of liberalization, economic and political conditions in Greece that affected liberalization, and the performance of the economy after the two major shifts to liberalization. This chapter discusses the broad political and economic contexts of liberalization.

Historical Overview

The modern Greek state was established in 1829, when Greece was formally recognized by the governments of the major European countries as an independent nation following its war of independence against Turkey. Prior to that, the regions that constituted the new state had been a part of the Ottoman Empire since the fifteenth century.

Important national events in this century were the Balkan war of 1912-13, participation in World War I on the side of the Allies, defeat during another war with Turkey in 1922, the war with Italy and Germany in 1940-41, foreign occupation from 1941 to 1944, the first civil war from December 1944 to January 1945, and the second civil war of 1946-49.

Following the Balkan wars, the total land area, domestic resources, and population of Greece increased considerably. The subsequent defeat in 1922 led to an influx of almost 1,250,000 refugees from Asia Minor. The refugees increased Greece's population by more than 20 percent, and sustaining them was initially extremely difficult.

Greece did surprisingly well in 1940-41 against the Italian army before being forced to capitulate to the Germans. During most of the fighting, Greece's fiscal, monetary, and balance of payments situation remained sound, and price stability was preserved almost until the Nazi occupation. That occupation (April 1941-October 1944) was one of heavy human loss (from starvation, disease, and executions arising from the strong Greek resistance movement) and widespread physical destruction. According to one contemporary estimate, total national income in real terms in 1941 fell to one third the 1939 level (see Bank of Greece 1978, pp. 176-187 and 196-214).

The first civil war began with a communist uprising two months after Greece's liberation from the Germans late in 1944. Although it lasted little more than a month, the first civil war was bloody and destructive, and caused considerable delay in the reconstruction of the country. The existing Greek government, assisted by British forces, crushed the uprising. The second, and much longer, civil war was even more destructive. However, the government did succeed in financing its military operations, the rehousing and rehabilitation of war victims, and reconstruction of the economy, partly with assistance from the United States.

In 1974 Turkey landed troops on Cyprus following an attempt by certain Greek factions on the island, assisted by the military government of Greece, to overthrow the Cypriot leader Archbishop Makarios, who was himself of Greek descent. Greek and Turkish forces clashed on Cyprus, and open war between the two countries appeared imminent. The Greek government ordered a general mobilization that lasted for months, causing considerable disruption of the economy. In addition, Greece assisted Cyprus financially for several years while keeping her own armed forces in a high state of readiness.

Political Overview

Political instability was characteristic of Greece during the period between the two World Wars. This instability finally led, in 1936, to adoption of a fascist-type dictatorship, with General Ioannis Metaxas as prime minister and King George II as titular head of state. That government lasted until the German occupation. Political instability was also rampant from 1944 to 1952, a period during which Greece had a dozen prime ministers (including those of caretaker governments). Some prime ministers stayed in office for only a few weeks, the others for only a few months. In contrast, the period 1952-61 was one of political stability provided by two conservative governments. The first, which lasted from 1952 to 1955, was presided over by Marshall Alexandros Papagos. The second lasted from 1955 to 1961 and was led by Konstantinos Karamanlis, founder of the National Radical Union (ERE) party. Of the governments formed between 1961 and 1967, the one that lasted longest (1963-65) was the centrist government of George Papandreou.

In April 1967 the parliamentary government was overthrown by a military coup d'état. King Constantine unsuccessfully attempted to topple the military regime at the end of the year and then fled the country. Greece remained nominally a kingdom until 1969, when the monarchical system was abolished following a public referendum.¹ The prime minister of the military government, George Papadopoulos, became president of the republic and later appointed a civilian, Spyros Markezinis, as prime minister. In 1973 Papadopoulos was overthrown by other military strongmen.² Their government lasted only until the next year, when the dispute over Cyprus erupted. In that frantic period the military government collapsed, and Karamanlis (who had been living in self-exile in Paris) once again became prime minister. Karamanlis stayed in that post until 1980, when the parliament elected him president of the republic. His party remained in power until October 1981. At that time the Panhellenic Socialist Movement (PASOC) won election and formed a government headed by Andreas Papandreou,³ who was re-elected prime minister in June 1985.

Overview of Trade Policies

In the nineteenth century Greece had followed a liberal trade policy. Tariffs were imposed on imports mainly for revenue purposes, and tariff rates were low. After the influx of war refugees in 1922, the small domestic manufacturing sector received a major boost from the sudden increases in domestic demand, population, work force, and range of employee

skills (Charitakis 1929, pp. 146-150 and pp. 170-172; Bank of Greece 1978, pp. 14-21). Strong tariff protection, adopted in 1923, encouraged the establishment of many new manufacturing plants, some of which produced nontraditional goods (e.g., rubber articles, electric bulbs, and man-made fibers). Almost a quarter of the refugees found work in manufacturing.

Tobacco, cotton, and raisins, Greece's major export products, began to encounter difficulties in foreign markets after the start of the Depression in 1929, and the domestic manufacturing sector began to feel the pressure of growing foreign competition. Greece increased its import restrictions in 1931 and signed nineteen bilateral trade agreements with other countries between 1931 and 1938. Domestic manufacturing production began to expand in 1933 and continued growing until 1939 (Bank of Greece 1978, p. 143). The Metaxas dictatorship promoted protectionism partly on grounds that world conditions required Greece to be as self-sufficient as possible and intensified state intervention in international trade of domestically produced agricultural, mining, and manufactured goods. The trade regime became even more restrictive after the start of World War II in 1939. Late in 1940, for example, the government created a "purchasing office" and gave it sole authority to import foreign goods needed by the country. During the subsequent foreign occupation Greece had no way of acquiring foreign exchange and could not engage in trade except through bilateral agreements with Germany and Italy on very disadvantageous terms.

In the period 1944-52 the need to import fuels, materials, and equipment to reconstruct Greece's economy and allow it to satisfy growing consumption needs was the main cause of growing trade deficits. The Greek economy during this period was heavily dependent upon foreign assistance, which was provided at first by the British. Between 1945 and 1947 assistance to Greece came mostly from the United Nations Relief and Rehabilitation Administration. During the rest of the 1940s the main source of aid was the United States. Greece's general trade policy was protectionist during this period, with quantitative restrictions (QRs), foreign exchange controls, foreign exchange certificates, special import levies, and direct and indirect export subsidies being the most common forms of intervention.

Following a successful effort in 1951-52 by the socialist government of General Plastiras to fight inflation and reduce budget and trade deficits as foreign aid from the United States was phased out, the Papagos government took bold steps in 1953 to reform Greece's economy. The main components of reform were a drastic devaluation of the currency and the abolition of most QRs. Brief regressions to protectionism then occurred sporadically until the Karamanlis government made Greece an associate member of the European Economic Community (EEC) in 1961. Greece's cooperation with the EEC was disrupted during the 1969-74 period of military rule, but was restored after the return of Karamanlis as prime minister in the latter year.

The Karamanlis government then applied for full membership in the EEC, which eventually became a reality in 1981. Andreas Papandreou, who was elected prime minister that same year, had taken a strong stand against

Greek membership in the EEC but has shown no signs of withdrawing Greece from the Community. Figure 1.1 presents an Index of Liberalization for the 1950-82 period.

Major Characteristics of the Greek Economy

In 1950 Greece was a poor and largely agricultural country struggling to recover from the effects of the conflicts that had raged from 1940 to 1949. Urgent tasks included improvement of the country's badly damaged infrastructure, the rehabilitation of the social fabric, and modernization and expansion of the economy. By the 1980s, Greece's industrial sector had grown substantially, the public sector had expanded, the Greek commercial fleet had become one of the world's largest, tourism had grown a great deal, and per capita real income between 1951 and 1981 had increased by nearly 400 percent.

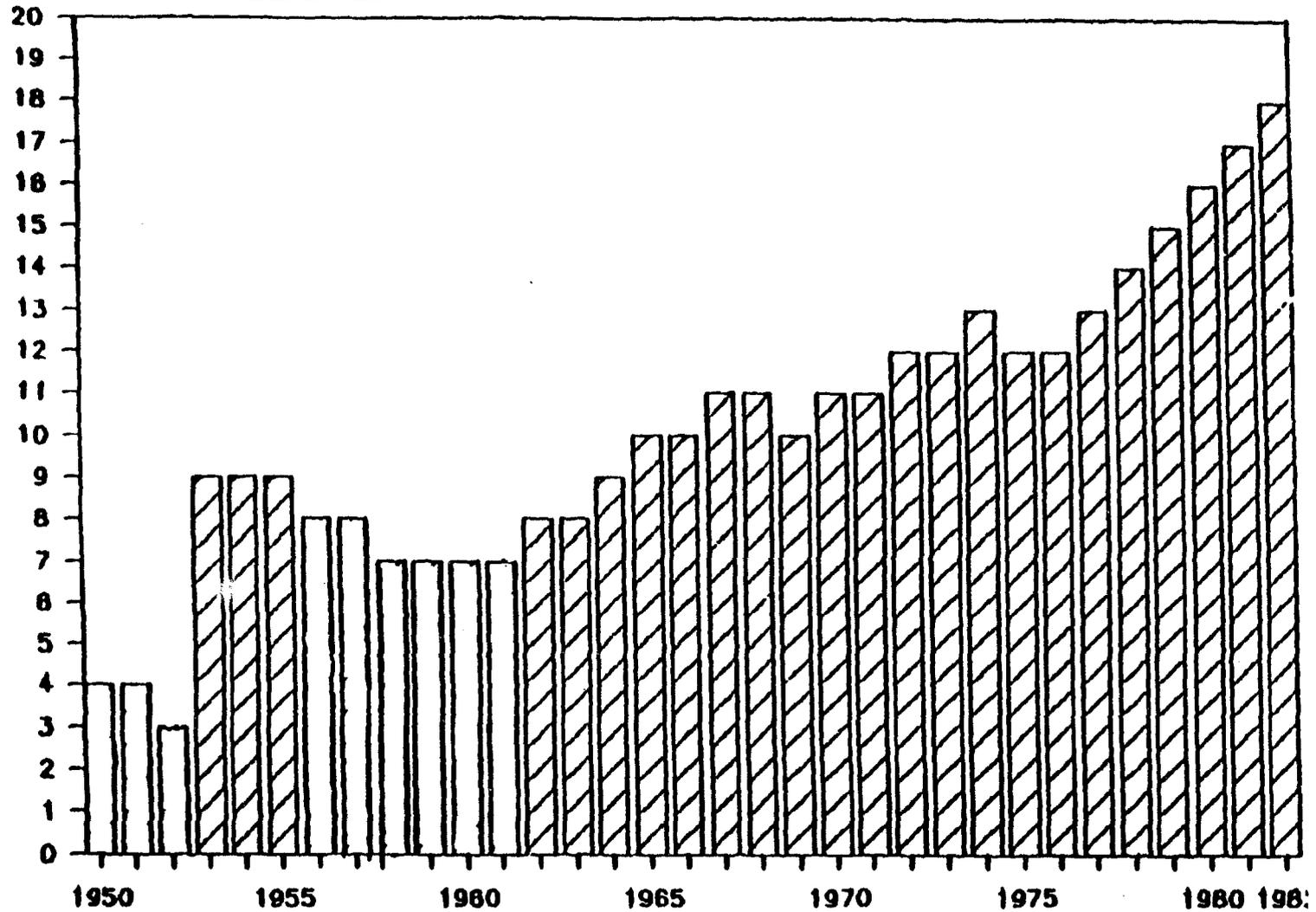
Population and Labor Force

Population growth in Greece during the postwar years has been slow (see Table 1.1). Rising death rates and declining birth rates caused average annual natural growth to drop from 96,400 in the 1950s to 86,500 in the 1960s and 64,800 in the 1970s.⁴ Mortality increased chiefly because of the aging of the population (see Table 1.2), while the drop in birth rates can be attributed to the deaths of thousands of young Greeks during the wartime period 1940-49, the emigration of many men and women in their twenties, urbanization, and an increase in female participation in the urban labor force. The introduction of more reliable methods of birth control helped to create a change in social attitudes about the desirability of large families. Permanent emigration from Greece was substantial in the 1950s, reached very high levels in the 1960s, and then started decreasing in the 1970s (see Table 1.3). Temporary emigration showed a continuous increase until 1976.⁵ Repatriation was much lower than permanent emigration until 1973 but exceeded permanent emigration during the period 1974-76.

Considerable improvement in living conditions and job opportunities in the late 1960s and early 1970s made permanent emigration less attractive and repatriation more appealing than before, as did the collapse of military rule, which induced many Greeks who had gone abroad for political reasons to return. The recession which hit Western Europe after 1973 also caused many Greek emigrants who had lost their jobs to move back to their homeland. Temporary emigration increased, however, as more Greek students attended foreign schools and Greek technical firms in the Middle East and Africa expanded their operations.

When labor was abundant in Greece in the 1950s and early 1960s, emigration acted as a safety valve, preventing unemployment from becoming an important social issue.⁶ In the late 1960s and early 1970s, however, emigration was one of the causes of labor shortages. Since most of the emigrants came from rural areas, one can surmise that they had mostly farming backgrounds. While abroad, and after repatriation, however, they worked almost exclusively in the secondary (industrial) and tertiary (services) sectors.

Figure 1.1 Index of Liberalization in Greece, 1950-1982



Source: Based on data in author's unpublished report to World Bank (1986).

Table 1.1 Population Characteristics of Greece, 1951-1981
(thousands, except where noted)

| Type of Population | 1951 | 1961 | 1971 | 1981 |
|------------------------------------|---------|---------|---------|---------|
| Total Population | 7,632.8 | 8,388.6 | 8,768.6 | 9,740.4 |
| Average Annual Growth (%) | -- | 0.95 | 0.44 | 1.10 |
| Urban Population ^a | 2,807.9 | 3,628.1 | 4,667.5 | 5,659.1 |
| Percent of Total Population | 36.8 | 43.3 | 53.2 | 58.1 |
| Average Annual Growth (%) | -- | 2.60 | 2.55 | 1.95 |
| Semi-Urban Population ^b | 1,187.3 | 1,065.9 | 1,019.4 | 1,125.5 |
| Percent of Total Population | 15.6 | 12.9 | 11.7 | 11.6 |
| Average Annual Growth (%) | -- | -0.89 | -0.60 | -1.00 |
| Rural Population ^c | 3,637.5 | 3,674.6 | 3,081.7 | 2,955.7 |
| Percent of Total Population | 47.6 | 43.9 | 35.1 | 30.3 |
| Average Annual Growth | -- | 0.10 | -1.74 | -0.42 |

-- = not applicable.

^a Urban population is population in cities and towns with 10,000 inhabitants or more.

^b Semi-urban Population is population in municipalities or communes with 2,000 to 9,999 inhabitants.

^c Rural population is population of communes with less than 2,000 inhabitants.

Sources: NSSG, Statistical Yearbook of Greece (1958, 1966, 1979, 1982).

Table 1.2 Total Population and Economically Active Population by Age Group
(percent)

| Year | Age Group | | | | |
|---------------------------------------|-----------|-------|-------|-------|-------------|
| | 0-19 | 20-44 | 45-54 | 55-64 | 65 and over |
| Total Population | | | | | |
| 1951 | 38.9 | 36.9 | 10.2 | 6.7 | 6.7 |
| 1961 | 34.0 | 37.3 | 11.6 | 8.8 | 8.2 |
| 1971 | 33.0 | 34.9 | 10.8 | 10.5 | 10.9 |
| 1981 | 31.1 | 33.3 | 13.7 | 9.2 | 12.7 |
| Economically Active Population | | | | | |
| 1951 | 16.8 | 55.1 | 14.5 | 8.2 | 5.4 |
| 1961 | 13.4 | 55.1 | 16.8 | 10.3 | 4.6 |
| 1971 | 9.7 | 54.8 | 17.1 | 13.2 | 5.2 |
| 1981 | 6.9 | 54.9 | 22.3 | 10.9 | 5.0 |

Source: NSSG, Statistical Yearbook of Greece (various issues).

By 1981, almost six tenths of the population of Greece lived in urban areas. The Greater Athens area had more than 30 percent of the country's population, while Thessaloniki (the second largest city) had more than 10 percent. Rural and semi-rural areas, on the other hand, had experienced an absolute population decline (see Kottis 1986, pp. 4-6).

The economically active segment of Greece's population increased in the 1950s but decreased in later decades (see Table 1.4). In the 1960s the total labor force decreased in absolute terms, but it then grew slowly in the 1970s. The factors responsible for these trends were the heavy emigration of the 1960s, the aging of the population, rising enrollment (especially among females) in high schools and universities (Kottis 1986, pp. 6-13), and the low and decreasing rate of female labor force participation. The structure of the labor force (see Table 1.2) has changed over time, mainly in age groups 0-19, 45-54, and 55-64. A large decrease in the first group's share of the work force reflects its declining share of the total population and the expansion in school enrollment. The increase in the 45-54 and 55-64 classifications is mainly the result of the aging of the population as a whole. The educational level of labor as a whole has risen substantially (see Table 1.5).

Despite the growing number of females taking urban jobs in Greece, the female labor force participation rate is the lowest among the EEC countries. The percentage of employed females over 15 dropped from 35.5 percent in 1961 to 25.9 percent in 1971 and 24.7 percent in 1981. A recent study by Petraki-Kottis showed that females have lost more jobs in agriculture than they have gained in nonagricultural sectors (Petraki-Kottis 1986a). Male workers, on the other hand, have gained more jobs in nonagricultural sectors than they lost in agriculture.

Despite Greece's rapid industrialization in the 1960s and 1970s, the percentage of workers engaged in manufacturing did not increase much (see Table 1.6). Shifts in the occupational structure were much smaller than shifts in the contribution of different sectors to GDP. This difference can be attributed mainly to different rates of productivity growth in the various sectors.

Unionization may have accounted for part of the difference. In the large manufacturing and the public (or publicly controlled) sectors, labor unionism is strong. It is weaker in manufacturing and service industries dominated by small establishments, and nonexistent in other categories (farm workers, loggers, herdsmen, etc.). Prior to 1976, less than 40 percent of all wage earners in Greece were unionized (Fakiolas 1978, p. 128). After the restoration of civilian rule in 1974, however, unionism was encouraged, and was strengthened even more by the 1981 election, since Papandreou was a strong advocate of labor's interests.

Table 1.3 Emigration and Repatriation -- Annual Average for Various Periods, 1955-1977

| Population Movement | 1955-60 | 1961-65 | 1966-70 | 1971-75 | 1976-77 |
|---------------------------------------------------------------------------------------------------------------|---------|---------|---------------------|---------|---------|
| Emigration | | | | | |
| Permanent | 52,815 | 93,140 | 72,919 | 35,489 | 18,442 |
| Temporary | 20,432 | 39,078 | 64,616 | 81,206 | 75,254 |
| Total | 73,247 | 132,217 | 137,535 | 116,695 | 93,697 |
| Repatriation | n.a. | n.a. | 19,893 ^a | 26,641 | 22,320 |
| Annual Average Emigration and Repatriation as Percentage of Economically Active Population^b | | | | | |
| Permanent Emigration | 1.45 | 2.6 | 2.25 | 1.1 | 0.5 |
| Temporary Emigration | 0.56 | 0.54 | 2.0 | 2.5 | 2.12 |
| Total Emigration | 2.01 | 3.14 | 4.25 | 3.6 | 2.62 |
| Repatriation | n.a. | n.a. | 0.6 | 0.82 | 0.63 |

n.a. = not available.

^a 1968-70.

^b Averages for 1955-60 and 1961-65 estimated on basis of economically active population for 1961; averages for 1966-70 and 1971-75 from economically active population for 1971; average for 1976-77, from economically active population for 1981.

Source: NSSG, Statistical Yearbook of Greece (various issues).

Table 1.4 Economically Active Population, 1951-1981

| Year | Economically Active Population as Percentage of Total Population | Percentage Total Growth per Decade | | |
|------|------------------------------------------------------------------|------------------------------------|--------------------------------|------------------|
| | | Period | Economically Active Population | Total Population |
| 1951 | 37.2 | 1951-1961 | 28.0 | 9.9 |
| 1961 | 43.4 | 1961-1971 | -11.1 | 4.5 |
| 1971 | 36.9 | 1971-1981 | 9.1 | 11.1 |
| 1981 | 36.2 | -- | -- | -- |

-- = not applicable.

Source: NSSG, Statistical Yearbook of Greece, various issues.

Table 1.5 Total Economically Active Population, by Level of Education, Selected Years, 1961-1982
(percent)

| Education Level | 1961 | 1971 | 1982 |
|----------------------------------|------|------|------|
| With higher education | 2.9 | 4.9 | 8.8 |
| With secondary education | 7.9 | 11.6 | 18.3 |
| With primary education | 47.0 | 53.1 | 57.6 |
| Did not finish primary education | 41.9 | 27.9 | 11.9 |
| No declared educational level | 0.3 | 2.5 | 3.4 |

Sources: NSSG, Population and Housing Census (1961 and 1971); Labor Force Survey (1982).

Real gross wages paid by employers (including social security payments) increased by more than two and a half times from 1962 to 1981, while salaries rose by more than 1.8 times (see Table 1.7). Certain benefits, such as paid annual leave, also became more liberal. Meanwhile, differences in the average earnings of workers in different manufacturing industries became a bit smaller with time, as did the difference between manufacturing wages and retail trade wages. Sex differentials in minimum salaries and wages were abolished by law in 1975 and 1978, respectively. However, female/male differentials in average earnings still exist due to the lower proportion of working females holding managerial positions and because of a certain amount of pay discrimination against females holding jobs that pay more than the minimum wage (Petraki-Kottis 1986b).

Except for agricultural laborers and persons employed by the central government and local authorities, Greek workers are insured against unemployment. Seamen and printing industry personnel are insured by their own insurance organizations, while all others entitled to unemployment insurance are covered by the Organization for the Employment of the Labor Force (OAED), established in 1954. To qualify for OAED unemployment benefits, a worker must be at least 15 years old and have made contributions to the unemployment fund while employed for at least 125 days during the previous 14 months, in which case the worker is eligible to receive unemployment compensation for up to three months equal to 40 percent of wages or 50 percent of salary. The duration of benefits increases to five months if the unemployed person worked a minimum of 180 days.

Table 1.6 Occupational Structure of Economically Active Population
(percent)

| Sector | 1951 | 1961 | 1971 | 1981 |
|---------------------------------------|------|------|------|------------------|
| Agriculture, Forestry, etc. | 48.1 | 53.9 | 40.6 | 27.4 |
| Mining, Quarrying | 0.5 | 0.6 | 0.7 | 0.6 |
| Manufacturing | 15.9 | 13.4 | 16.4 | 18.7 |
| Construction and Public Works | 2.6 | 4.6 | 7.7 | 9.2 |
| Electricity, Gas, Water | 0.4 | 0.6 | 0.8 | 0.7 |
| Services ^a | 26.3 | 23.6 | 30.9 | 38.3 |
| Activity not Declared or Specified | 6.2 | 3.3 | 2.8 | 4.8 ^b |

^a Includes government workers and career military officers, but not military draftees.

^b Includes young persons who had not found employment.

Source: NSSG, Statistical Yearbook of Greece (various issues).

Table 1.7 Index of Gross Real Wages and Salaries in Manufacturing^a
(1970 = 100)

| Wages and Salaries | 1962 | 1971 | 1981 |
|-------------------------------------------------------------|------|-------|-------|
| Index of Gross Real Wages | | | |
| Paid by Employers ^a | 60.5 | 102.9 | 153.1 |
| Received by workers | 59.7 | 104.3 | 153.1 |
| Index of Gross Real Salaries | | | |
| Paid by Employers ^b | 67.3 | 102.4 | 123.5 |
| Received by Employees | 66.5 | 104.0 | 138.7 |
| Social Security Contributions | | | |
| Paid by Employers (percentage of nominal wage or salary) | 16.0 | 17.0 | 18.8 |
| Paid by Labor (percentage of net wage or salary) | 8.5 | 9.5 | 10.2 |

^a Nominal wages and salaries deflated by wholesale price index or consumer price index (large-scale industry only).

^b Includes social security contributions paid by employers and workers.

Source: Estimates from data of the National Social Security Organization (IKA).

Growth of the Economy

One of the most noteworthy characteristics of the Greek economy between 1951 and 1981 was its fast growth. Real gross national income (GNI) rose from 81.1 billion drachmas in 1951 to 146.2 billion drachmas in 1961, 286.1 billion in 1971, and 424.7 billion in 1981. Economic growth was strong in the 1950s, accelerated in the 1960s, and slackened in the 1970s (see Table 1.8). Another notable characteristic of the economy was expansion of the public sector, particularly after the mid-1970s. In 1955, total public expenditures as a percentage of GDP were 19.7 percent; by 1984 they had risen to 47.1 percent.

The growth of the primary sector during the period 1951-81 was much below the national average. The primary sector grew fastest in the 1950s, mainly due to the restoration of normal conditions in the countryside. Big public investments in agricultural infrastructure projects (mainly for irrigation), expansion of farm mechanization, the introduction of new agricultural methods (see Bank of Greece 1978, pp. 375-378; 456-467; 496-500), and disguised unemployment in rural areas forced many rural workers to emigrate either internally or abroad, and did not immediately cause shortages of agricultural labor. But as disguised unemployment in agriculture was phased out, and migration abroad or to urban areas continued, labor shortages did begin to affect Greece's farms (Pepelasis and Yotopoulos 1962).

Table 1.8 Gross Domestic Product (GDP) at Factor Cost, by Major Sector
(constant 1970 prices)

| | GDP | Primary Sector | Secondary Sector | Tertiary Sector |
|------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Year | Total Percentage Growth During Decade |
| 1961 | 78.6 | 61.2 | 142.6 | 65.8 |
| 1971 | 93.7 | 28.6 | 153.2 | 95.8 |
| 1981 | 49.4 | 21.6 | 45.5 | 61.6 |

Source: NSSG, National Accounts of Greece (various issues).

Empirical evidence supports the view that the postwar growth of the Greek economy was strongly related to the investment rate, which for most of the period 1951-81 was high (Baltas 1975). Investment rates (gross asset formation and gross fixed asset formation) were highest in the period 1961-73 (Table 1.9), when Greek investment and savings rates were usually

higher than average OECD rates. The public sector's share of total gross fixed asset formation fluctuated during the period 1951-81, but the fluctuations were not random ones (Table 1.10). The central government accounted for a very large share during the early period when it was investing heavily in infrastructure. Later, investment by public corporations became the biggest component of public investment as the state expanded (by means of these corporations) into industrial and other activities.

Table 1.9 Gross Asset Formation (GAF)^a and Gross Fixed Asset Formation (GFAF) as Percentage of Gross Domestic Product (GDP)
(constant 1970 prices)

| Period | GAF/GDP | GFAF/GDP |
|---------|---------|----------|
| 1951-60 | 19.4 | 17.5 |
| 1961-73 | 29.4 | 26.0 |
| 1974-82 | 26.5 | 21.7 |
| 1951-82 | 25.4 | 24.3 |

^a Excludes overseas ships. Includes dwellings and other buildings, other construction and works, transport equipment, other equipment, and changes in stocks.

Source: Estimates made for this study on the basis of data from NSSG, National Accounts (various issues).

Greece enacted a number of laws during the period to encourage private investment and to influence its allocation. These laws had a positive effect on the volume of investment, but their effects on sectoral and geographic distribution, and on quality of investment were mixed (see Patsouratis 1980; Manassakis 1978; Papadakis 1984). The public sector's share of total investment increased in the 1960s and early 1970s. It then decreased, and in 1981 became negative. Foreign assistance funds were very important sources of investment during the period 1945-52, and the drastic cut in aid in 1951-52 then caused a big reduction in the share of total investment by external sources, even though there was a growing flow of foreign private capital into the country (Roumeliotis 1977). The number of multinational manufacturing firms with plants in Greece increased considerably, but the multinationals' share of total manufacturing assets in Greece decreased because of faster growth among domestically owned firms. Firms with foreign ownership or participation were responsible, however, for a disproportionately large percentage of total manufacturing exports (Giannitsis 1982, p. 323; Vaitzos, Giannitsis and Petrakis 1982, p. 20).

Table 1.10 Contribution of Public Sector to Gross Fixed Asset Formation^a
(GFAF), Annual Average

| Ratios | 1951-80 | 1951-60 | 1961-70 | 1971-80 | 1981 |
|--------------------------------------------------------------------------------|---------|---------|---------|---------|------|
| Public Investment/ Total GFAF | 28.8 | 29.4 | 30.4 | 26.7 | 26.7 |
| Investment of Central Government/Total GFAF | 52.5 | 60.5 | 27.9 | 34.1 | 38.0 |
| Investment of Public Corporations Total/GFAF | 37.8 | 21.2 | 32.8 | 59.4 | 54.4 |
| Investment of Local Authorities and other Public Entities/ Total GFAF | 9.7 | 18.5 | 9.3 | 6.5 | 7.6 |

^a Total Gross Fixed Asset Formation includes public and private investment.

Source: NSSG, National Accounts of Greece (various issues).

As a rule, Greek manufacturing firms are small. Only 0.6 percent of all manufacturing firms in 1958, and 1.2 percent in 1978, employed 50 or more people. In 1958 these firms accounted for 27.3 percent of manufacturing employment and 44.1 percent of total installed horsepower; in 1978 they accounted for 39.9 percent of employment and 63.2 percent of total horsepower.⁷ The overwhelming majority of Greek manufacturing firms employ less than 20 people. On the whole, however, there has been a shift toward larger firms in all sectors. The average age of manufacturing firms decreased in the 1960s due to the establishment of many new firms, while in the 1970s the average age started rising because the number of newly created firms began decreasing absolutely and also as a percentage of pre-existing firms.⁸

For most of the period 1952-73 annual price changes were insignificant and, as a rule, lower than in most of Greece's trading partners. Nominal interest rates prior to 1974 ranged from 5.5 to 10.5 percent, but have stayed at much higher levels since then because of higher inflation rates. In the 1980s interest rates have ranged from 10.5 to 21.5 percent. Real interest rates were positive until the early 1970s, but since then many have been negative all the time while other rates have been negative most of the time.

The External Sector

Following the 1944 Bretton Woods agreement, the Greek drachma was pegged to the U.S. dollar, and exchange rates remained stable until a substantial devaluation in 1953. After the 1953 devaluation the official exchange rate remained virtually unchanged until 1974, when Greece adopted a managed floating system in which the drachma was pegged to a weighted group of currencies (the U.S. dollar and the currencies of the EEC countries). In 1984 the drachma (slightly weighted) was included in the European Currency Unit. Throughout the postwar period there was a growing trade deficit and net capital inflow which, until the early 1950s, was covered mostly with foreign aid, and subsequently largely by a fast-growing surplus of invisibles transactions (Table 1.11) (see Bank of Greece 1978, pp. 310-313 and 344-354).

Greece had halted payments on its foreign debts during World War II and was only able to resume servicing its debt in the early 1960s. Public external debt amounted to \$1,652 million in 1973 and \$5,828 million in 1981 (Efstratoglou 1983).

Both exports and imports increased by more than twenty times during the period 1951-81. Relative export growth was a bit faster than import growth, but in absolute terms (in current U.S. dollars) exports grew less than imports. Imports of food, raw materials, minerals, and semi-processed goods decreased as a share of total imports, while the share of imports of fuel and capital goods increased. Exports of food, raw materials, minerals, and semi-processed goods accounted for a declining share of all exports during the period, while fuel (mainly oil, discovered in northern Greece in the early 1970s) and manufactured goods accounted for an increasing share of exports.

Table 1.11 Greece's Balance of Payments Position, Selected Years
(millions of U.S. dollars)

| Year | Trade Balance | Balance of Invisibles | Balance on Current Account | Net Capital Inflow | Foreign Exchange Reserves |
|------|---------------|-----------------------|----------------------------|--------------------|---------------------------|
| 1951 | -329.7 | 337.0 | 7.3 | 5.3 | 56.2 |
| 1956 | -255.1 | 213.7 | -41.4 | 43.9 | 190.1 |
| 1961 | -330.6 | 281.1 | -49.5 | 87.7 | 265.5 |
| 1966 | -743.0 | 484.0 | -259.0 | 260.1 | 276.6 |
| 1971 | -1,320.4 | 976.2 | -344.2 | 478.1 | 506.8 |
| 1976 | -3,333.0 | 2,401.0 | -932.0 | 929.3 | 1,029.0 |
| 1981 | -6,696.5 | 4,288.9 | -2,407.6 | 1,888.0 | 1,188.6 |

Sources: Bank of Greece (1982, Vol. II); and Monthly Statistical Bulletin (various issues).

FOOTNOTES TO CHAPTER 1

1. The results of the referendum were disputed strongly by most Greeks, since the conditions under which it was conducted did not allow for genuine freedom of expression.
2. The new Greek military government viewed Makarios as too independent and believed that Papadopoulos had failed to protect the Greek government's interests in Cyprus.
3. Papandreou, son of George Papandreou, is a Harvard-trained economist who taught in American universities for many years.
4. The average annual number of live births per 1,000 persons decreased from 19.4 in the 1950s to 18.0 in the 1960s and 15.8 in the 1970s. The average annual number of deaths per 1,000 persons rose from 7.2 in the 1950s to 7.9 in the 1960s and 8.7 in the 1970s. See Population Census, National Statistical Service of Greece, Athens, 1951, 1961, 1971, 1981.
5. Data on emigration and repatriation after 1977 are not available, since the Greek government stopped requiring travellers to declare whether their departure or return was permanent.
6. According to one estimate, the annual numbers of emigrants as a percentage of the annual increase in labor force during the period 1952-56 were: 1951, 12%; 1953, 16%; 1954, 33%; 1955, 59%; and 1956, 71%. See Bank of Greece (1982, p. 220).
7. These estimates are based on data from the National Statistical Service of Greece, Annual Census of Manufacturing, for the years 1958, 1963, 1969, 1973, and 1978.
8. Data from the "List of 100 Largest Industrial Firms," published annually by the Federation of Hellenic Industries. These estimates are consistent with previous findings of the author, based on a questionnaire sent to 1,630 manufacturing firms. See Kottis (1980, Chapters X and XI).

CHAPTER 2

THE FIRST ATTEMPT AT LIBERALIZATION: THE REFORM OF 1953

Greece's first attempt to liberalize foreign trade occurred in 1953. The actions taken at that time were a clear departure from the strongly protectionist practices of the earlier period.

Economic Conditions Prior to 1953

Despite the problems caused by World War II and the subsequent civil wars, the Greek economy made substantial progress in the last half of the 1940s.¹ Substantial American aid, first under the Truman Doctrine and subsequently under the Marshall Plan, helped repair the ravages of war while also providing funds for investment and paying for imports of basic goods, materials, and machinery. Up to 1951, in fact, foreign aid made up for virtually all of the country's annual budget deficits. In the years before 1953, aid funds exceeded by far Greece's annual earnings from commodity exports (see Table 2.1) (Karavias 1964).

In fiscal year 1951-52 the United States substantially reduced its aid to Greece and notified the Greek government that U.S. aid would be reduced to zero within the next few years. The socialist government of General Plastiras then felt compelled to take strong measures to lessen Greece's dependence on external aid. To reduce the budget deficit for that fiscal year, the government imposed special taxes on real estate owners, on firms that borrowed from banks, and on high-income professionals. The Greek government also reduced administrative costs, imposed a freeze on government hiring, abolished certain subsidies to consumers that effectively reduced the prices of certain basic goods, and suspended payment of the usual Easter bonus to labor (a bonus equivalent to half a month's salary). These measures considerably improved the budget situation, and by 1953 the government's ordinary budget and total budget deficits (the total budget includes public investment) had dropped sharply as percentages of GNP (Table 2.2).

In 1952 the monetary authorities kept nominal interest rates on borrowed money unchanged but tightened eligibility requirements and lowered the interest rate paid on some types of bank deposits by two percentage points. This generally made the granting of credit more difficult. Bank deposits, which had dropped by nearly 25 percent the preceding year, increased by almost 14 percent in 1952, but total bank lending rose by only 1.4 percent. Meanwhile, the inflation rate decreased drastically (see Table 2.2).

In October 1952 the government imposed special levies ranging from 25 percent to 200 percent on many imported goods and created direct export subsidies ranging from 15 to 50 percent for a smaller number of goods. Imports then decreased, while exports increased (Table 2.3). The balance on current account showed improvement, and foreign exchange reserves grew.

Table 2.1 Foreign Assistance from Marshall Plan and Mutual Security Agency, 1949-1953
(millions of U.S. dollars)

| Year | Foreign Assistance | Exports | Trade Balance | Ratio of Foreign Assistance to Commodity Exports | Ratio of Foreign Assistance to Trade Balance |
|------|--------------------|---------|---------------|--------------------------------------------------|----------------------------------------------|
| 1949 | 212.8 | 83.4 | -284.2 | 2.55 | 0.75 |
| 1950 | 263.6 | 85.1 | -312.6 | 3.1 | 0.84 |
| 1951 | 206.8 | 101.9 | -329.7 | 2.03 | 0.63 |
| 1952 | 182.0 | 114.3 | -160.4 | 1.59 | 1.14 |
| 1953 | 81.2 | 134.1 | -109.2 | 0.61 | 0.74 |

Source: Bank of Greece (1982), for exports and trade balance data; Karavias (1964).

The Greek economy deteriorated somewhat in 1952, but not all of the deterioration can be attributed to the austerity measures mentioned above (see Table 2.4). Although real GDP growth dropped to zero in 1952, this was partly due to a big drop in agricultural output caused by poor growing weather and normal crop cycles. The subsequent drop in agricultural incomes apparently had adverse effects on the demand for products in nonagricultural sectors. Manufacturing output dropped in absolute terms, and growth in mining and in the services sector slowed down. There was also a drop in the real value of total gross fixed asset formation, especially in the public sector, but gross investment in manufacturing remained unchanged (Table 2.5). Because of lack of data, it is not known whether employment was seriously affected by the austerity measures.

Table 2.2 Main Monetary and Fiscal Variables, 1951-1957

| Year | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 |
|------------------------------------------------------------------|------|-------|-------|------------------|------------------|-------|------------------|
| Change in Money Supply, M1 (%) | 22.7 | 10.5 | 46.8 | 18.8 | 23.9 | 12.8 | 18.7 |
| Change in Money Supply, M3 (%) | 23.4 | 11.1 | 47.1 | 20.3 | 28.5 | 30.5 | 41.1 |
| Change in CPI (%) | 12.6 | 5.1 | 9.2 | 15.0 | 5.7 | 3.7 | 2.3 |
| Change in GDP Deflator (%) | 10.0 | 3.9 | 15.7 | 11.8 | 7.4 | 6.6 | 0.9 |
| Change in Lending to Primary Sector (%) | 46.6 | 16.6 | -2.1 | 30.4 | 17.2 | 16.9 | 21.7 |
| Change in Lending to Manu- facturing and Mining Sector (%) | 55.2 | 14.4 | 74.6 | 23.9 | 4.3 | 22.4 | 32.4 |
| Change in Lending to Commerce (%) | 18.2 | -32.8 | 6.5 | 31.4 | -0.3 | 58.9 | 22.9 |
| Nominal Interest Rate on Deposits (%) | 10.0 | 8.0 | 8.0 | 7.0 | 7.0 | 10.0 | 9.0 |
| Nominal Interest Rate on Lending to Industry (%) | 12.0 | 12.0 | 12.0 | 10.0 | 9.0 | 10.0 | 10.0 |
| Ordinary Budget Deficit/ GNP (%) | 4.0 | 2.2 | 0.3 | 0.9 ^a | 0.1 ^a | 1.3 | 0.2 ^a |
| Total Budget Deficit/ GNP (%) | n.a. | 5.5 | 3.5 | 1.1 | 1.7 | 2.7 | 2.0 |
| Total Budget Expenditures (index, 1951/52=100) ^b | 91.9 | 100.0 | 101.6 | 123.3 | 147.2 | 176.7 | 190.7 |
| Ordinary Budget Expenditures (1951/52=100) ^b | 91.9 | 100.0 | 99.5 | 128.3 | 155.1 | 189.6 | 194.8 |
| Government Investment Expenditures (index) ^b | n.a. | 100.0 | 112.2 | 98.1 | 107.5 | 111.5 | 170.6 |

^a Surplus.

^b Fiscal years 1950-51, 1951-52, 1952-53, 1953-54, 1954-55.

Source: Bank of Greece (1982).

Table 2.3 The External Sector, 1951-1957

| Category | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 |
|----------------------------------------------------------|-------|-------|-----------------|-------|-------|-------|-------|
| Imports of Goods (in million US\$, current prices) | 431.6 | 274.7 | 243.3 | 328.4 | 364.2 | 464.7 | 508.3 |
| Exports of Goods (in million US\$) | 101.9 | 114.3 | 134.1 | 161.0 | 206.5 | 209.6 | 222.8 |
| Exports/Imports Ratio (%) | 0.24 | 0.42 | 0.55 | 0.49 | 0.57 | 0.45 | 0.44 |
| Import Penetration Ratio (%) | n.a. | 17.4 | 11.3 | 14.4 | 14.4 | 17.7 | 17.0 |
| Terms of Trade (1970=100) | 95.1 | 88.0 | 87.1 | 89.1 | 97.7 | 100.3 | 95.8 |
| Official Exchange Rate (drachmas/US\$) | 15 | 15 | 30 ^a | 30 | 30 | 30 | 30 |
| Real Exchange Rate ^b (index, 1975=100) | 50 | 49.2 | 80.4 | 80.6 | 77.0 | 76.9 | 78.3 |
| Foreign Exchange Reserves (in million US\$) | 56.2 | 71.9 | 120.6 | 131.5 | 186.8 | 190.1 | 178.9 |
| Trade Deficit (in million US\$) | 329.7 | 160.4 | 109.2 | 167.4 | 157.7 | 255.1 | 285.5 |
| Balance on Current Account (in million US\$) | 7.3 | 18.6 | 41.4 | -15.1 | 20.8 | -41.4 | -76.4 |
| Net Capital Inflow (in million US\$) | 5.3 | 6.8 | 14.8 | 30.9 | 33.8 | 43.9 | 65.4 |

n.a. = not available.

^a After April 9, 1953.

^b Official rate multiplied by (world price index/Greek CPI).

Source: Bank of Greece (1982).

Table 2.4 GDP Growth and Structure, 1951-1957

| Sector | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 |
|---------------------------------------|-------|------|------|------|------|------|------|
| <u>Real GDP Growth (%)</u> | 9.0 | 0.01 | 13.5 | 3.4 | 7.6 | 8.9 | 6.9 |
| Agriculture | 13.5 | -5.6 | 25.9 | -2.6 | 7.0 | 2.7 | 13.0 |
| Mining | 39.6 | 21.1 | 23.3 | 8.0 | 14.0 | 13.6 | 8.3 |
| Manufacturing | 6.3 | -1.2 | 15.3 | 11.3 | 9.6 | 10.6 | 6.7 |
| Energy | 3.1 | 5.5 | 19.2 | 7.6 | 18.7 | 15.4 | 11.0 |
| Construction | -17.1 | 6.7 | 21.8 | -0.1 | 10.4 | 17.7 | -0.1 |
| Services | 9.2 | 2.9 | 4.8 | 4.9 | 5.3 | 10.4 | 2.8 |
| <u>GDP Share of Major Sectors (%)</u> | | | | | | | |
| Primary Sector | 29.2 | 27.4 | 30.6 | 28.9 | 28.9 | 27.3 | 29.1 |
| Manufacturing Sector | 11.5 | 11.4 | 11.6 | 12.5 | 12.8 | 13.0 | 13.1 |
| Rest of Secondary Sector | 6.9 | 7.3 | 7.9 | 7.8 | 8.2 | 8.8 | 8.7 |
| Services | 52.4 | 53.9 | 49.9 | 50.8 | 50.1 | 50.9 | 49.3 |

Source: NSSG, National Accounts (various issues).

Table 2.5 Investment, Capacity Utilization, and Profitability, 1951-1957

| Category | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 |
|--------------------------------------------------------------------------------------------------------------------------------|------|------|-------|------|------|------|------|
| <u>Fixed Asset Formation</u> (in billion drachmas, 1970 prices) | 15.1 | 14.0 | 14.25 | 14.4 | 16.0 | 19.4 | 19.1 |
| Gross Investment in Manufacturing (in billion drachmas, 1970 prices) | 3.2 | 3.2 | 2.0 | 1.8 | 1.9 | 2.4 | 2.8 |
| Capacity Utilization in Manufacturing (%) ^a | 51.0 | 46.8 | 53.2 | 58.9 | 63.7 | 68.7 | 70.2 |
| Profitability of Net Capital Invested in the Non-Agricultural Private Sector (%) (excludes dwellings) ^b | n.a. | n.a. | n.a. | 10.3 | 12.2 | 13.4 | 13.1 |

n.a. = not available.

^a Estimated from data on capital stock and production in the manufacturing sector.

^b Ratio of business profits to fixed plus circulating capital.

Sources: For investment and capital utilization: NSSG, National Accounts of Greece (various issues); for profitability: Pavlopoulos (1986).

Trade Policies before the 1953 Reform

On the eve of trade reform in 1953, the main measures being used to promote exports and curb imports, and therefore to encourage industrialization while preventing rapid growth of the trade deficit, were

- (a) Tariffs: The tariff structure which had been established in 1923 in Greece remained in effect. The following are estimates of average tariffs and excise taxes, based on 93 major categories of goods.²

Table 2.6 Duties and Excise Taxes, 1953

| Import Groups | Average Tariff (percent) | Average Excise Tax (percent) |
|-----------------------|-----------------------------|---------------------------------|
| Consumer products | 35.6 | 18.4 |
| Intermediate products | 25.8 | 13.7 |
| Capital products | 16.1 | 11.7 |

Note: The average tariff for all categories was 29.8 percent. The average excise tax was 13.6 percent. The average luxury tax was 3.7 percent.

Source: Greek Ministry of Finance.

- (b) Special Import Levies: Special levies on imports were imposed on various goods in the early postwar period, were abolished in 1948, and then in October 1952 were again imposed on many goods.³ The rates of special import levies, which were imposed on a total of 62 categories of goods, ranged from 25 to 150 percent of c.i.f. price. Below are shown our estimates of the average levy on various types of goods and the standard deviations.

Table 2.7 Special Levies on Imports, 1953

| Import Groups | Number of Goods in Category | Average Levy (percent) | Standard Deviation |
|------------------------|-----------------------------------|------------------------------|-----------------------|
| Consumer goods | 6 | 141.6 | 47.7 |
| Intermediate goods | 5 | 90 | 51.7 |
| Capital goods | 51 | 95 | 49.5 |
| Agricultural products | 35 | 105.7 | 41.8 |
| Mining products | 20 | 95 | 51.7 |
| Manufacturing products | 7 | 78.5 | 54.7 |

Note: Average levy (simple, unweighted) for 62 categories was 99.2 percent. Standard deviation was 49.85.

Source: Author's estimates based on data in Government Gazette, Section B, October 22, 1952.

- (c) **Foreign Exchange Rates:** In the years preceding 1953, Greece made use of multiple exchange rates. The official exchange rate of the drachma to the American dollar fluctuated as follows (rates are expressed in "new" drachmas, which replaced "old" drachmas at a rate of 1,000 to 1 in 1954): November 30, 1944 -- 0.15 drachmas; June 6, 1945 -- 0.50 drachmas; September 21, 1949 -- 15.00 drachmas. (The 1949 change was the result of an unofficial devaluation resulting from an increase in the price of foreign exchange certificates). The September 1949 rate remained constant up to the eve of trade reform.
- (d) **Foreign Exchange Certificate (FECs):** These were introduced in October 1947 to assist exports and discourage imports. The Bank of Greece gave exporters certificates for foreign exchange traded for drachmas. These certificates were tradeable on the Athens Stock Exchange. Importers needing foreign currency could buy it from the Bank of Greece at its official price but were required to exchange FECs of an equal amount for the currency. FECs were also used for other transactions involving the buying or selling of foreign currencies.⁴ In September 1949 the Bank raised the price of FECs by 10 new drachmas to the dollar and made similar arrangements for other currencies. This constituted an unofficial devaluation, since officially the U.S. dollar was equivalent to 15 drachmas. Exporters of wine, mining products, and few other products were allowed to keep part of their foreign exchange receipts. FECs were abolished in June 1951 (Bank of Greece 1978, pp. 329-31).
- (e) **Quantitative Restrictions and Import Licensing:** All of Greece's imports were subject to licensing prior to 1953. QRs were mainly applied to imports of machinery also produced domestically and to imports of consumer goods that were not needed to satisfy "basic needs" of the population. Such goods were specified by a Council of Foreign Trade.
- (f) **Bilateral Trade Agreements:** The Greek government signed several bilateral trade agreements with other countries after World War II. In 1953 Greece had such trade agreements with several socialist countries as well as Brazil, Egypt, Finland, and Israel. After the unofficial devaluation of 1949, Greece virtually suspended private bilateral trade but reintroduced it in 1950 in revised form (i.e., exporters were allowed to keep part of the foreign exchange earned from exports). Bilateral trade expanded in 1952, when it accounted for 2.1 percent of imports and 5.1 percent of exports.
- (g) **Direct Export Subsidies:** Introduced after World War II for some goods, these subsidies were abolished in 1949 following that year's unofficial devaluation on grounds that devaluation alone would be adequate in promoting exports. But direct export subsidies were reinstated in 1950 for

certain agricultural exports and in October 1952 were expanded to cover a total of 35 categories of products and were used together with special import levies to reduce the trade deficit. The rate of subsidy ranged from 15 to 50 percent of the f.o.b. price. Below are shown our estimates of average subsidy rates and standard deviation for various goods categories affected by this measure.

Table 2.8 Direct Export Subsidies

| Export Groups | Number of Goods in Category | Subsidy Rate (percent) | Standard Deviation |
|------------------------|-----------------------------|------------------------|--------------------|
| Consumer products | 15 | 31.6 | 9.2 |
| Intermediate products | 15 | 44.0 | 8.3 |
| Capital products | 5 | 44.0 | 5.5 |
| Agricultural products | 6 | 24.1 | 6.6 |
| Mining products | 15 | 44.0 | 8.3 |
| Manufacturing products | 14 | 39.8 | 7.3 |

Note: Average subsidy for 35 categories was 23.8 percent. Standard deviation was 10.2.

Source: Author's estimates based on data in Government Gazette, Section B, October 20, 1952.

- (h) Indirect Export Incentives: Indirect export incentives, which had been used before World War II, increased in number and coverage after the war. In addition to incentives aimed specifically at promoting exports, there were also incentives for promoting industrialization, regional development, or other objectives. The indirect incentives as of 1952 included: (i) temporary exemption or refund of import duties and other taxes on imported raw materials, fuel, and packaging materials used to produce exports; (ii) exemption from the turnover tax on revenue from goods exported directly by producers or exported indirectly through prior sale to domestic firms which subsequently exported them; (iii) refunding of turnover tax paid on domestic manufactured and handicrafts products used in the production of exports; (iv) easier bank credit terms and lower interest rates for export trade than for import and domestic trade; (v) a reduction in the fees required by the Piraeus Port Authority if exports were being shipped; (vi) easier customs procedures for exports.

The Nature of the Liberalization Reform of 1953

Despite the improvement in the trade balance and an increase in foreign exchange reserves after the war, Greece remained dependent on foreign aid in the early 1950s. Such aid in 1952 was 1.6 times the value of Greece's total commodity exports (Table 2.1). Without that aid, foreign exchange reserves would have been negative (Table 2.3). Given the prospect of serious balance of payments difficulties as foreign aid was phased out, one might have expected the government to maintain a policy of protectionism. Instead, the conservative government of Marshall Papagos decided to move quickly toward a policy of trade liberalization and announced immediate implementation of the following measures:

- Devaluation of the currency from 15 drachmas to the U.S. dollar to 30 drachmas to the dollar and an end to multiple exchange rates.

- Abolition of special levies on imports and direct export subsidies. Regular tariffs and excise taxes, however, were preserved.

- Elimination of licensing and quantitative restrictions on most imports. Imports of certain luxury goods or materials not produced domestically (included in the government's so-called Table A) still had to be licensed, as did 42 types of goods (mainly capital and intermediate goods) produced domestically (and listed in a so-called Table B) (Bank of Greece 1978, pp. 329-331). Imports of goods in the second category would only be licensed when domestic production was insufficient to satisfy domestic demand.⁵

The International Monetary Fund approved the new exchange rate because of the success of Greece's stabilization program. Devaluation was the most important part of the general policy of economic reform and monetary stabilization, and it had no resemblance to previous changes in exchange rates, which were usually adjustments of the official rate to the free market rate or to rate adjustments made by other countries.

The government said that its goal was the restoration of normal economic conditions through better functioning of markets. In short, reform was intended to bring about a "modernization" of the Greek economy and to promote economic development. The government believed that it had created the necessary preconditions for the success of reform and was planning to take measures to achieve monetary and general stability so that the reform would have a lasting effect on the economy instead of the temporary relief of previous devaluations.

Political Conditions and Public Reaction

Although the devaluation had the approval of the IMF and the U.S. government, it is not known whether any pressure was exerted by the IMF or United States on the Greek government to liberalize its trade policies. Prime Minister Papagos was a strong and respected man who had the backing of the King and the United States, while Spyros Markezinis, the Minister of Coordination who was the mastermind behind the change, had a reputation for dynamism and determination. The government's decision seemed to reflect a

shift made possible by the termination of the abnormal conditions of the 1940s. There is no evidence that a division existed within the Greek government concerning the new policy, whose implementation was entrusted to the Ministries of Coordination and Commerce. Furthermore, there was no debate in parliament or any other discussion with opposition parties prior to announcement of the liberalization measures. The political balance of power was such that the government could afford to pursue its policy without much concern about opposing opinions. The Communist party, which might have raised serious objections to liberalization, was outlawed because of the civil war, and pro-Communist voters were supporting a legal left-wing party, the Union of the Democratic Left (EDA). EDA and smaller left-center parties criticized the devaluation as being excessive, and as bound to raise living costs and to generate unfair gains for gold hoarders, since the price of gold increased after announcement of the devaluation. The criticisms of non-Leftist parties were mild. Newspapers of the period show that the Association of Hellenic Industries, the Athens Chamber of Commerce and Industry, the Confederation of Professions and Small-Scale Industries, and other associations and labor unions praised the new measures and pledged to support the government. Less than a week after announcement of the new policy, discussion of it disappeared from the headlines.

Appropriateness of the Timing of Reform

Was the 1953 reform correctly timed? The answer is a qualified yes. The economy was still underdeveloped and partly dependent on foreign assistance, but domestic developments had created conditions favorable for reform: the termination of civil war, the restoration of political stability, the suppression of inflationary pressures, the elimination of ordinary budget deficits and the decrease in total budget deficits, and improvements in the balance of payments.

The 1953 reform was also assisted by favorable international developments, including the economic recovery of other Western European countries and an increase in their demand for Greek exports, an end to increases in the prices of many basic commodities following the truce in the Korean War, and the international trend toward freer trade encouraged by the General Agreement on Tariffs and Trade (GATT), the Organization for European Economic Cooperation, and other agencies.

Measures to Moderate the Impact of Devaluation

To prevent the prices of basic consumer goods from rising abruptly as a result of devaluation, the authorities instituted several temporary measures. A large portion of the government's stocks of basic commodities was liquidated at prices less than market level under the new foreign exchange parity. The government subsidized imports of certain foodstuffs and raw materials while export levies were imposed on a few agricultural products widely consumed domestically (olive oil, rice, etc.) to discourage exports and to prevent their prices from rising to world price levels. The U.S. government was asked to supply \$35 million in basic foodstuffs. And

price controls were intensified to prevent artificial scarcities (through concealment of goods) and "profiteering."

To prevent windfall gains on payments for exports made before devaluation, export profits caused by the devaluation became payable to the government. (Exporters of agricultural goods, however, were allowed to keep half of the extra profits.) The ban on gold transactions, introduced many years earlier to discourage gold hoarding, was maintained. However, loan agreements containing clauses requiring borrowers to repay the loans in dollars (or some other currency) became acceptable to the government. Also, previous loan agreements in gold, or in drachmas with a gold clause, became acceptable to the government. Also, previous loan agreements in gold, or in drachmas with a gold clause, became legal if declared to the government before the end of April.⁶

A few days after the reform was announced, the Currency Committee, in effect, raised the ceilings on credit allowed to exporters by 50 percent.⁷ The ceilings themselves were not changed, but goods considered essential to the economy were transferred into categories with higher credit ceilings. In addition, the amount of money available for credit in domestic commerce was increased.

Existing controls on foreign exchange transactions, and a prohibition on the export of Greek capital, were preserved. Meanwhile, inflows of foreign capital were encouraged through Legislative Decree 2687. The decree provided that the fiscal regime in effect at the time of capital importation would remain effective for up to ten years. The decree also reduced (or in some cases eliminated) duties and other import taxes on imported machinery, accessories, parts, and tools, established a constitutional guarantee against expropriation, and guaranteed that foreign earnings and capital could be repatriated. Domestic investments of capital owned by Greeks abroad, and transfer to the Greek shipping registry of Greek-owned ships of over 1,500 tons, were treated as importation of foreign capital. Short-term private borrowing from abroad was not allowed, except for commercial credits granted to buyers of certain foreign products.

Implementation of the Reform

The Greek authorities did not replace QRs and licensing with higher tariffs. Furthermore, they eliminated special levies on imports. The size of the devaluation was apparently considered sufficient compensation for Greek producers.

The new policies were implemented until 1955, when tariffs on textiles were raised after domestic textile producers sought protection. A year later the government required advance import deposits on about 90 imported products, and importers were required to deposit interest-free at the Bank of Greece an amount equal to either 50 or 70 percent of the c.i.f. value of the import. Ten imported items for which no deposit was required were put in another category, and another 93 items not produced domestically were placed in a fourth category. In 1958 the advance deposit requirements were broadened and increased. Appendix Table A.1 shows the number of goods placed in the four categories.

The increase in textile tariffs and the introduction of advance import deposits were, of course, a partial reversal of the policy of trade liberalization, but permission to import with the help of credit from foreign suppliers made it easier to import other foreign products. What was the overall effect on liberalization? Since tariffs on other goods did not increase, and since protection of some domestic goods with import deposits was much weaker than the protection provided before 1953 for many more goods by means of QRs, licensing, and import levies, the partial regression into protectionism in 1955-58 can be characterized as fairly small.

With regard to exports, the devaluation was more than adequate compensation for the direct export subsidies previously applicable on some goods, which had ranged from 15 to 50 percent. Greece's most important exports (tobacco, cotton, raisins, etc.), however, were not eligible for direct export subsidies before the 1953 reform. Devaluation thus considerably increased their international competitiveness. From 1953 to 1955, exports increased faster than imports, but in absolute terms the imports/exports gap increased. That was probably what caused the government to introduce some indirect export incentives in 1954 and 1956. The social security contributions paid by employers were reduced in 1954, payroll taxes were abolished for producers of export products and packaging materials used for exports, the exemption from import charges of materials used for production of exports was extended to other types of charges, and the period within which a firm could claim the exemption was extended. In 1955 the interest rate favoring export activities was abolished, but in 1956 it was reinstated. Export firms were also allowed to deduct up to 4 percent of total gross export revenues from taxable profits. This was nominally to make up for expenses incurred in penetrating foreign markets, but firms were not required to prove that the funds were in fact spent for marketing activities.

The Increase in Trade Resulting from Liberalization

The value of Greece's imports and exports (measured in drachmas) increased considerably after 1953. In terms of the dollar, the value of imports dropped in 1953 (Table 2.9), but much less than it did in 1952 (36.4 percent). The 1953 decrease was due not only to the effect of devaluation on the domestic prices of imports, but also to the contractionary effects of stabilization policies still in effect in the first quarter of 1953. In 1954 there was a big increase in the dollar value of imports, but in subsequent years the increases fluctuated in size. Import growth after 1953 was much faster than the growth of real GDP. Fluctuations in the real exchange rate do not seem to explain the fluctuation in the value of imports in 1953. No data exist for computing effective exchange rates for imports for that period.

More than half of all imports consisted of intermediate goods, crude oil, and investment goods (Table 2.10). Demand for such goods usually reflects the level of domestic economic activity more than it reflects changes in the prices of these goods. This probably helps to explain the lack of correlation between changes in imports and changes in the real exchange rate. After 1953 the share of consumer goods in total

imports showed a distinct tendency to rise. This trend can be attributed to a combination of factors, such as the increase in domestic prices which gradually made imports more attractive and the rapid expansion in the range of imported goods available in Greece after the liberalization of imports.

Table 2.9 Growth of Imports and Exports, and Openness of Greek Economy, 1953-1956

| Category | 1953 | 1954 | 1955 | 1956 |
|----------------------------------------------------------------------------------------|--------|-------|-------|-------|
| Growth of Dollar Value of Imports (%) | -11.40 | 35.00 | 10.90 | 27.60 |
| Growth of Dollar Value of Exports (%) | 17.30 | 20.00 | 28.30 | 1.50 |
| Growth of Dollar Value of Agricultural Exports (%) | -20.60 | 35.40 | 23.60 | -0.04 |
| Agricultural Exports as % of Total Commodity Exports | 83.30 | 84.10 | 92.20 | 90.50 |
| Share of Bilateral Imports (%) | 6.00 | 7.10 | 7.90 | 9.40 |
| Share of Bilateral Exports (%) | 12.10 | 17.90 | 9.80 | 18.80 |
| Openness of the Economy (Exports + Imports of Goods Divided by GDP, in Current Prices) | 0.22 | 0.26 | 0.27 | 0.27 |
| Growth of Real GDP (%) | 13.50 | 3.40 | 7.60 | 8.90 |
| Change in Real Exchange Rate (Official Rate x (WPI/DPI) (%)) | 63.90 | 0.20 | -4.50 | 0.00 |
| Effective Exchange Rate for Exports (drachmas per US\$ of exports) | 30.02 | 30.02 | 30.01 | 30.04 |

Sources: Estimates made from data from Tables 2.3 and 2.4; NSSG, Statistical Yearbook of Greece (various issues); and Bank of Greece (1982), Monthly Statistical Bulletin, (1982).

Table 2.10 Structure of Greek Imports, 1952-1956
(percent)

| Year | Intermediate Inputs ^a | Crude Oil | Investment Goods | Consumer Goods |
|------|-------------------------------------|--------------|---------------------|-------------------|
| 1952 | 38.6 | 6.8 | 14.7 | 39.9 |
| 1953 | 38.0 | 5.7 | 12.9 | 44.1 |
| 1954 | 39.4 | 4.6 | 13.5 | 42.4 |
| 1955 | 36.1 | 4.3 | 14.0 | 49.0 |
| 1956 | 34.8 | 3.3 | 14.7 | 47.3 |

^a Other than crude oil.

Source: NSSG, Statistical Yearbook of Greece (various issues).

The dollar value of exports increased at an accelerated rate during the period 1953-55 (Table 2.9) but slowed in 1956. Greece's exports continued to consist chiefly of traditional goods, with agricultural products accounting for more than four fifths of total commodity exports. The rest were mining and manufactured products. Strong fluctuations in agricultural production (Table 2.4) usually have an effect on agricultural exports and explain the strong fluctuations of the latter (Table 2.9). Since the Greek government was stockpiling several important agricultural products and selling part of these stocks abroad at later dates, changes in agricultural production and agricultural exports did not always coincide.

Effective exchange rates (EERs) for exports (Table 2.9) were estimated from annual payments in the form of export incentives (Appendix Table A.2). The incentives taken into account were the exemption of exporters from duties and taxes, the subsidy equivalents of low interest rates, and the nominal tax incentives for market penetration. EERs are expressed as drachmas per U.S. dollar. The nominal EERs for exports of agricultural and nonagricultural products increased in 1954, reflecting the introduction of the new export incentives discussed above. Incentive payments fluctuated due to changes in export values and in incentives. Total refunds and exemptions rose by 68 percent in 1953-54, while the value of total exports (in drachmas) increased by 34 percent. In 1955 the elimination of the lower interest rate for exports resulted in a 50 percent drop in total subsidy payments. Reinstatement of this interest rate in 1956 and the introduction of the incentive for market penetration were followed by an increase in total exports incentive payments of 774 percent. Subsidy payments were small in the 1953 liberalization, and their annual changes had very little effect on EERs. Annual changes in the latter do not explain the annual fluctuations in exports.

After 1953 the open-economy index (imports + exports/GDP) increased considerably (Table 2.9). The import penetration ratio (Table 2.3), which dropped in 1953, rose in subsequent years. Estimates of trade ratios by major product groups (see Appendix Table A.3) indicate that

exports of food increased more slowly than corresponding imports, that exports of beverages and tobacco considerably exceeded similar imports, and that exports of leather products and nonmetallic mineral products also exceeded similar imports, but by smaller amounts. Imports exceeded exports in several manufacturing sectors. A development that seemed to go against the trend toward greater liberalization was the increase in the imports share of bilateral trade (Table 2.9), mostly with socialist countries.

Economic Policies and Performance after the 1953 Reform Monetary and Fiscal Policy

The gradual decline in foreign aid, in combination with the elimination of many trade restrictions in 1953, compelled the government to adopt cautious monetary and fiscal policies in order to avoid inflation and external payments problems. Severe earthquakes in 1953 and some subsequent years, however, forced the government to make additional budget expenditures to rebuild damaged areas.

Monetary policy remained closely controlled by the Currency Committee. The money supply grew considerably in 1953 over 1952, and accelerated again in 1955-56 (Table 2.2). Total bank lending expanded considerably in 1953 but then decelerated until 1956. Nominal interest on loans to industry dropped in 1954 and 1955 but rose a bit in 1956 (Table 2.2).

Fiscal policy too was less tight after 1953, although the government continued its efforts to balance the budget. Except in 1956, the ordinary budget had a surplus and the total budget deficit was a much smaller percentage of GNP than before 1953 (Table 2.2). Government expenditures increased in 1953/1954, mainly because devaluation raised the prices of government purchases and additional expenditures were needed to help earthquake victims; and to meet financial commitments undertaken when Greece joined NATO in 1952. To raise additional revenue, the authorities made a vigorous effort to improve tax assessment and collection procedures. Also, revenues increased because of substantial GNP growth in 1953 (Table 2.4).

The government curtailed its investment expenditures in 1953, but decided in 1954 to raise investment funds in the domestic market through a bond issue, the first since before World War II. The issue was fully subscribed by the public.

Prices, Wages, and Interest Rates

Since Greece adhered to a system of fixed exchange rates, high domestic inflation would erode the international competitiveness of Greek products. Although special measures were taken to keep inflation under control, the 1953 devaluation caused prices to rise substantially (Table 2.2). Price stability was restored in 1955. The price increases of 1953 had been anticipated, however, and were taken into account by the government in the fixing of the extent of devaluation. A number of

reputable economists thought the devaluation was bigger than advisable.⁸ After 1954 the inflation rate did not differ substantially from that of Greece's major trading partners (Table 2.11).

Real minimum wages (no data on actual wages paid were available) in the industrial sector increased only marginally during 1953-54 (Table 2.12) but rose strongly in 1955-56. Real interest rates were low or negative in 1953-54 before becoming positive and rising in subsequent years (Table 2.13).

Table 2.11 Inflation Rates in Greece and in Nine Main Trading Partners, 1951-1968
(percent)

| Year | Inflation Rate in Greece | Average Inflation Rate of Trading Partners ^a | Ratio of Greek Inflation Rate to that of Main Trading Partners |
|------|--------------------------|---------------------------------------------------------|----------------------------------------------------------------|
| 1951 | 12.6 | 10.6 | 1.2 |
| 1952 | 5.1 | 4.7 | 1.2 |
| 1953 | 9.2 | 0.8 | 11.4 |
| 1954 | 15.0 | 1.6 | 9.3 |
| 1955 | 5.7 | 2.5 | 2.2 |
| 1956 | 3.7 | 3.3 | 1.1 |
| 1957 | 2.3 ^b | 3.3 | 0.7 |
| 1958 | 1.4 ^b | 3.6 | 0.4 |

^a Average for Belgium, France, West Germany, Denmark, United Kingdom, Ireland, Italy, Luxembourg, and the Netherlands.

^b Index of cost of living in Athens.

Sources: IMF; Bank of Greece (1978 and 1982); OECD.

Table 2.12 Percentage Change in Minimum Wage of Males and Females in Greek Industrial Sector, 1952-1956

| Year | Change in Nominal Minimum Wage | | Change in Nominal Wage as Ratio of Annual Change in CPI | |
|------|--------------------------------|---------|---------------------------------------------------------|---------|
| | Males | Females | Males | Females |
| 1952 | 3.6 | 2.8 | 0.71 | 0.55 |
| 1953 | 9.6 | 8.1 | 1.04 | 0.88 |
| 1954 | 18.4 | 18.5 | 1.23 | 1.23 |
| 1955 | 25.0 | 22.4 | 4.39 | 3.93 |
| 1956 | 13.5 | 10.3 | 3.65 | 2.78 |

Source: Government Gazette, 1952-1956, and Table 2.2.

Table 2.13 Nominal and Real Interest Rates in Greece, 1951-1956

| Year | Nominal Rate | | Real Rate ^a | |
|------|--------------|-----------|------------------------|-----------|
| | Short-Term | Long-Term | Short-Term | Long-Term |
| 1951 | 12 | 8 | -0.6 | -4.6 |
| 1952 | 12 | 8 | 6.9 | 2.9 |
| 1953 | 12 | 8 | 2.8 | -1.2 |
| 1954 | 10 | 8 | -5.0 | -7.0 |
| 1955 | 9 | 9 | 3.3 | 3.3 |
| 1956 | 10 | 9 | 6.3 | 5.3 |

^a Nominal interest rates deflated by the change in CPI.

Source: Bank of Greece (1982).

The monetary and fiscal policies of the mid-1950s, in short, suggest that Greece experienced a progressive increase in real production costs and a reduction in price increases. However, estimates of profitability and capacity utilization in the manufacturing sector both increased after 1954 (Table 2.5) (see Pavlopoulos 1986, pp. 136-141). The statistics available for certain industries show increases in average output per person and in the average number of hours worked per week (Table 2.14).

Table 2.14 Product per Worker and Hours Worked per Week in Manufacturing Industries, 1953-1956

| Industry | Average Product per Worker (1952=100) | | | | Average Number of Hours Worked per Week | | | |
|---------------|------------------------------------------|------|------|------|--------------------------------------------|------|------|------|
| | 1953 | 1954 | 1955 | 1956 | 1953 | 1954 | 1955 | 1956 |
| Textiles | 120 | 146 | 146 | 161 | 44 | 45 | 49 | 60 |
| Food | 108 | 129 | 135 | 139 | 43 | 43 | 47 | 47.2 |
| Chemicals | 113 | 148 | 157 | 142 | 48.5 | 47.2 | 47.2 | 47.2 |
| Construction | | | | | | | | |
| Materials | 119 | 131 | 144 | 152 | 47 | 45 | 47.2 | 47.2 |
| Wood and Wood | | | | | | | | |
| Products | 116 | 140 | 140 | 179 | 39.2 | 47.2 | 46.4 | 47.2 |
| Electric | | | | | | | | |
| Appliances | 131 | 163 | 124 | 82 | 39.2 | 41.6 | 46.4 | 48 |
| Machinery | 109 | 115 | 112 | 122 | 44 | 45 | 45 | 45 |

Source: Bank of Greece (1978).

Gross Domestic Product and Investment

Although the economy's real growth in the years following the 1953 liberalization was unstable, it cannot be considered to have been unsatisfactory. The strong fluctuations were largely due to variable agricultural outputs caused by weather and crop cycles (Table 2.4). GDP growth was high in 1953, much smaller in 1954, and better in subsequent years. The manufacturing sector's rate of growth had been negative in 1952, but in 1953 rose a dramatic 15.3 percent. Over the next few years the growth rate remained below the 1953 figure but still averaged about 10 percent per year. The real growth rates of major manufacturing industries (Table 2.15) were positive in 1953 and in most subsequent years. Although some Greek producers must have been hurt by imports, the elimination of inefficient producers and the shift of resources to more productive uses benefited the Greek economy as a whole.

Investment as a percentage of GDP (Table 2.5) increased in 1953 and then fluctuated over the next two or three years. That cannot be attributed to the 1953 reform, since similar fluctuations were observed in nearly all sectors of the economy, including sectors unrelated to foreign trade (communications, electric power, etc.). Legislation designed to attract foreign investors did not have an immediate effect, but imported capital did begin to gain some momentum in the late 1950s.

Unemployment and Business Bankruptcies

A lack of data on employment and unemployment rates make it impossible to determine the effect of the 1953 liberalization on the Greek work force. Even the evidence which might allow at least the drawing of inferences about unemployment is inconclusive. On the one hand, an increase in hours worked per week in manufacturing (Table 2.14) suggests that there was an improvement in labor market conditions. On the other hand, though, unemployment compensation rose by 27.3 percent between 1955 and 1956. The total of such payments rose from 0.20 percent of personal disposable income to 0.22 percent, and the number of unemployed covered by the Organization for the Employment of the Labor Force (OAED) increased from 31,781 to 40,655. These changes might suggest an increase in unemployment, but they may simply reflect a gradual increase in OAED coverage. The rise in emigration during the period cannot necessarily be attributed to growing unemployment, since most of the emigrants were from rural areas, while the impact of a rise in imports would have been felt primarily among urban manufacturing workers. Nothing unequivocal can be said except perhaps that if there was an increase in unemployment it can not have been very large.

Data on business bankruptcies show that the total number rose from 492 in 1955 to 689 in 1956. Bankruptcies of manufacturing and handicrafts firms rose 79.3 percent, while bankruptcy among commercial and other establishments rose by 34.1 percent. After 1956 the annual rate of increase in bankruptcies decreased considerably. Due to a lack of data for the period prior to 1955, it is impossible to say how rapid the increase in bankruptcies was in 1956 compared with earlier years. Since it takes time before a firm experiencing difficulties is declared bankrupt, one can assume that the troubles of firms declared bankrupt in 1955 and 1956 might have started before 1955. But it is not possible to say whether their

difficulties started after the 1953 liberalization or had deeper roots. It does seem probable that the rapid increase in real minimum wages in 1955 had some effect on bankruptcy rates.

Table 2.15 Annual Change in Real Value of Production of Greek Manufacturing Industries, 1951-1956
(percent)

| Industry | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 |
|----------------------------------------------------------|-------|--------|--------|-------|-------|-------|
| Food, Beverages, Tobacco | 21.9 | 4.75 | 8.6 | 17.7 | 4.15 | 13.4 |
| Textiles | 2.6 | -4.1 | 10.4 | 6.0 | 18.1 | 1.3 |
| Clothing and Footwear | 2.1 | -10.2 | 10.4 | 11.65 | -0.10 | 9.5 |
| Wood Products, Furniture | -5.2 | -5.7 | 7.2 | 11.90 | 19.35 | 15.15 |
| Paper, Printing, Publishing | 4.8 | 9.9 | 16.8 | -1.5 | 18.20 | 19.70 |
| Chemicals and Allied Products | 14.7 | 3.0 | 15.65 | 16.30 | 17.40 | 14.30 |
| Stone, Clay, and Glass | -18.6 | -0.2 | 29.70 | -0.65 | 33.60 | 24.80 |
| Basic Metal Industries | 21.6 | 2.2 | 19.60 | 52.70 | 14.30 | 22.90 |
| Metal Manufacturing, Engineering, Electrical Goods | 9.8 | 1.1 | 26.60 | 10.90 | 4.90 | 6.70 |
| Transport Equipment | 0 | -10.85 | 111.10 | 16.30 | 10.30 | 5.10 |
| Other Manufactures | -1.77 | 6.50 | 6.10 | 6.10 | 2.70 | 12.00 |
| Total Manufacturing | 6.30 | -1.20 | 15.30 | 11.30 | 9.55 | 10.60 |

Source: NSSG, National Accounts (various issues).

Balance of Payments, External Debt, and the Government Budget

Greece's trade deficit, which fluctuated between 1953 and 1956 (Table 2.3), was more than covered during that period by increases in receipts from invisibles and net capital inflow. Foreign currency reserves increased despite the reduction in foreign aid, thus allowing the continuation of liberalization. Receipts from shipping, emigrant remittances, spending by tourists in Greece, and transfers from foreign governments (both war reparations and foreign aid) helped keep the balance of payments in good shape. Greece's pre-war debts, which had been frozen in 1941, were still unsettled, and servicing of that debt had been suspended. Debt service payments on postwar debts were very small percentages of GNI (gross national income), of export earnings, and of aggregate foreign exchange receipts (Table 2.16).

It seems that the 1953 liberalization caused no budgetary problem (Table 2.17). Despite the abolition of special import levies, total revenue from duties and import taxes increased because of a 35 percent increase in the value of imports (measured in drachmas) in 1953. Rising revenues from regular tariffs and from indirect import taxes exceeded the

revenues lost because of abolition of the special levies. Import-related revenues also increased as a percentage of total budget revenue up until fiscal year 1954-55, when other sources started yielding more revenue.

Export subsidies constituted a very small percentage of total budget expenditures, although it is not possible to estimate the total amount of indirect subsidization of exports.

Unemployment compensation payments increased from 123.3 million drachmas in 1955 to 157 million in 1956. Even if all of this rise could be attributed to increased unemployment (as explained above, it probably can not), the negative effect of unemployment benefits, subsidies and grants on the government's budget was much smaller than the positive change in import-related revenue.

Table 2.16 Debt Service Payments on Publicly Held Debt as Percentage of Exports, Aggregate Foreign Exchange Receipts, and Gross National Income (GNI), 1951-1956^a

| Year | Debt Service Payments as Percentage of Value of Exports | Debt Service Payments as Percentage of Aggregate Foreign Exchange Receipts | Debt Service Payments as Percentage of GNI |
|------|---------------------------------------------------------|----------------------------------------------------------------------------|--------------------------------------------|
| 1951 | 1.6 | 0.36 | 0.07 |
| 1952 | 1.9 | 0.68 | 0.09 |
| 1953 | 1.8 | 0.76 | 0.13 |
| 1954 | 2.9 | 1.25 | 0.25 |
| 1955 | 2.1 | 0.94 | 0.19 |
| 1956 | 3.8 | 1.58 | 0.31 |

^a Debt service data for fiscal year; exports and other values for calendar year.

Source: Estimated from data in other tables.

Table 2.17 Government Budget Accounts Affected by Liberalization

| Fiscal Year | Revenue from Duties and Taxes on Imports (millions of drachmas) | Duty and Import Tax Revenues as Percentage of Total Budget Revenue | Expenditure for Subsidies (millions of dollars) | Subsidy Expenditures as Percentage of Total Budget Expenditures |
|-------------|-----------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------|-----------------------------------------------------------------|
| 1950-51 | 1,300 | 17.9 | n.a. | n.a. |
| 1951-52 | 1,513 | 19.2 | n.a. | n.a. |
| 1952-53 | 1,628 | 20.3 | 19.1 | 0.24 |
| 1953-54 | 2,212 | 22.8 | 25.3 | 0.28 |
| 1954-55 | 2,118 | 18.9 | 19.3 | 0.17 |
| 1956 | 2,249 | 16.2 | 69.1 | 0.50 |

n.a. = not available.

Source: Estimates made from Bank of Greece data and export subsidy payments data in Appendix Table A.2.

Conclusions about the 1953 Liberalization Episode

The 1953 liberalization of the Greek economy was unilateral, bold, important for the economy, and sustainable. After April 1953 there were no balance-of-payments or budget difficulties, real economic growth was strong, price stability was restored, massive unemployment did not occur, and the economy did not seem to be facing any serious difficulties. Why then did the authorities retreat into limited protectionism during 1955-58?

The answer may have been Markezinis's decision to resign from the government and form his own party. Although Papagos's government was replaced in October 1955 by the Karamanlis government, which had the same general attitude towards liberalization, the absence of the primary moving force behind reform from the new government may have made it easier for protectionism to reappear.

Devaluation did not compensate Greece's textiles producers for the abolition of the 100 to 150 percent special import levy, given that the drachma was greatly overvalued prior to April 1953. Textiles at that time accounted for about one fourth of the value of all manufacturing production. The value of textile imports rose very rapidly in 1953-54, as did the textile imports' share of total imports (from 10.9 percent to 14.8 percent), but the income elasticity of demand for textiles during the period 1951-56 was above average.⁹ There is no evidence that the textiles industry as a whole was seriously threatened by imports. The real GDP associated with the textiles industry increased in all post-reform years (Table 2.15), and growth elasticity during the period 1953-58 was not much below the average growth elasticity for all manufacturing.¹⁰ In current prices the growth in the value of domestic textiles production in all years (except 1953) was greater than annual growth in imports (Table 2.15).

These developments convey the impression of a situation in which domestic production was expanding despite growing imports. Growth in imports was much smaller in the second half of the 1950s, but it was not possible to determine the precise effect of measures introduced during that period to curb imports.

Chronology of Policy Changes during 1953 Liberalization

| <u>Time</u> | <u>Policy Change</u> |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| April 1953 | 100 percent devaluation of drachma. Abolition of most QRs and licensing requirements, and of all special imports levies and direct export subsidies. Intensification of price controls. Temporary measures to prevent excessive rise in prices. |
| Fall 1953 | Tax reform to encourage investment, reduce burden on working people and professionals, improve tax assessment and collection procedures and reduce tax evasion. Enactment of Legislative Decree 2687 to attract foreign investment. |
| Spring 1954 | Reduction of nominal interest rates on business loans. Credit ceilings raised for certain types of loans. Adoption of new drachma (equal to 1,000 old drachmas). First postwar bond issue by government. |
| Fall 1954 | Tax revision to increase tax progressivity. Measures to improve tax assessment and collection. Measures to improve export incentives (exemptions or rebates of import duties, wage taxes, social security contributions, etc.). |
| January 1955 | Reduction of interest rates for industry, imports, exports, and domestic commerce. |
| Summer-Fall 1955 | Emergency increase in direct taxes and duties to deal with problems caused by earthquakes. Higher tariffs on textiles. Laws to promote exports and investments outside the Athens area (tax-free allowance for market penetration, and extension of rebate of social security contributions). |
| Spring-Summer 1956 | Increase in nominal interest rates for industry, trade, and domestic commerce. Minimum reserve ratio for commercial banks lowered to 8 percent from 12 percent. Introduction of system of import deposits. |
| 1958 | Import deposit system strengthened. |

Main Characteristics of 1953 Episode

| | |
|--------------------|-------------------------------------------------------------------------------------------|
| Broad Nature | Most QRs, special import levies, and export subsidies abolished. 100 percent devaluation. |
| Size/Duration | Large change. One-shot, overnight change with no reversals for about three years. |
| Stages and Targets | No. |

Economic Circumstances before Liberalization

| | |
|---------------------------------------|----------------------------------------------------------------------------|
| Rate of Real Growth | Less than 3 percent. |
| Rate of Inflation | From 12.6 percent in 1951 to 5.1 percent in 1952. |
| Agricultural Production | 5.6 percent decrease in 1952. |
| Manufacturing Production | 1.6 percent decrease in 1952. |
| BOP | Much reduced deficit. |
| BOT | Deficit reduced. |
| Severely Restricted External Trade | Yes. |
| Budget Deficit | Total budget deficit reduced significantly; ordinary budget shows surplus. |
| External Aid Dependence | Yes. |

Political Circumstances

| | |
|--------------------------------------------------|------------------------------------------------------------------|
| Stable, Strong Government | Yes. |
| Split in Government Ministries Responsible | No. Mainly Ministry of Coordination and Ministry of Commerce. |
| Ideological Shift | No. |
| Opposition Attitude | Mostly favorable. |
| Public Attitude | Mostly favorable. |
| International Influence | Unclear. Possible influence from international trends. |

Accompanying Policies

| | |
|------------------|------------------------------------------------------------------------------------------------------|
| Exchange Rate | Single, fixed; small black market. |
| Export Promotion | First, reduced by abolition of direct export subsidies; later, increased through indirect subsidies. |
| Export Duties | Temporarily imposed on a few basic items. |

| | |
|------------------|------------------------------------------------------------------------------------------------------------------------------------|
| Monetary Policy | M3 and lending expanded; later decelerated. |
| Fiscal Policy | Cautious. Additional revenue needs due to earthquakes. Ordinary budget showed surplus; growth of total budget deficit decelerated. |
| Capital Movement | Inflow greatly encouraged. |

Domestic Controls

| | |
|------------|-----------------------------------------------|
| Prices | Controls intensified to prevent profiteering. |
| Wages | Government intervention did not change. |
| Investment | Encouraged. |

Implementation of Policy

| | |
|-------------------------|----------------------------------------|
| Departures from Program | Partial reversion in 1955. |
| QR Changes | Abolished except for certain products. |

Economic Performance

| | |
|---------------------|-------------------------------------------------------------------------|
| Inflation | Initial rise to 10-15 percent, subsequent reduction to 5.7-2.3 percent. |
| Exchange Rate | Stable. |
| Real Wages | Increase. |
| Employment | Unclear. No data available. May have increased a bit. |
| Real Growth | Accelerated; decelerated; accelerated again. Around 7 percent a year. |
| Protection | Reduced considerably. Increased a bit in 1955-56. |
| Imports and Exports | Trade deficit decreased, then increased. |

FOOTNOTES TO CHAPTER 2

1. For a discussion of conditions during 1944-52, see Bank of Greece (1978, pp. 238-350).
2. The excise tax rate was applied on c.i.f. value inclusive of tariff. The luxury tax rate was applied on c.i.f. value inclusive of tariff and excise tax.
3. In a few instances the government temporarily subsidized imported goods to keep their prices low and thus prevent the cost of living from rising abruptly.
4. See Bank of Greece (1978, pp. 325-27). It has been argued that exports were not helped by FECs because the rate of indirect subsidization of exports was kept rather low through informal intervention of The Bank of Greece in the setting of the price of FECs, and thus could not compensate for inflation, which was undermining the international competitiveness of exportables. See Eliadis (1954).
5. Since the domestic industry was not in a position to produce technologically advanced equipment, restrictions on imports did not prevent the importation of such capital goods.
6. Borrowers were allowed repayment in drachmas at the price of gold at the closing of the Athens Stock Exchange before the announcement of devaluation. See Bank of Greece (1978, p. 396).
7. The Currency Committee was established in 1946 to handle credit and monetary policies and remained in existence until 1983. It was headed by the Minister of Coordination and had as members the Minister of Finance, the Minister of the Presidency of the Government, and the Governor of the Bank of Greece.
8. For example, Professor Kyriakos Varvaressos had recommended a devaluation of 67 percent in the drachma in 1952, while a group of prominent economists headed by Professor Xenophon Zolotas had recommended a devaluation of 30 to 40 percent. See Varvaressos (1952); Goudi (1953); and Bank of Greece (1978, p. 392).
9. See Vartholomeos (1984, p. 101). Vartholomeos estimated the income elasticities of Engel-type curves.
10. See Kintis (1982, p. 47). Kintis estimated that the growth elasticity of the textiles industry was 0.89 during the period 1948-53 and 0.85 during the period 1953-58 (average for total industry in each period = 1.0).

CHAPTER 3

THE SECOND PERIOD OF LIBERALIZATION: GREECE AND THE EEC

The late 1950s -- when protectionism made a brief reappearance -- can be considered simply an intermission before Greece's second and greater liberalization adventure, its association with and eventual membership in the EEC. Liberalization after 1961 has been a more-or-less continuous process, but special attention is paid here to subperiods which constitute identifiable phases.

Association with the EEC

The Karamanlis government began negotiations with the European Economic Community in 1959 to make Greece an associate EEC member. An agreement giving Greece that status was signed on July 9, 1961, was ratified by the Greek Parliament on March 14, 1962, and became effective in November of that year. During the negotiations the government asserted that Greek affiliation with the EEC would significantly benefit the national economy by enlarging the market for Greek products, thus allowing Greek firms to benefit from specialization and economies of scale, and enabling them to absorb surplus labor.

There were also important political considerations. Karamanlis wanted to strengthen Greece's political, cultural, and military links with Western Europe. Greece was already a member of the IMF, the World Bank, the OECD, and NATO. Becoming an associate member of the EEC was thus a natural extension of Greece's relations with the western world, especially with the EEC countries which were Greece's dominant trading partners.

The agreement of association, whose main points are outlined below, was a definite step toward greater trade liberalization and paved the way for full Greek membership in the EEC. It provided for the gradual creation within a period of 24 years of a customs union covering all trade in goods between the EEC and Greece, with certain exceptions. Greece agreed to adopt the Community's Common External Tariff for imports from non-EEC countries. The most important elements of the 1961 agreement were the following:

1. Exports of Manufactured Products to the EEC

The EEC agreed to reduce tariffs on Greek exports of manufactures by 20 percent per year. The Greek government had great hopes for the eventual expansion of exports of manufactures to EEC countries, even though the country's exports of manufactures in 1961 were only a small percentage of Greek manufacturing production.

2. Imports from the EEC of Manufactures also Produced Domestically

The agreement contained a provision for the gradual elimination of Greek tariffs on imports from the EEC of manufactured products also produced in Greece in 1961. These tariffs were to reach zero by November

1984. During the first nine years of the agreement, however, Greece was given permission to maintain or raise tariffs to protect infant industries.

3. Imports from EEC of Manufactures Not Produced Domestically

Tariffs on Greek imports from the EEC of goods not produced in Greece in 1961 were scheduled to be eliminated within the period 1962-74. Under the agreement, Greece and the EEC countries agreed not to impose new duties or to increase existing ones, with the following exceptions:

(a) Steel, coal, and iron produced by the European Community; (b) Greece was given the right to protect "new processing industries" that did not exist in the country in November 1962 by imposing customs duties of up to 25 percent (ad valorem) and maintaining them for up to nine years. Such duties could be imposed only on goods which in 1958 did not constitute more than 10 percent of Greece's imports from Community countries.

4. Quantitative Restrictions and Import Deposits

Greece agreed to gradually abolish quantitative restrictions on imports from the EEC. Greece was initially allowed to select and protect (with QRs) goods accounting for up to 40 percent of total Greek imports from the EEC in 1958. This figure was to be reduced to 25 percent in 1967 and to 20 percent in 1972. All QRs on goods not produced in Greece in 1961 had to be terminated by 1974, while QRs on goods produced in 1961 had to be dropped by 1984. The Greek authorities decided at first to protect all products in Tables A and B (see Chapter 2) plus several more added to Table A, the most important being textiles. Although the coverage of Greek QRs increased following the signing of the agreement, it fell far short of the protection initially granted to Greek products by the agreement of association with the EEC.¹

The agreement contained no provision on eliminating import deposits, but Greece was expected to abolish all restrictions on imports whose effects were equivalent to tariffs or quantitative restrictions.

5. Trade in Agricultural Products with the EEC

When Greece became an associate member of the EEC, the Community had fewer provisions for agricultural goods than for manufactures, since the Community's Common Agricultural Policy (CAP) was still being formulated. The main provisions applying to Greece were the following. The EEC tariff on tobacco, which was Greece's chief export, was to be reduced by 50 percent on November 1, 1962, by another 10 percent on July 1, 1964, and abolished by the end of 1964.² The EEC had no provisions that applied to the second most important Greek export product, cotton. EEC duties on another important Greek agricultural product, raisins, were to be reduced by 50 percent on November 1, 1962, by 20 percent on January 1, 1965, by 10 percent on January 1, 1966, and eliminated by the end of 1967. Duties on citrus fruits and other Greek agricultural exports were scheduled to be abolished within 12 years.

Greece's agricultural products were grouped into three categories: those in protocol 13 (mainly fish, rice, dairy products, meat, edible fats,

and oils), those in Annex III of the agreement (mainly exportables, such as vegetables, pulses, fruit, juice, vegetable oil, and tobacco), and a third miscellaneous category containing all the rest. Greece's duties on goods in protocol 13 (20 categories of goods) were to be abolished within 22 years, those on goods in Annex III within 12 years, and on the remaining products, in principle, within 22 years. The rate of duty reduction for each product in the last category was to be decided by the EEC's Council of Association following the establishment of a Common Agricultural Policy. Greece was not required to agree in advance to that policy, and would continue to be allowed to impose duties on products in the third category until the CAP went into effect.

6. Trade with Third Countries

Greece's tariffs on imports from third countries were to be harmonized with the EEC's Common External Tariff over a period of 12 years for goods which were not produced in Greece in 1961 and over a period of 22 years for those which were produced in Greece in 1961. For goods in the first category the tariff differential between Greece and the EEC was to be reduced by 30 percent in 1965, 30 percent in 1970, and 40 percent in 1974. For goods in the second category the difference in tariffs was to decrease by 20 percent in 1971, 24 percent in each of the years 1975 and 1979, and 32 percent in 1984. Tariffs on the agricultural goods of third countries listed in Annex III were to be adjusted to those imposed by the EEC within 22 years. Reduced tariff rates were to be applied to imports from countries with bilateral trade agreements with Greece, provided the existing rates were not lower than the rates applied to corresponding imports from EEC countries. The value of such imports could not amount to more than 10 percent of the value of imports from third countries.

7. Movement of Labor and Capital

The agreement also contained a provision to the effect that within 12 years restrictions on the movement of labor between Greece and the EEC countries would be eliminated.³ There was no provision requiring free mobility of capital during the association period, but it was expected that Greece would eventually benefit from capital mobility among EEC members.

8. Other Provisions

The agreement was accompanied by a protocol stating the provisions under which Greece would receive financial assistance from the Community and by a number of other protocols setting special terms of treatment by EEC countries for Greece's main export products. Service sectors like tourism and shipping were not covered, however. Article 72 stated that Greece would become eligible to apply for full membership in the Community in 1984.

Political Reaction and Popular Attitudes

Greece had been invited to join the EEC when it was established in 1957 but showed no interest in doing so. The government probably feared that Greece's much lower state of development compared to that of the six

EEC founding members would damage the country's economic interests. Despite the mild protectionist measures taken by his government prior to 1961, however, Karamanlis was committed to establishing relations with the EEC, and there is no evidence that the government was divided on the issue.

Newspapers of the period indicate that the opposition parties in Parliament (except for the left-wing EDA) recognized the economic and political benefits that Greece would derive from the association, but voiced concern about the economy's lack of preparedness for the structural changes that would be needed. EDA's criticisms were stronger, and reflected the basic positions of the Communist Party, which was still illegal. Opponents of association were not able to stir up any popular protests.

The subsequent decision to associate with the EEC was probably influenced by the trend toward economic integration, which in the interim had gained considerable momentum. That trend had attracted some attention in Greece even before the establishment of the EEC, but the interest became much stronger after the creation of the Common Market, some Greek officials coming out openly in favor of establishing a relationship with the Community.⁴

Business and other associations, and the public at large, were generally favorable toward an association with the EEC.⁵ Statements expressing satisfaction with this development were made by the Athens Chamber of Commerce and Industry, the Athens Association of Small Businesses, the Technical Chamber of Greece, and the General Confederation of Workers.⁶ For a very large segment of the public, Western Europe was a political, cultural, and economic ideal. An association with the EEC was therefore expected not only to help the economy but also to facilitate cultural and educational contacts with the EEC countries.

Appropriateness of the Timing of Liberalization

Did Greece choose an appropriate time to enter the EEC customs union, and thus to enter into a relationship of free trade with other countries? To answer that question, one must examine first of all the prevailing conditions when the agreement was signed.

Certain domestic and international realities in 1961 favored Greece's association with the EEC. These included the partial move toward liberalization in 1953, the completion of certain industrialization and economic development efforts, stable prices, a favorable balance-of-payments situation, and international realization of the economic benefits of closer ties between countries.

Despite the slippage toward protectionism in 1955-58, the essential characteristics of the 1953 shift toward a more liberal trade posture had been incorporated into the Greek economy. Thus, the groundwork for further liberalization was in place. The economy had also made progress in other respects. Much of the basic infrastructure (roads, seaports, airports, power plants, etc.) that was essential for accelerated

growth had been built, and investment in basic development projects remained a high government priority. Irrigation projects and expanding mechanization in the rural sector had raised agricultural productivity, making it possible to increase total farm production despite an exodus of labor from the rural sector.

The situation in private investment was less satisfactory. Private investment rates remained below average OECD rates, and a very large part of private investment was being directed into dwelling construction.⁷ The undeveloped Athens Stock Exchange and the Greek banking system could not satisfy the demand for venture capital, and fixed investment had to be financed mainly with firms' own funds and through short-term and medium-term borrowing (see Koutsoumaris 1976, Chapter IV). One encouraging sign, however, was the growing number of foreign investments under the provisions of Legislative Decree 2687 of 1953. Those were indications of the growing confidence of both Greek emigrés and foreigners in the economy of Greece.⁸ Because of the advantages resulting from the same decree, Greek shipowners had registered many ships under the Greek flag.⁹ The growth of invisible foreign exchange receipts and capital transfers from abroad caused foreign exchange reserves to grow and thus created a buffer against the risk of a quick increase in the trade deficit after liberalization.

Greece's price stability during the period 1957-60 was extraordinary. The inflation rate during these years fluctuated between +1.6 and -2.1 percent. A surplus in the ordinary government budget, and a drastic drop in the total budget deficit after 1959, contributed to this stability, as did a considerable increase in labor productivity, especially in the secondary sector. Since the trade unions were weak, they could not exercise much pressure for pay increases. This helped to keep the rise in real labor costs low.

In short, the second shift toward greater liberalization started during a period of economic growth and trade expansion which lasted for more than ten years. This was of crucial importance in assuring the sustainability of the shift.

Appropriateness of Length, Speed, and Sequencing

Since the EEC did not feel threatened by Greece's limited exports and wanted to encourage an early shift of Greek resources from import substitution to production for open markets, the provisions of the agreement concerning the length and speed of trade liberalization favored Greece. EEC barriers to manufactured Greek products and to certain key agricultural exports were removed much more quickly than Greece's barriers to foreign imports. Furthermore, Greece was allowed to protect, by way of quantitative restrictions, the most threatened of its products from import competition and to select the products it wanted to remove gradually from a protected status. The longer protection span (22 years) for domestic manufactures was designed to allow producers of import-competitive goods to adjust to the rise in competition that would occur as the Greek market became more open to foreign competition. Tariff reductions, and periodic decreases in QRs and licensing requirements, were supposed to give adequate

time to adjust to firms that wanted to make a genuine effort to compete under the new conditions. The rather high profit margins of manufacturing firms did make it possible for them to withstand the effects of additional foreign competition.¹⁰ The shorter protection span for products not produced domestically in 1961, on the other hand, was designed to discourage the establishment of new noncompetitive firms. An infant industry clause (applicable in the first nine years) was a useful safeguard in case there was strong interest in developing new industries which would initially require protection.¹¹

For Greek manufacturing, the restructuring challenge was not overwhelming. Except for textiles, few manufacturing activities were of any importance in 1961. Most of Greece's manufacturing plants were built in subsequent years, and their managements should have been quite aware of changing trade conditions. Meanwhile, the fast growth of the economy eased the survival pains of most pre-existing firms. The great expansion of manufacturing production and exports that took place after 1961 suggest that conditions were good for the sector as a whole despite the gradual reduction in protection. The inability of a number of firms to adjust successfully to the new situation was an inevitable corollary of the resource reallocation process (see Chapter 4).

Although the Greek government did not aggressively promote exports to the EEC right away, the quick reduction in the Community's barriers to Greek manufactures and key agricultural products provided incentives for such exports. Manufactured exports started growing faster after the first few years of association. The agricultural sector, growing more slowly, had time to shift resources into export production (including production of such nontraditional export products as flowers, vegetables, and fresh fruit). Export expansion intensified after the institution of a more aggressive export policy in 1969-72.

Implementation of Liberalization after 1961

For several years the EEC and Greece implemented their agreement faithfully. After an autocratic military government took power in Greece in 1967, however, the EEC began to press the new regime to restore democratic institutions. For two years the EEC publicly denounced abuses of human rights in Greece, and EEC members periodically expressed dismay through diplomatic channels about the lack of progress toward restoration of democracy. They also delayed deliveries to Greece of military equipment already purchased from EEC producers. In 1969 the EEC decided to "freeze" the agreement after seeing little change in Greece's government. The freeze was then ratified by the European Parliament.

Despite the EEC's action, the military government continued to carry out Greece's part of the agreement by further liberalizing imports from EEC countries, progressively applying the Common External Tariff to trade with third countries, and generally behaving as if Greek/EEC relations were normal. Since most of the EEC restrictions on imports from Greece had been removed before the freeze began, its effects on trade liberalization were minor. Its main adverse effects for Greece were a delay in harmonizing the agricultural policies of Greece and the EEC, EEC

unconcern about the effects of agreements with other countries on Greece's interests, and the EEC's refusal to honor its obligations to provide financial support for Greece.¹²

During that period, condemnations by foreign governments or international bodies of political conditions in Greece were normally followed by strong Greek denunciations of foreign interference in internal affairs and complaints about decadence and corruption in western nations. Such statements were meant to show to the Greek people that the government was not intimidated by outside pressures. But the placatory attitude of the military regime toward the EEC indicated that it wanted to avoid any real change in the relationship.¹³

Apart from being concerned that any change in Greek/EEC relations would have unfavorable effects on the Greek economy, the government of Greece was very probably concerned about the political impacts of any such change. The military government wanted to prove its legitimacy and respectability, and the freeze was a serious blow to such claims. It was therefore in the interest of the regime to minimize the significance of the freeze by pretending that it was a development which Greece could ignore. The Greek government probably also thought that the freeze was a temporary measure to test its reaction to EEC pressures and that it would be lifted once the EEC realized that the government could not be intimidated. In fact, the freeze lasted until after the collapse of military rule in July 1974 and the return of Karamanlis from Paris. Normal relations with the EEC were restored in the fall of 1974.

Although Greece was not eligible, under the terms of its associate agreement, to apply for full membership in the EEC until 1984, the government of Greece decided to apply in 1975. The subsequent negotiations were difficult and lasted for four years, but an Accession Agreement was signed in 1979, with implementation scheduled to begin on January 1, 1981. Greece agreed to all treaties and secondary legislation enacted by the EEC.

A five-year transitional period was created for the gradual elimination of residual Greek tariffs on imports of manufactures from EEC countries and the harmonization with the Community's Common External Tariff for Greek imports from third countries. All bilateral trade agreements, and quantitative restrictions on all but 14 products, were abolished as of December 31, 1980. The QRs for the 14 products were to be phased out during Greece's first five years of membership. A transitional period of five to seven years was also allowed for the liberalization of agricultural imports from the EEC. A similar five- to seven-year transitional period was established for completing the liberalization of capital movements, making the drachma part of the European Currency Unit, assuring the free mobility of Greek workers, and introducing a Value Added Tax.

The main arguments employed by the Greek government to justify its bid for early membership were the expected benefits to Greek agriculture, the beneficial effects of greater competition on modernizing Greece's industrial sector, and an eventual inflow of private capital. But the main reasons for early membership were probably political, although only some of them were discussed openly.

Karamanlis seemed to be eager to safeguard the traditional western orientation of the country, which was being challenged by the newly legalized Communist party, by Andreas Papandreou's Panhellenic Socialist Movement (PASOC), and by small left-wing parties. The Communists supported a political shift toward the socialist block, while PASOC advocated a "third road to socialism." This implied an end to Greece's affiliation with the EEC and with NATO, and the removal from Greek soil of all U.S. military bases.

Greek relations with the United States and NATO were already disturbed because of a widely held belief that the military regime had been imposed on Greece and was supported by the U.S. government. There was a growing anti-Americanism that was exploited by left-wing parties, chiefly through massive anti-U.S. demonstrations. This shift in the political climate from a traditionally pro-American to a strongly anti-American stance made even the Karamanlis government adopt a cooler attitude toward the United States.

Greece's relations with NATO had been disturbed in 1974, when the country withdrew its forces from NATO's military command to protest NATO's refusal to intervene after Turkish forces landed on Cyprus. Restoration of Greece's status in NATO then became impossible without the unanimous approval of NATO's other members, including Turkey.

Early membership in the EEC was thus probably perceived by Karamanlis as a way to restore Greece's relations with NATO, since the members of the EEC were also members of NATO and could exert pressure to quash the Turkish government's objections to allowing Greece back into NATO. Since the United States is the dominant partner in the North Atlantic alliance, strengthening ties with NATO would mean also indirectly strengthening ties with the United States.

Relations with Turkey were tense not only because of the dispute over Cyprus but also because of Turkish claims to the continental-shelf area in the sea surrounding certain Greek islands and Turkish incursions on Greek air space. Fears of a direct military confrontation were leading both sides to engage in costly buildups of military strength.

Greece also sought early membership in the EEC because Turkey also wanted to join the economic union. Greek membership in the EEC would strengthen its position in future Greek-Turkish negotiations, because Greek consent would be necessary before Turkey would be allowed to join the EEC.

Because of the anti-West stand of opposition parties, it must have appeared to Karamanlis that full Greek membership in the EEC could only be accomplished by his government and not by any future Greek government. Karamanlis had close personal relations with some of Europe's heads of state, he had great international prestige, and his political position within Greece was strong. If Greece did not join the EEC during his period in office, the growth of anti-western feelings and the strengthening of left-wing parties might make membership impossible. Thus, membership in the EEC was probably Karamanlis's dominant concern.

The decision of the EEC to say yes to the Greek request for early membership was also largely political -- namely, to help assure the continuation of democratic principles in Greece and to facilitate the Greek government's efforts to strengthen their country's ties with the West.¹⁴

On the whole, the pace of liberalization of Greek trade did not differ much from the original implementation scheme despite the various political and economic developments between 1961 and 1981. There were, however, both delays and accelerations of liberalization. Among the delays were the 1961 addition to restrictive table A (with EEC permission) of some 31 agricultural and manufacturing products and the addition of nearly as many products to the advance imports-deposit table F-100 (see Appendix Table A.1). There was also an expansion, in 1975, of coverage under restrictive table A and of the import deposit tables F-50 and F-100.

These delays should not be exaggerated, however. QRs, and licensing and advance import deposits, were abolished in 1981, while liberalization was accelerated by the inclusion in 1961, and again in 1975, of several products (mainly materials, intermediate products, and capital goods) as goods that could be imported on credit (see Appendix Table A.1). The strengthening of export incentives redressed part of the fiscal bias favoring production for import substitution in the 1960s, as detected by Papageorgiou (1983).

Changes in Protectionism, 1961-1979

The major changes in protection policy occurred through revisions of tariffs, QRs, import deposits, and the exchange rate.

1. Tariff Changes

Tariff reductions during the period of associate membership in the EEC (1961-79) are shown in Table 3.1 for selected years. They were estimated first for 99 categories of goods, which subsequently were grouped into the 22 categories shown in the table, and refer to unweighted simple averages estimated from Greece's tariff list. Excise taxes were not taken into account because tax rates by product category were not available. The estimates shown are for imports from all countries in 1960 and for imports from EEC and non-EEC areas in 1970 and 1984. The differences in tariff reductions reflect implementation of the EEC trade schedule and the application by Greece of the Community's Common External Tariff to imports from third countries.

Average tariffs on imports of agricultural and mining products in 1960 were lower than tariffs on imports of manufactures. Above-average tariffs were placed on clothing and footwear, furniture, tobacco, textiles, beverages, leather, metal products, and miscellaneous goods. Furthermore, changes in the tariffs on manufactures were much more pronounced than changes in the tariffs on mining and agricultural products. The manufactures with above-average tariff rates remained the same during the association years.

Table 3.1 Planned Tariff Rates
(averages from the tariff schedule)

| Sectors | 1960 ^a | 1970 | | 1984 | |
|--------------------------|-------------------|------|---------|------|---------|
| | | EEC | Non-EEC | EEC | Non-EEC |
| Agriculture | 25.1 | 21.4 | 24.1 | 4.5 | 12.3 |
| Mining | 1.8 | 1.2 | 1.5 | 1.0 | 2.4 |
| Manufacturing | 31.2 | 20.7 | 25.2 | 3.3 | 13.4 |
| Food | 31.8 | 23.6 | 31.3 | 3.0 | 20.4 |
| Beverages | 40.0 | 43.4 | 54.8 | 4.9 | 16.7 |
| Tobacco | 50.0 | 40.0 | 50.0 | n.a. | 35.6 |
| Textiles | 45.6 | 34.8 | 37.9 | 6.6 | 20.8 |
| Clothing, footwear | 67.0 | 64.4 | 67.7 | 6.8 | 22.0 |
| Wood | 27.0 | 23.1 | 26.5 | 3.3 | 10.6 |
| Furniture | 60.1 | 41.3 | 44.3 | 5.5 | 10.9 |
| Paper | 24.5 | 21.9 | 26.4 | 2.4 | 11.9 |
| Printing | 19.3 | 12.0 | 14.7 | 2.0 | 7.5 |
| Leather | 41.3 | 32.8 | 38.3 | 5.2 | 15.8 |
| Rubber, plastics | 27.0 | 19.9 | 24.5 | 2.7 | 12.5 |
| Chemicals | 24.5 | 11.1 | 18.0 | 1.2 | 9.8 |
| Non-metallic minerals | 31.3 | 19.6 | 23.9 | 1.9 | 7.2 |
| Basic metals | 28.2 | 15.1 | 17.2 | 2.7 | 8.1 |
| Metal products | 32.5 | 21.9 | 25.5 | 2.8 | 9.5 |
| Machinery | 13.5 | 6.7 | 10.8 | 0.7 | 5.4 |
| Electrical equipment | 23.8 | 14.4 | 18.5 | 1.6 | 7.4 |
| Transport equipment | 12.4 | 8.1 | 15.2 | 0.7 | 10.5 |
| Other | 36.4 | 16.6 | 21.9 | 0.8 | 7.2 |

^a No EEC rates given, since Greece had not yet become an associate member of the EEC.

Source: Ministry of Finance, Tariff Schedule, 1960 and subsequent amendments.

Table 3.2 shows estimates by Katsos and Spanakis (1983) of average "realized" tariff and excise tax rates for selected years, based on the actual tariffs and tax revenues collected and the value of realized imports. Realized average excise tax rates are also shown for similar domestic products. The changes in average "realized" tariffs appear to be smaller than the changes that were originally planned. This may have been due to various reasons. First, the "realized" averages were derived from total imports from the EEC and the rest of the world together. (Separate data were not available.) As a result, the "realized" averages were influenced by the higher rates applicable to trade with third countries.

Second, imports exempt from tariffs or subject to reduced tariff rates because the users were firms producing exports, firms located outside the Athens metropolitan area, or state agencies, decreased from 68.8 percent in 1961 to 52.2 percent in 1970 and 47.7 percent in 1979. This caused the estimated averages computed from tariff and tax revenues and total imports by category to shift upwards. Third, there was also a gradual shift to better-quality goods, which were subject to higher import charges than were lower-quality goods. There were also occasional changes in excise tax rates, and probably other changes for which data were not available.

Table 3.2 Realized Average Tariff and Excise Tax Rates,
1961, 1970, 1976, 1979

| Industry | 1961 | | | 1970 | | |
|--------------------------------------------------|----------------------------------------|---------------------------------------------|---------------------------------|----------------------------------------|---------------------------------------------|---------------------------------|
| | Average Tariff Rate ^a | Excise Tax Rate, Imports ^b | Excise Tax Rate, Domestic | Average Tariff Rate ^a | Excise Tax Rate, Imports ^b | Excise Tax Rate, Domestic |
| Agriculture | 12.2 | 2.2 | 0.8 | 13.6 | 2.4 | 0.7 |
| Mining | 3.0 | 0.3 | - | 3.1 | 1.3 | 1.8 |
| Manufacturing ^c | 11.0 | 7.1 | 8.5 | 10.9 | 8.6 | 10.8 |
| Food ^d | 9.0 | 5.3 | 8.2 | 12.5 | 6.2 | 10.2 |
| Beverages | 89.5 | 20.9 | 21.7 | 87.9 | 36.1 | 11.4 |
| Tobacco | 142.1 | - | - | 118.1 | - | - |
| Textiles | 36.4 | 13.2 | 9.3 | 30.8 | 16.5 | 11.5 |
| Shoes ^e | 55.2 | 4.6 | 9.9 | 38.2 | 8.5 | 12.3 |
| Clothing, footwear | 30.8 | 8.4 | 9.9 | 32.4 | 13.3 | 11.3 |
| Wood | 20.6 | 7.3 | 8.3 | 17.2 | 11.4 | 11.0 |
| Furniture | 23.1 | 5.9 | 10.4 | 31.7 | 11.3 | 12.2 |
| Paper | 11.9 | 5.2 | 9.3 | 13.3 | 9.4 | 11.8 |
| Printing | 25.6 | 7.8 | 10.9 | 15.4 | 7.1 | 14.4 |
| Leather products | 9.6 | 2.8 | 7.4 | 3.0 | 1.5 | 8.3 |
| Rubber, plastic | 12.1 | 10.1 | 11.0 | 15.3 | 11.1 | 9.4 |
| Inorganic chemicals, fertilizers ^f | 4.3 | 2.1 | 10.3 | 6.8 | 6.7 | 10.4 |
| Organic chemicals | 21.8 | 7.5 | 10.3 | 14.5 | 11.8 | 13.5 |
| Cement, asbestos ^g | 5.4 | 1.6 | 9.1 | 18.3 | 9.1 | 9.3 |
| Non-metallic products | 32.1 | 9.3 | 9.1 | 23.1 | 4.8 | 11.3 |
| Basic metals | 7.8 | 8.0 | 8.7 | 6.7 | 9.0 | 5.6 |
| Metal products | 17.9 | 4.2 | 10.4 | 13.3 | 7.7 | 11.7 |
| Machinery | 5.1 | 2.6 | 10.2 | 3.3 | 4.1 | 12.6 |
| Electrical equipment | 18.2 | 5.7 | 11.6 | 11.0 | 11.3 | 13.5 |
| Transport equipment | 15.7 | 5.3 | 10.9 | 9.1 | 8.3 | 12.5 |
| Other | 26.4 | 10.4 | 8.7 | 15.9 | 14.1 | 11.9 |

Table 3.2 (continued)

| Industry | 1976 | | | 1979 | | |
|--------------------------------------------------|----------------------------------------|---------------------------------------------|---------------------------------|----------------------------------------|---------------------------------------------|---------------------------------|
| | Average Tariff Rate ^a | Excise Tax Rate, Imports ^b | Excise Tax Rate, Domestic | Average Tariff Rate ^a | Excise Tax Rate, Imports ^b | Excise Tax Rate, Domestic |
| Agriculture | 12.1 | 2.0 | 0.9 | 14.4 | 4.1 | 0.8 |
| Mining | 2.9 | 1.2 | 1.6 | 3.7 | 1.1 | 1.5 |
| Manufacturing ^c | 6.6 | 9.7 | 9.3 | 9.2 | 14.7 | 9.3 |
| Food ^d | 13.5 | 3.8 | 7.8 | 20.0 | 5.0 | 7.8 |
| Beverages | 59.5 | 66.1 | 16.0 | 26.0 | 7.8 | 16.0 |
| Tobacco | 55.6 | 0.5 | - | 12.2 | 28.0 | - |
| Textiles | 14.7 | 13.0 | 10.1 | 16.2 | 17.1 | 10.0 |
| Shoes ^e | 22.5 | 12.0 | 9.9 | 12.0 | 18.0 | 8.5 |
| Clothing, footwear | 26.9 | 13.7 | 8.8 | | | |
| Wood | 16.3 | 12.2 | 8.8 | 9.8 | 16.1 | 8.8 |
| Furniture | 17.3 | 13.0 | 11.4 | 11.0 | 12.2 | 11.3 |
| Paper | 6.8 | 8.9 | 11.2 | 8.9 | 12.4 | 11.2 |
| Printing | 4.6 | 3.4 | 14.6 | 5.5 | 6.1 | 14.6 |
| Leather products | 1.1 | 1.0 | 5.7 | 7.3 | 8.1 | 5.6 |
| Rubber, plastic | 11.6 | 14.0 | 11.3 | 7.9 | 15.3 | 11.3 |
| Inorganic chemicals, fertilizers ^f | 3.3 | 7.2 | 9.4 | 5.8 | 11.5 | 11.0 |
| Organic chemicals | 6.1 | 12.1 | 12.7 | | | |
| Cement, asbestos ^g | 5.3 | 9.4 | 5.9 | 6.1 | 8.6 | 7.6 |
| Non-metallic products | 9.5 | 14.9 | 9.4 | | | |
| Basic metals | 5.8 | 7.2 | 4.5 | 5.2 | 9.2 | 4.5 |
| Metal products | 10.6 | 11.0 | 10.1 | 9.3 | 12.3 | 10.0 |
| Machinery | 2.0 | 4.5 | 11.5 | 3.3 | 4.6 | 11.4 |
| Electrical equipment | 7.3 | 17.6 | 12.9 | 6.9 | 16.7 | 12.9 |
| Transport equipment | 3.2 | 11.4 | 11.4 | 3.5 | 7.2 | 11.4 |
| Other | 7.6 | 16.6 | 9.3 | 8.0 | 15.0 | 9.3 |

^a Based on duties collected on imported commodities.

^b Rate on value of imports plus tariffs.

^c Excludes fuels for 1961 and 1970.

^d Excludes sugar in 1976.

^e Shoes and clothing combined for 1979.

^f Inorganic chemicals and organic chemicals combined for 1979.

^g Cement, asbestos, and other non-metallic products combined for 1979.

Source: Katsos and Spanakis. Estimates based on realized tariff and tax collections according to data from Ministry of Finance. Figures represent weighted averages. Tariffs were weighted by value of imports; excise taxes were weighted by value of imports plus tariffs.

Although trade barriers were decreased considerably during the period of association with the EEC, Katsos and Spanakis claim that there was not always a decrease in protection. The authors calculated nominal and effective protection rates from the realized tariff and tax revenues and the value of imports. Their estimates, shown in Appendix Table A.4, suggest that the average "realized" nominal tariff decreased less consistently over time than nominal "planned" tariff protection. For certain product categories, in fact, the "realized" tariff increased. The estimates of effective tariff protection show increases for broad categories of goods. Changes in effective protection can be caused by changes in nominal protection, changes in value added ratios, in shares of nontraded inputs to total inputs, in substitutability of material inputs among themselves or with value added. Katsos and Spanakis suggest that effective protection rates for manufactured products were influenced by the increase in nominal protection and by the increase in the nontraded inputs' share of total production costs.

The Katsos-Spanakis estimates may seem surprising in view of the great reductions in nominal tariff rates and other restrictive measures. That is, they may give the impression that on the whole the Greek economy became more protective. That is not what happened, however. One must bear in mind that certain factors could not be taken into account in these estimates by the authors. These include the effects of exchange rate adjustments, changes in QRs and advance deposits, and changes in bilateral trade, and export-promoting effects which may have reduced the effective protection level considerably in some sectors. Papageorgiou's (1983) study showed that a much more detailed examination would be required to obtain a more accurate idea of the changes in the degree of protection. The Katsos and Spanakis study demonstrates how difficult it is to reach unambiguous conclusions in studies about protection which are based on only some trade-affecting factors.

2. Changes in Quantitative Restrictions

In 1961 the government set QRs on imports from the EEC at less than 20 percent. This was below the target levels of 25 percent in 1967 and 20 percent in 1972. In 1975, there was an increase in quantitative restrictions on imports of various live animals and types of meat, dairy products, vegetables, fruits, concentrated tomato, fertilizers, books, bricks, tiles, sawing machines, cells and batteries, television receivers, and pencils from non-EEC countries. Almost all of Greece's QRs were abolished, however, when implementation of Greece's membership agreement with the EEC began in 1981.

3. Change in Import Deposit Requirements

As mentioned earlier, the 1961 agreement of association with the EEC did not contain specific references to import deposits. The coverage of import deposit tables F-50 and F-100 expanded during the period 1961-75. In 1975, in view of Greece's application for full EEC membership, the authorities reduced the scope of such requirements by transferring goods from Table F-50 to Tables F and P, lists of goods for which no import deposit was required.

Export Promotion Policies

The evolution of Greece's export promotion policies during the period 1961-81 has been discussed in considerable detail elsewhere.¹⁵ Therefore, only important incentives introduced or amended during that period are examined here. Less significant measures are mentioned but not discussed, while minor measures are ignored.

Greece's system of export subsidies in the late 1950s was slightly modified in 1959-61, the years when Greece was negotiating its associate EEC status. Procedures for refunding duties and other import taxes to exporters were better defined, goods not exported directly by their producers but by other exporters became eligible for refunds or for exemption from duties, and the expected volume of exports was made one of the criteria for offering certain incentives for bigger investment projects. The practice of refunding a part of the social security charges payable by the employer was eliminated, however.

Greece's export promotion laws were modified in various ways during the period 1962-68. The most important change occurred in 1962, when a cash subsidy was introduced in the form of a rebate of 2 percentage points of the interest rate on export credit granted to manufacturing firms exporting at least 12 percent of their output. The amount of credit on which the incentive was applicable could be up to twice a firm's own funds. In addition, the refunding of social security contributions was reinstated and was extended to cover contributions made by exporters to the Agricultural Social Insurance Fund.

Much more important incentives were introduced during the period 1969-72. Imported goods became subject to an indirect tax approximating the stamp tax imposed on domestic products, which was payable at all stages of domestic production and was estimated to equal 2 to 5 percent of a product's final value. Exported products became eligible for refund of that charge.

In 1970 the cash subsidy incentive mentioned above was strengthened considerably. The rebate on short-term credit was raised from 2 to 4 or 5 percentage points, irrespective of the actual rate paid by the exporter. The refund was calculated on the basis of an imputed average amount of credit which could not be higher than three times the f.o.b. value of a firm's gross exports, depending on the percentage of domestic value added of exported goods. This method was chosen to encourage firms to increase both exports and domestic value added.¹⁶ Judging by the amount refunded to exporters, this incentive was the most significant one for manufactured exports.

Voloudakis and Fylaktos (1982) estimated that in 1973 the average subsidy rate of this measure was on the order of 14 percent for the total manufacturing sector and ranged from 6.7 percent for machinery and other equipment to 21.8 percent for food and beverages.¹⁷ The agreement with the EEC stipulated that initial subsidy rates would be cut by 35 percent in 1975, by 50 percent in 1977, by 70 percent in 1981, by 85 percent in 1983, and totally eliminated in 1984. In practice, however, the reductions were much slower because the Greek government was concerned about the effects of

the post-1974 world recession on Greek exports (Papageorgiou 1983, pp. 2.31-2.32). The subsidy had not been abolished by the end of 1986, despite EEC pressure to do so. Another modification in export incentives occurred in 1975, when tax deductions for export earnings from primary, mining, and manufactured products were set at 2 percent, and a rate of 1 percent became applicable to certain other products. Prior to that time the rates were 4 percent for exports of manufactures, fruits, and vegetables, 2 percent for other primary products, 3 percent for mining products, and 1 percent for other products. Less significant modifications were made in 1977 and 1979.

The growth of actual and imputed export-promotion payments, and the relative importance of individual incentives, can be seen in Appendix Table A.2. Only the major subsidies for which quantification was possible were taken into account. Subsidies to agriculture (Column 7 in Appendix Table A.2) refer to nonitemized payments to farmers irrespective of the final destination of the product. The relative importance of the different incentives can be assessed by comparing them with export totals. Estimates by Voloudakis and Fylactos (Table 3.3) of the rate of subsidization of different groups of exports show a considerable increase of subsidization in the 1970s compared to the 1960s, particularly for food, beverages, tobacco, textiles, clothing, and footwear.¹⁸

Table 3.3 Average Subsidy Payments for Exports, 1962-1978
(percent of value of exports)

| Year | Total Exports | Manufac- tured Exports | Food, Beverages, Tobacco | Textiles | Clothing, Footwear | Chemi- cals, Plastics | Non- Metallic Products | Basic Metals | Metal Products |
|------|---------------|---------------------------|--------------------------------|----------|-----------------------|-----------------------------|------------------------------|-----------------|-------------------|
| 1962 | 2.7 | 6.1 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 |
| 1963 | 2.9 | 7.1 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 |
| 1964 | 3.0 | 7.1 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 |
| 1965 | 3.0 | 5.9 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 |
| 1966 | 2.8 | 5.1 | 5.6 | 5.6 | 5.6 | 5.6 | 5.6 | 5.6 | 5.6 |
| 1967 | 2.7 | 4.8 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 |
| 1968 | 4.1 | 7.6 | 8.2 | 8.2 | 8.2 | 8.2 | 8.2 | 8.2 | 8.2 |
| 1969 | 5.0 | 8.0 | 10.1 | 10.1 | 10.8 | 9.9 | 9.9 | 9.6 | 10.3 |
| 1970 | 5.9 | 8.6 | 11.9 | 11.9 | 13.2 | 11.4 | 11.4 | 10.7 | 12.2 |
| 1971 | 7.3 | 11.0 | 27.4 | 26.2 | 26.3 | 15.5 | 15.7 | 10.5 | 22.2 |
| 1972 | 8.9 | 12.4 | 27.3 | 26.1 | 26.2 | 15.4 | 15.6 | 10.4 | 22.1 |
| 1973 | 9.2 | 12.0 | 27.3 | 26.1 | 26.2 | 15.4 | 15.6 | 10.4 | 22.1 |
| 1974 | 9.1 | 11.3 | 27.5 | 26.3 | 26.4 | 15.6 | 15.8 | 10.6 | 22.3 |
| 1975 | 9.4 | 12.2 | 22.6 | 21.7 | 22.0 | 13.0 | 13.2 | 8.9 | 18.5 |
| 1976 | 9.2 | 11.6 | 20.9 | 20.0 | 20.5 | 12.2 | 12.2 | 8.3 | 17.2 |
| 1977 | 11.0 | 13.7 | 18.7 | 18.0 | 18.6 | 11.4 | 11.5 | 9.1 | 15.7 |
| 1978 | 9.9 | 12.4 | 18.4 | 17.7 | 18.4 | 11.6 | 11.7 | 8.5 | 15.6 |

Source: Voloudakis and Fylactos.

The Exchange Rate

Greece maintained the official exchange rate set in 1953 until 1975, when it adopted a system of managed floating rates (Table 3.4). Despite problems caused by increases in oil prices in 1973 and 1978, foreign exchange reserves showed an overall rising trend until 1979 (partly because of accelerated borrowing). During the period 1975-79 the government did not feel compelled to let the drachma fall in value, since reserves were sufficient and inflation in Greece was not much higher than it was in many of Greece's trading partners. Devaluation accelerated after 1979, however, as the inflation differential and the deficit in the balance on current account increased.

Table 3.4 Exchange Rate, 1961-1981
(drachmas per U.S. dollar)

| Year | Official Exchange Rate ^a | Price-adjusted Exchange Rate (1970=100) | Effective Exchange Rates | | |
|------|-------------------------------------|-----------------------------------------|--------------------------|-----------------------------------|--------------------------|
| | | | Total Imports | Agricultural Exports ^d | Non-Agricultural Exports |
| 1961 | 30 | 80.1 | 36.9 | 30.8 | 31.0 |
| 1962 | 30 | 83.4 | 37.5 | 30.9 | 32.8 |
| 1963 | 30 | 84.3 | 36.6 | 31.0 | 33.3 |
| 1964 | 30 | 87.0 | 36.0 | 31.2 | 31.5 |
| 1965 | 30 | 88.6 | 35.7 | 31.4 | 32.9 |
| 1966 | 30 | 88.9 | 36.3 | 31.6 | 32.3 |
| 1967 | 30 | 90.9 | 36.6 | 31.7 | 32.2 |
| 1968 | 30 | 94.5 | 36.6 | 32.0 | 33.1 |
| 1969 | 30 | 97.0 | 36.3 | 31.7 | 33.2 |
| 1970 | 30 | 100.0 | 35.7 | 31.5 | 33.5 |
| 1971 | 30 | 102.8 | 35.4 | 31.7 | 34.4 |
| 1972 | 30 | 104.3 | 35.4 | 31.3 | 35.6 |
| 1973 | 29.6 | 97.6 | 34.0 | 31.0 | 34.5 |
| 1974 | 30 | 89.9 | 33.6 | 32.1 | 33.7 |
| 1975 | 32.6 | 97.1 | 36.4 | 35.1 | 36.7 |
| 1976 | 36.5 | 107.5 | 40.8 | 39.1 | 41.0 |
| 1977 | 36.8 | 107.4 | 41.2 | 40.1 | 41.5 |
| 1978 | 36.7 | 104.3 | 41.5 | 39.7 | 42.0 |
| 1979 | 37.0 | 98.7 | 41.5 | 40.4 | 42.8 |
| 1980 | 42.6 | 105.2 | n.a. | 46.7 | 47.6 |
| 1981 | 55.4 | 124.6 | n.a. | 62.1 | 64.1 |

n.a. = not available.

^a Annual average.

^b Official exchange rate multiplied by (world price index/Greek CPI index).

^c Includes tariffs and excise taxes actually collected.

^d Includes subsidies paid.

Sources: Table 3.3 and Appendix Table A.2.

During the period 1961-74 the index of official exchange rates multiplied by the ratio of world prices over Greek consumer prices increased because Greek prices rose more slowly than world prices. Domestic and world prices both rose much faster in the years between 1974 and 1980, but the relative-price-adjusted exchange rate index did not change much because the Greek inflation rate was not much higher than the average world rate. After 1981 the index changed more quickly due to widening differences in domestic and foreign prices.

The EERs for exports calculated on the basis of official exchange rates and subsidy payments (Table 3.4) showed little change in the 1960s. In the 1970s they varied much more because of devaluations and the stronger export subsidies introduced in 1969-70. The EERs for imports, estimated from actual tariffs and excise taxes collected, changed more slowly than the EERs for exports.

Chronology of Second Period

| <u>Year</u> | <u>Significant Events</u> |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1961 | Agreement of Association with EEC signed in Athens (July). Increase in QRs, with permission of EEC. Introduction of fiscal incentives for large-scale investments. |
| 1962 | Agreement with EEC becomes effective in November. Tariffs on imports from EC countries are reduced. EC tariffs on imports from Greece for manufactures, tobacco, and raisins reduced. Legislation enacted to promote exports, encourage investment, and reduce tax evasion. Partial settlement of pre-war external debts. |
| 1963 | Reduction of various interest rates. Additional export promotion measures. Further reduction of EEC tariffs on imports from Greece. |
| 1964 | Further reduction of Greek tariffs on imports from EEC countries. Abolition of EEC tariffs on Greek tobacco and further reduction of tariffs on manufactures. Settlement of pre-war debts. Increase in various tax rates. |
| 1965 | Further reduction of Greek tariffs on imports from EEC countries and EEC tariffs on Greek manufactures and raisins. |
| 1966 | Additional reduction of EEC tariffs on Greek manufactures and raisins. Legislation enacted allowing partial rebate of interest costs paid by exporters. Certain interest rates raised. |
| 1967 | Military dictatorship comes to power. Relations with EEC become strained. Greek tariffs on imports from EEC further reduced and EEC tariffs on Greek raisins abolished. Legislation on investment incentives, establishment of off-shore companies, tax measures. |
| 1968 | Greek tariffs reduced again. Some additional export incentives established. Certain interest rates reduced, discount rate raised. Supplementary legislation for off-shore companies. Six EEC members complete customs union. |
| 1969 | Export incentives revised and improved. Legislation for fiscal incentives for investment and revision of tax rates. EEC ceases implementation of association agreement because of military coup in Greece. |
| 1970 | Greek tariffs reduced once more. Legislation enacted reducing certain tax rates. Currency Committee's decision for interest rate subsidization to promote exports. Increase in certain interest rates. EEC signs trade agreements with several countries, including some that make products which compete with Greek products. |

- 1971 Greek tariffs reduced. Legislation for investment incentives, regional development incentives, tax reductions, interest rate subsidization for exports.
- 1972 Greek tariffs reduced. Incentives enacted for regional development and mergers of firms.
- 1973 Greek tariffs reduced further. Discount rate and several other interest rates increase. Oil prices increase. Sudden increase in price level. EEC enlarged by accession of United Kingdom, Ireland, Denmark.
- 1974 Greek tariffs reduced or eliminated (depending on category of goods). Incentives for regional development. Many interest rates raised. Cyprus crisis. Threat of war with Turkey. Collapse of dictatorship. Second year of inflation. First year of negative economic growth in a long time. Special tax assessment placed on larger incomes to pay costs arising from Cyprus crisis. EEC freeze lifted after restoration of democracy.
- 1975 Greek tariffs reduced. Economic performance improves; inflation rate decreases. Exchange rate allowed to fluctuate. Import deposits increased. Certain interest rates drop. Revisions of certain tax laws. Greece applies for full membership in EEC.
- 1976 Certain incentives for regional development. Special levy on large bank credits. Economic recovery continues.
- 1977 Greek tariffs reduced. Incentives for foreign capital. Many interest rates raised.
- 1978 Big increase in international oil prices. Earthquakes cause heavy damage in Thessaloniki. Special tax imposed to raise additional revenue. Many interest rates raised. Economic growth decelerates. Additional incentives for regional development and mergers of firms.
- 1979 Economic performance deteriorates. Inflation rate rises. Many interest rates raised drastically. Accession Agreement with EEC signed in Athens.
- 1980 Greek tariffs reduced. Many interest rates raised. Surcharges imposed on certain income categories. Economy's poor performance continues.
- 1981 Accession Agreement becomes effective and Greece becomes tenth member of EEC. Poor economic performance continues. Many interest rates increase. Bilateral trade, import deposits, and most remaining QRs abolished. Incentives for regional development. Socialist government is elected.

Summary of Characteristics of Second Period

| | |
|--------------------|---------------------------------------------------------------------------------------|
| Broad nature | Customs union with EEC with adjustments for third countries, to be completed by 1984. |
| Size/duration | Long, slow, and gradual adjustments, mostly annually, some at longer intervals. |
| Stages and targets | Target: Completion of union by 1984, eventual full membership. |

Economic Circumstances Prior to Second Period

| | |
|--------------------------------|-------------------------------------------------------------------------------|
| Rate of real growth | Under 1 percent in 1961. Higher in previous years. |
| Rate of inflation | Less than 2 percent in 1961. |
| Agricultural production | Considerable increase in 1961. |
| Manufacturing production | Modest increase in 1961. |
| Balance of payments | Small surplus in 1961. |
| Trade deficit | Small increase in 1961. |
| Restrictions on external trade | Few. |
| Budget | Surplus of ordinary budget increases. Small increase in total budget deficit. |
| External aid dependence | No. |

Political Circumstances

| | |
|------------------------------|-----------------------------------------------------------|
| Stable and strong government | Yes. |
| Split in government | No. |
| Ministries responsible | Mainly Ministry of Coordination and Ministry of Commerce. |
| Ideological shift | No. |
| Opposition attitude | Generally favorable. |
| Public attitude | Favorable. |

Accompanying Policies

| | |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exchange rate | Fixed until 1974; adjustable afterwards. Small black market. |
| Export promotion | Increased mainly in 1969-1972 (duty rebates, stamp tax exemptions, market penetration allowances, interest subsidization). |
| Export duties | No. |
| Monetary policy | Some relaxation. Declining interest rates. |
| Fiscal policy | Surplus in ordinary budget, deficit in total budget. Periodic tax revisions. Settlement of pre-war external debt. Gradual expansion of public sector and transfer payments after mid-1970s. |
| Capital movement | Considerable inflow. |

Domestic Controls

| | |
|------------|--------------------------------------------|
| Prices | Basic system of controls continues. |
| Wages | No change in system of wage determination. |
| Investment | Encouraged. |

Implementation of Policy

| | |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Departures from plan | Some disruption due to military dictatorship and subsequent EEC freeze. Temporary increase in protection in 1975 due to payment problems. Earlier accession to EEC (1981). |
| QRs changes | Coverage increases in 1961; EEC amenable. QRs abolished following accession. |
| Bilateral trade | Increased, then subsequently phased out. |

Economic Performance

| | |
|---------------------|------------------------------------------------------------------------------------------------------------------------|
| Inflation | Low until 1973 (less than 3 percent annually). Sudden increase in 1973-74, deceleration in 1975-78. Higher after 1979. |
| Exchange rate | Stable until 1974. Small devaluations until 1980, followed by larger ones. |
| Real wages | Increase until late 1970s. |
| Employment | Increased considerably until late 1970s. |
| Real growth | Usually high each year until late 1970s. |
| Protection | Gradually reduced. |
| Imports and exports | Trade deficit increased considerably. |

FOOTNOTES TO CHAPTER 3

1. In 1961 the value of imports of goods in expanded Table A was equal to 14 percent of total Greek imports from the EEC, while the value of imports of goods in Table B was equal to about 2 percent. Thus, the total value of imports covered in 1961 by QRs was much below the 40 percent limit set by the agreement.
2. EEC countries with state tobacco monopolies (France and Italy) agreed to maintain their imports of Greek tobacco at the 1959 level.
3. At the time of the signing of the agreement, emigration was expected to relieve the Greek economy of some of its agricultural underemployment, while future repatriation of emigrants was expected to enrich the country with new skills and ideas.
4. Professor Xenophon Zolotas, Governor of the Bank of Greece, had referred to the issue in his annual address to the general assembly of the Bank's shareholders in 1956. See Bank of Greece (1978, pp. 546-48).
5. Some associations saw the agreement with the EEC as a good opportunity for seeking certain concessions for their members (e.g., lower interest rates), arguing that such measures would help them become more competitive.
6. It should be said, however, that in that period there was indirect government influence on the governing boards of many associations, and it is not possible to tell whether their statements reflected the feelings of a majority of their members.
7. During 1955-60, private fixed investment was, on the average, equal to 15.7 percent of private consumption. At first, more than half of all private investment funds were used for construction of private dwellings, but this figure gradually dropped to between 40 and 45 percent.
8. The number of projects approved subject to the provisions of legislative decree 2687 was as follows: in 1957, 16; in 1958, 18; 1959, 35; and in 1960, 41.
9. Greece imposes a flat annual tax based on the tonnage and age of the vessel. Revenues thus remain largely unaffected by the state of the market for sea transport services, and the problem of assessing the net earnings of ships operating mostly outside Greek waters is bypassed. See Tzoannos (1980).

10. For example, assuming that the pre-association tariff rate on a particular good was 50 percent, a 5 to 8 percent reduction in the tariff rate every two to three years would have been equivalent to an average reduction of the wholesale price of a similar imported good by only 1 to 2 percent if importers were passing the tariff reduction on by reducing the selling price accordingly (which was not always the case). Even if domestic producers of competing goods could not always reduce their real costs by a similar percentage through productivity growth, they could reduce their price by this small amount and still show a satisfactory profit.
11. It has not been possible to establish the extent to which the infant industry clause was used. One such case was the development of television assembly in the 1960s.
12. During the years of the freeze the EEC signed the Arusha Agreement with a number of African countries which produce some products that compete with Greek products (textiles, agricultural products), as well as agreements or protocols with Israel, Morocco, Tunisia, Spain, Yugoslavia, Malta, and Turkey, which also produce competing products.
13. In May 1967 the Minister of Coordination of the military government stated that Greece's association with the EEC was correct and that the Greek economy ought to accelerate its adjustment to European developments. "Economicos Tachydromos," May 4, 1967.
14. At a fairly advanced stage of the negotiations, after objections had been raised by EEC technocrats regarding early Greek membership, Karamanlis visited all of the leaders of the EEC countries and persuaded them to agree to the Greek request.
15. Export incentives are discussed in much detail in the author's longer report submitted to the World Bank in June 1985; in Papageorgiou (1983); and in Voloudakis and Fylactos (1982).
16. With 30 percent of domestic value added, the ceiling on imputed value added was to be equal to three times the f.o.b. value of exports. With each percentage point increase in value added, the multiple of three could increase by one tenth.
17. The incentive was not applicable to a few products which were subject to alternative types of export subsidies. Also, until 1975-76 it was not applicable to exports made in accordance with bilateral trade agreements. For a more detailed discussion, see Voloudakis and Fylactos (1982, pp. 29-31) and Papageorgiou (1983, pp. 2.29-2.32).
18. See Voloudakis and Fylactos (1982, pp. 136 and 147). The authors took into account only the subsidies mentioned here because they were quantifiable direct subsidies modified or introduced in the 1960s or 1970s.

CHAPTER 4

PERFORMANCE OF THE GREEK ECONOMY AFTER JOINING THE EEC

In the two decades that elapsed between the signing of the Agreement of Association with the EEC and Greece's achievement of full membership in the EEC, the country's macroeconomic policies changed a number of times and the country's economic performance fluctuated widely. On the whole, the economy remained healthy until the oil shock in 1973 and the Cyprus crisis in 1974. Between 1975 and 1978 the economy did reasonably well but never reached the pre-1973 level of growth. Economic deterioration reappeared in 1979, due to the 1978 increase in oil prices, the worsening of recession in Western Europe, and the gradual adoption of less sound domestic economic policies. Since 1981 the Greek economy has been weak, and continued weakness may make it difficult for Greece to adhere to the commitment to liberalization inherent in full membership in the EEC.

Product and Income: Growth, Structure, and Distribution

Economic growth, though limited, was very important after 1975, since it prevented such potential negative effects of liberalization as increased unemployment, high rates of bankruptcy, and social unrest. Real growth rates in Greece through the end of the 1970s were higher than in most other OECD countries and for the OECD as a whole (Table 4.1). In 1980, however, the rate dropped to 2 percent, and in the years since 1981 the rate has fluctuated around zero.

For most of the period 1961-81 the fastest-growing sectors in Greece were energy production and manufacturing (Table 4.1). The other sectors (except for agriculture) also had high average growth rates until the end of the 1970s. Large annual fluctuations in agricultural production caused by erratic weather conditions and crop cycles had some effect on total GDP growth rates, particularly in the 1960s.

The period 1961-81 was also marked by a considerable change in income distribution. The share of wages and salaries in national income rose from 33.7 to 47.7 percent, while agricultural income's share dropped from 25.7 to 18 percent and the share of income from property and entrepreneurship decreased from 37.5 percent to 34.5 percent (National Statistical Service of Greece, National Accounts). In the early years of association with the EEC, the increase in real labor income was mainly due to fast growth in the economy. Later on, labor income was also helped by government fiscal measures that had a redistributive character.¹ As economic growth slowed after 1974, redistributive measures became more important,² and various groups in society tried harder to increase their share of national income.

Table 4.1 Growth and Structure, Gross Domestic Product, 1960-1981

| Entire Country and Sector | 1960 | 1961 | 1962 | 1963 | 1964 | Annual | Annual | Annual | Annual |
|--------------------------------------------|------|------|-------|------|------|---------|---------|---------|---------|
| | | | | | | Average | Average | Average | Average |
| | | | | | | 1965-69 | 1970-73 | 1974-78 | 1979-81 |
| Real GDP growth, Greece (percent) | 3.1 | 11.3 | 0.6 | 10.1 | 7.5 | 6.9 | 8.4 | 3.7 | 1.7 |
| Real GDP growth, OECD | n.a. | n.a. | 5.2 | 4.9 | 6.3 | 5.0 | 4.6 | 2.6 | 2.0 |
| Primary sector | -9.3 | 26.7 | -13.0 | 20.3 | -0.3 | 2.0 | 4.2 | 1.0 | 1.4 |
| Mining | 9.8 | 6.2 | 1.9 | 10.5 | 8.1 | 10.6 | 11.1 | 3.8 | 0.5 |
| Manufacturing | 9.8 | 7.9 | 5.2 | 8.2 | 12.7 | 11.0 | 8.3 | 4.9 | - |
| Energy | 11.3 | 19.9 | 7.7 | 18.6 | 14.0 | 13.6 | 16.0 | 8.3 | 5.2 |
| Construction | 19.4 | 5.2 | 3.4 | 4.9 | 17.8 | 8.9 | 7.3 | -3.2 | -10.2 |
| Services | 4.9 | 6.2 | 5.9 | 6.7 | 8.0 | 7.0 | 7.9 | 4.8 | 2.8 |
| <u>Major Sector Share of GDP (percent)</u> | | | | | | | | | |
| Primary | 23.1 | 26.3 | 22.7 | 24.9 | 23.2 | 20.7 | 17.0 | 15.5 | 13.9 |
| Manufacturing | 14.3 | 13.8 | 14.5 | 14.2 | 15.1 | 16.4 | 19.8 | 21.2 | 21.9 |
| Other secondary | 12.6 | 11.1 | 11.4 | 11.2 | 12.1 | 12.3 | 13.3 | 11.2 | 11.6 |
| Services | 51.0 | 48.8 | 51.4 | 49.7 | 50.0 | 50.6 | 50.3 | 52.3 | 53.7 |

n.a. = not available.

Sources: NSSG, National Accounts of Greece (various issues); OECD (1982).

Savings and Investment

Gross savings as a percentage of GDP ranged around 20 percent until 1969 (Table 4.2). The savings rate then rose substantially, reaching a peak of 32 percent in 1973. Until the period 1973-74 the public sector was an important contributor to the financing of gross fixed capital investment (Table 4.3). But the public sector's contribution then decreased drastically, and its rate of saving became negative after 1980. Greece received little financial assistance from international agencies during the 1960s and 1970s, obtaining just a few World Bank loans for education, roads, and urban sanitation. Foreign private financing of gross fixed investment was substantial in most years in absolute terms, but because of growth in private domestic investment, the relative importance of foreign private investment decreased over the years (Roumeliotis 1977, pp. 48; 57). Since there was no provision in the agreement of association with the EEC requiring free mobility of capital, Greece was able to maintain its restrictions on capital outflows.

Table 4.2 Savings, Investment, Capacity Utilization, and Profitability in Greece, 1961-1981
(percent)

| Financial Category | 1961 | 1962 | 1963 | 1964 | Annual Average | Annual Average | Annual Average | Annual Average |
|---------------------------------------------------------|------|------|------|------|----------------|----------------|----------------|----------------|
| | | | | | 1965-69 | 1970-73 | 1974-78 | 1979-81 |
| Gross savings as percent of GDP, Greece | 17.8 | 19.6 | 19.2 | 21.4 | 20.5 | 27.9 | 24.5 | 25.5 |
| Gross savings as percent of GDP, OECD | 21.5 | 21.7 | 21.7 | 22.5 | 22.8 | 24.2 | 21.9 | 22.0 |
| Gross fixed capital formation as percent of GDP, Greece | 18.2 | 20.1 | 19.2 | 21.0 | 22.5 | 26.2 | 22.6 | 23.7 |
| Gross fixed capital formation as percent of GDP, OECD | 20.2 | 20.4 | 20.6 | 21.1 | 21.2 | 22.5 | 21.8 | 21.7 |
| Capacity utilization in manufacturing, Greece | 77.3 | 78.2 | 77.9 | 80.6 | 83.8 | 94.1 | 85.5 | 81.9 |
| Profitability in manufacturing: | | | | | | | | |
| Ratio of net profits plus depreciation to own capital | 20.6 | 19.6 | 19.5 | 17.3 | 18.6 | 25.5 | 22.5 | 23.4 |
| Ratio of net profits plus depreciation to total capital | 6.1 | 6.3 | 6.4 | 5.7 | 7.2 | 8.3 | 7.2 | 6.3 |

Sources: OECD (1982); NSSG, National Accounts of Greece (various issues); Government Gazette (various issues).

Table 4.3 Sources of Financing of Total Gross Fixed Investment, Selected Years, 1960-1982
(percent)

| Year | Private Financing | Financing from Abroad | Financing by the Government |
|------|-------------------|-----------------------|-----------------------------|
| 1960 | 64.7 | 15.4 | 19.9 |
| 1965 | 66.2 | 22.2 | 11.6 |
| 1970 | 73.2 | 11.1 | 15.7 |
| 1975 | 83.9 | 13.6 | 2.5 |
| 1977 | 89.7 | 7.2 | 3.1 |
| 1979 | 90.9 | 6.2 | 2.9 |
| 1980 | 101.4 | -1.2 | -0.2 |
| 1981 | 126.1 | 0.7 | -26.8 |
| 1982 | 106.5 | 17.3 | -23.8 |

Source: NSSG, National Accounts of Greece (various issues).

Most foreign capital came to Greece under the provisions of legislative decree 2687, which was passed in 1953 to attract foreign investments. Interest among foreign investors was generally very strong in the 1960s and early 1970s. It then started diminishing, and in the 1980s dropped drastically (Table 4.4). Of the foreign capital invested in Greek manufacturing, more than one third went into chemicals and a substantial proportion went into the basic metal industries. The production of transport equipment, engines, and electrical appliances also absorbed significant amounts of foreign investment. According to Giannitsis (1982, p. 323), the number of manufacturing majority-shareholder multinationals in Greece increased from 61 to 217 between 1965 and 1977. Their share of total manufacturing exports rose from 10.9 to 27.6 percent, while the dollar value of their exports went up nearly a hundred times. The number of minority-shareholder multinationals rose from 28 to 73, but their share of total manufactured exports dropped from 19.7 to 9.6 percent. The dollar value of their exports, however, increased by almost twenty times.

Legislative Decree 2687 also encouraged the transfer of many Greek-owned ships to Greek registry (Table 4.5). The fleet reached its maximum size in 1979, with 3,951 vessels totaling 38.8 million tons. The number of ships then started to diminish, but total tonnage grew until 1981, when smaller vessels were replaced by newer and larger ones. The main benefits of transfer to Greek shipowners were the simplicity, transparency, and low rate of taxes on shipping firms, and the convenience of having the vessels registered in the country of origin of their owners, where most of them had offices, rather than in distant "convenience flag" countries like Liberia or Panama.³ Many international banks, insurance firms, auditing firms, and ship-supply firms opened Greek branches in the late 1960s to maintain closer contacts with shipowners.

Table 4.4 Approved and Realized Investments under Legislative Decree 2687 (1953)

| Year | Number of Approvals | Approved Capital (in million US\$) | Inflowed Capital (in million US\$) | Ratio of Inflowed Capital to Approved Capital |
|----------------|---------------------|------------------------------------|------------------------------------|-----------------------------------------------|
| 1954 | 2 | 2.0 | - | - |
| 1955 | 10 | 2.8 | 3.0 | 107.1 |
| 1956 | 19 | 19.7 | 1.9 | 9.6 |
| 1957 | 16 | 4.7 | 6.7 | 142.5 |
| 1958 | 18 | 6.3 | 8.2 | 130.1 |
| 1959 | 35 | 21.2 | 8.3 | 39.1 |
| 1960 | 41 | 74.3 | 11.7 | 15.7 |
| Total, 1961-80 | 4,583 | 4,594.3 | 1,531.8 | 33.3 |
| 1981 | 47 | 291.9 | n.a. | n.a. |
| 1982 | 6 | 12.3 | n.a. | n.a. |
| 1983 | 24 | 104.8 | n.a. | n.a. |
| 1984 | 12 | 72.9 | n.a. | n.a. |
| TOTAL | 4,672 | 5,076.2 | n.a. | n.a. |

n.a. = not available.

Source: Ministry of National Economy.

Table 4.5 Greek Commercial Fleet and Total World Fleet, Selected Years

| Year | Greek Flag Ships | | Greek-Owned Ships under Foreign Flags | | Total World Fleet | |
|------|------------------|----------------------------------|---------------------------------------|----------------------------------|-------------------|----------------------------------|
| | Ships | Tonnage (millions of gross tons) | Ships | Tonnage (millions of gross tons) | Ships | Tonnage (millions of gross tons) |
| 1961 | 1,165 | 6.4 | 559 | 5.6 | 37,792 | 135.9 |
| 1965 | 1,570 | 7.3 | 904 | 10.8 | 41,865 | 160.4 |
| 1970 | 2,319 | 13.5 | 1,149 | 16.1 | 52,444 | 227.5 |
| 1975 | 3,216 | 24.8 | 1,219 | 19.5 | 63,724 | 342.2 |
| 1979 | 3,951 | 38.8 | 692 | 12.6 | 71,129 | 413.0 |
| 1980 | 3,942 | 41.2 | 545 | 10.0 | 73,832 | 419.9 |
| 1981 | 3,896 | 42.5 | 470 | 8.5 | 73,864 | 420.8 |
| 1982 | 3,554 | 36.8 | 440 | 7.6 | 75,151 | 424.7 |

Source: Lloyds Register of Shipping (various issues).

Capacity Utilization and Profitability in Manufacturing

Capacity utilization, estimated by applying the 1970 capital/output ratio to the net capital stock series⁴ under the hypothesis that capacity utilization in that peak year was 95 percent, tended to increase until 1973. It then decreased. Estimates of profitability from the balance sheets of corporations and limited liability companies published in the government gazette (Table 4.2) show that the profitability of own capital (the ratio of net profits plus depreciation to own capital) fluctuated until 1969 but then remained rather high. The profitability of total capital in manufacturing was also satisfactory by international standards.

Money and Prices

Prices

Up until 1973, the Greek economy was notable for its stable prices. Inflation in most years was lower than it was in many OECD countries.⁵ In 1973, however, Greece's CPI jumped 15.5 percent, which was more than in many industrialized countries, and in 1974 the situation worsened. The general mobilization of Greece's armed forces because of the Turkish invasion of Cyprus disrupted production, large amounts were spent on war preparations and on aid to Cyprus, and the delayed effects of the oil shock were felt by the population. These factors helped to push the CPI up 26.9 percent. The inflation rate dropped to 13.4 percent in 1975 and then ranged between 12.1 and 13.4 percent until 1978.⁶ In 1979 the rate accelerated to 19 percent; after 1980 it stabilized at 22 to 25 percent. This differentiated Greece from its main European trading partners, whose rates of inflation fell in the 1980s.⁷ Table 4.6 shows the trends in monetary and fiscal variables.

Money Supply, Interest Rates, and Lending

In 1961-65 the money supply increased at an average rate of less than 20 percent (Table 4.6). The income velocity of money (the relation of GNP to the average level of money supply) decreased (Appendix Table A.5). Nominal interest rates on bank deposits remained low, but bank deposits increased faster than GNP. Nominal interest rates on lending remained nearly unchanged, being an average 5.5 to 10 percent depending on type of loan. The rates on loans involving exports were lower than those on loans for imports and domestic commerce by 3.5 to 4.0 percentage points. Bank lending for exports decreased, while import and domestic commerce's share increased and manufacturing/mining's remained stable.

Nominal interest rates showed relative stability up until 1973, when they started rising because of inflation. The rise was particularly large in 1979. Because of differences in the rate of inflation before and after 1973, changes in real interest rates varied considerably from changes in nominal rates. Up until 1973 (Table 4.6), real interest rates were positive. After 1973 they were usually low or negative.

Table 4.6 Monetary and Fiscal Variables, 1960-1981

| Variable | 1960 | 1961 | 1962 | 1963 | 1964 | Annual | Annual | Annual | Annual |
|--------------------------------------------|------|------|------|------|------|---------|---------|---------|---------|
| | | | | | | Average | Average | Average | Average |
| | | | | | | 1965-69 | 1970-73 | 1974-78 | 1979-81 |
| <u>Annual Change, in Percent</u> | | | | | | | | | |
| Money Supply (M1) | 19.0 | 14.8 | 15.0 | 15.2 | 19.3 | 11.8 | 17.6 | 19.7 | 19.1 |
| Money Supply (M3) | 18.9 | 16.5 | 23.3 | 22.0 | 15.7 | 16.3 | 20.2 | 24.6 | 25.9 |
| Consumer Price Index | 1.6 | 1.9 | -0.4 | 2.9 | 0.9 | 2.5 | 6.4 | 15.8 | 22.8 |
| GDP Deflator | 3.7 | 1.1 | 5.0 | 1.1 | 4.5 | 3.4 | 8.0 | 14.6 | 20.0 |
| Lending to Primary Sector | 7.7 | 11.0 | 2.4 | 13.5 | 12.5 | 6.2 | 22.4 | 26.8 | 13.6 |
| Lending to Manufacturing Sector | 14.5 | 13.1 | 17.3 | 16.6 | 15.4 | 15.2 | 22.4 | 25.8 | 25.8 |
| Lending to Commerce | 11.3 | 4.6 | 36.9 | 25.3 | 9.0 | 9.4 | 21.0 | 24.4 | 13.4 |
| <u>Average Interest Rates</u> | | | | | | | | | |
| Nominal Interest Rate on Deposits | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 5.0 | 5.0 | 7.5 | 14.0 |
| Nominal Interest Rate on Loans to Industry | 7.5 | 7.5 | 7.5 | 7.8 | 7.8 | 8.1 | 8.1 | 11.3 | 19.0 |
| Real Interest Rate on Loans to Industry | 6.7 | 6.7 | 8.8 | 3.4 | 5.8 | 7.0 | 0 | -3.3 | -5.7 |
| <u>Budgetary Comparisons</u> | | | | | | | | | |
| Total Budget Expenditures/GNP | - | 17.6 | 18.5 | 17.5 | 18.0 | 20.0 | 21.4 | 24.4 | 27.4 |
| Government Expenditures/GNP | - | 8.8 | 8.9 | 8.7 | 9.0 | 11.1 | 10.3 | 12.7 | 13.6 |
| Government Investment Expenditures, GNP | - | 4.2 | 4.5 | 3.5 | 3.3 | 3.5 | 4.7 | 4.4 | 4.2 |
| Total Budget Deficit/GNP | -0.9 | -2.4 | -2.8 | -2.2 | -2.2 | -2.1 | -3.1 | -4.3 | -7.0 |
| Ordinary Budget Deficit/GNP | 2.5* | 1.2* | 1.2* | 0.9* | 0.7* | 0.8* | 1.3* | 0.1* | -3.0 |
| Subsidies-Grants/Total Budget Expenditures | - | 3.2 | 2.6 | 4.8 | 6.6 | 10.6 | 12.3 | 13.5 | 16.1 |

* = surplus.

Source: Bank of Greece (1982).

Fiscal Policy and Expansion of the Public Sector

Budget expenditures in the form of subsidies and grants rose steadily as a percentage of total budget expenditures during almost the entire 1961-81 period. Total budget expenditure, particularly noninvestment components, increased as a percentage of GNP after 1963-64. The rise in total expenditures was much faster after 1973 because rising inflation necessitated wage and salary adjustments for public sector employees and increased outlays for government purchases of goods and services. There was also a notable increase in debt service payments. The total budget deficit as a percentage of GNP started increasing in the 1970s and rose faster in the 1980s.

Public investments in the early 1960s were still devoted mostly to infrastructure, but the public sector began to expand very rapidly, acquiring Olympic Airlines, public utilities, and transport companies, and participating directly or indirectly in a fast-growing number of other types of enterprises as a majority or minority shareholder.

A study by Provopoulos (1985) shows that public sector employment in 1983 rose to 18 percent of total employment, or 26 percent of employment in nonagricultural sectors. In 1983 most enterprises of importance were already under state ownership or control, either directly or through state-controlled banks (see Table 4.7). In 1979-84 the deficit of Greece's traditional public corporations (public utilities, air and rail transport companies, energy, telecommunications, and many others) rose at an average annual rate of 49.4 percent. The balance sheets of manufacturing and other firms taken over by the state also showed, as a rule, fast-growing deficits and huge debts.

A corollary of the fast expansion of the public sector and the even faster growth of public deficits was the gradual change in the contribution of the government to the financing of gross fixed investment from positive to negative (Table 4.3). Public borrowing increased at an accelerated pace after the mid-1970s, raising total public debt as a percentage of GNP to unprecedented levels (Table 4.8).

Domestic financing of the public debt is done through the issuing of new money, and with funds which banks and other organizations (e.g., social security organizations) are required to keep on deposit in low-interest accounts at the Bank of Greece. Such funds constitute a convenient source of borrowed money for the government, which uses the funds mainly to cover budget deficits.⁸ Government policies led to a gradual decrease in public investment during the late 1970s, as did the government's heavy borrowing, which contributed to a gradual reduction in private investment.

Labor Market Conditions and Labor Costs

After Greece became an associate member of the EEC, employment in Greek agriculture decreased, especially in the 1960s.⁹ As agricultural employment fell, average agricultural earnings increased, as did mechanization and productivity. Average labor productivity in agriculture

increased by 43 percent during the period 1961-71. Other factors that contributed to the increase in agricultural incomes were government-guaranteed prices for various farm products, fertilizer subsidies, and government subsidization of agricultural loans.

Employment in the manufacturing sector increased until the last few years of associate membership. This growth was particularly rapid during the last of the 1960s and the beginning of the 1970s. The employment pattern in individual industries, however, varied considerably (Table 4.9). Labor market conditions gradually tightened as labor was drained from rural to urban areas, and Greek manufacturers started employing workers from the Middle East, Asia, and Africa in the early 1970s. Employment of many of these aliens was illegal, however, and the Association of Hellenic Industries asked the government to legalize such practices. The request was rejected, probably because of government concern about the reaction of Greek workers to such a step. Employment again became an issue in the late 1970s, as growing economic difficulties encouraged labor unrest that took the form of work stoppages, seizure of plants, and other disruptive practices¹⁰ that had adverse effects on productivity. As Table 4.10 shows, the growth rate of value added dropped and in a few industries became negative. After 1979, politicians and newspapers started using the term "investors' abstention" in referring to the reluctance of businesses to launch new projects or expand existing plants.

Less than half of the Greek labor force was covered by unemployment insurance by OAED during the period 1961-81. The actual percentages were 34.7 in 1976 and 41.9 in 1981. Unemployment allowances paid by OAED were a very small percentage of total personal disposable income: 0.27 percent in 1962, 0.28 in 1965, 0.19 in 1970, 0.10 in 1973, and 0.37 in 1975.¹¹ These low percentages reflect the considerable increase in employment opportunities in the late 1960s and early 1970s. Throughout the period 1961-81 the average duration of unemployment benefits was less than three months.

According to the OECD, nominal hourly earnings in manufacturing in Greece between 1962 and 1972 increased by 9 percent per year; the OECD average was 9.4 percent (OECD 1983). During the period 1972-81, however, the annual rate in Greece was 23.9 percent, compared to an OECD average of 13.9 percent. Only Spain's rate during this period was higher than Greece's. Real wages and salaries in Greek industry (Table 4.11) showed increases in the 1960s, in the period 1975-78, and in 1981 (wages only).¹² The rise in the 1960s was due to an increasing demand for labor resulting from greater industrialization and intensified productivity. The rise during the period 1975-78 was due to a resumption of economic growth following the recession of 1973-74, shortages of labor, and political pressures following the restoration of civilian rule to strengthen trade unions and improve wages. Since 1979, however, wages and salaries have remained static.

Table 4.7 Corporations with Public Ownership or Public Participation, 1983

| Category | Number of Firms | Approximate Employment |
|------------------------------------------------------------|-----------------|------------------------|
| Traditional Public Corporations | | |
| Energy | 3 | 27,200 |
| Transportation-communications | 14 | 84,800 |
| Water supply-sewerage | 3 | 35,000 |
| Manufacturing | 11 | 6,930 |
| Trade-services | 21 | 1,690 |
| Banking | 7 | 31,010 |
| Companies with State Banks as Majority Shareholders | | |
| Manufacturing | 76 | 18,250 |
| Finance-Insurance | 31 | 7,120 |
| Miscellaneous | 16 | 1,950 |
| Companies with State Banks as Minority Shareholders | | |
| Manufacturing | 117 | 49,960 |
| Finance-Insurance | 11 | 5,270 |
| Miscellaneous | 21 | 2,590 |
| Corporations under Decree 1386 (1983) | | |
| Manufacturing | 36 | 29,240 |
| Miscellaneous | 3 | 600 |

Source: Compiled from data on individual corporations in Provopoulos (1982).

Greece's Import Performance after the 1961 Agreement of Association

During the period 1961-81, the dollar value of Greek imports increased from \$565 million to \$11,468 million (see Table 4.12). Per capita imports grew from \$84 in 1960 to \$1,094 in 1980. Commodity imports as a percentage of GDP in current prices fluctuated between 20 percent in 1960 and 26.3 percent (the maximum) in 1980. During the 1960s, the average annual rate of growth in Greece (measured in current dollars) was a bit above the OECD and world averages, while during the 1970s it was lower (Table 4.13).

Table 4.8 Total Public Debt of Greece, Selected Years, 1970-1984
(billions of drachmas)

| Year | Domestic Debt | External Debt | Total Debt/GNP |
|------|---------------|---------------|----------------|
| 1970 | 47.4 | 16.4 | 21.3 |
| 1975 | 99.2 | 51.6 | 22.4 |
| 1980 | 362.8 | 111.0 | 27.7 |
| 1981 | 508.6 | 163.3 | 33.0 |
| 1982 | 693.6 | 234.8 | 37.5 |
| 1983 | 882.1 | 387.2 | 41.7 |
| 1984 | 1,252.3 | 538.8 | 54.2 |

Sources: Provopoulos (1985), and data from Bank of Greece.

Table 4.9 Ranking of Sectors by Employment Growth, 1961-1980

| Sector | Average Rate of Annual Growth | | | |
|-------------------------------|-------------------------------|---------|---------|---------|
| | 1961-80 | 1961-69 | 1970-74 | 1975-80 |
| Rubber and plastic products | 10.2 | 18.3 | 8.1 | 3.7 |
| Clothing and footwear | 8.5 | 5.0 | 16.3 | 6.3 |
| <u>All Manufacturing</u> | 7.5 | 1.2 | 7.3 | -1.5 |
| Oil derivatives | 6.4 | 1.6 | 15.0 | 3.1 |
| Beverages | 6.1 | 6.0 | 7.6 | 3.3 |
| Basic metal industries | 6.0 | 6.2 | 7.8 | 2.7 |
| Electric machinery | 5.5 | 7.6 | 9.1 | -0.3 |
| Metal products | 5.0 | 5.0 | 7.6 | 2.4 |
| Transport equipment | 4.5 | 0.4 | 13.5 | 2.6 |
| Food | 4.3 | 5.5 | 4.8 | 0.9 |
| Wood and cork products | 3.8 | 4.1 | 8.2 | 1.0 |
| Paper | 3.8 | 5.3 | 2.2 | 2.7 |
| Non-metallic mineral products | 3.3 | 3.8 | 4.9 | 1.6 |
| Machinery | 3.2 | 6.4 | 6.6 | -3.3 |
| Furniture | 2.9 | 1.2 | 6.6 | 1.0 |
| Textiles | 2.7 | 0.4 | 6.7 | 1.5 |
| Leather | 2.4 | 3.2 | 2.7 | 3.2 |
| Printing | 1.7 | 1.0 | 3.1 | 1.6 |
| Miscellaneous industries | 1.5 | -3.0 | 9.3 | -0.8 |
| Chemicals | 1.4 | -2.2 | 7.2 | 2.1 |
| Agriculture | -2.8 | -4.3 | -2.2 | -1.4 |
| Tobacco | -5.0 | -9.9 | -3.1 | 0.7 |

Source: Estimates made for this study from data from NSSG, Annual Industrial Survey (various issues).

Table 4.10 Growth of Value Added by Sector, 1961-1981
(percent)

| Sector | Average Rate of Annual Growth | | | |
|-------------------------------|-------------------------------|---------|---------|---------|
| | 1961-80 | 1961-69 | 1970-74 | 1975-80 |
| Basic metal industries | 14.5 | 30.6 | 6.3 | 0.1 |
| Rubber and plastic products | 12.0 | 18.9 | 12.2 | 2.8 |
| Chemicals | 11.0 | 16.9 | 10.9 | 4.4 |
| Beverages | 10.3 | 9.6 | 9.5 | 9.4 |
| Paper | 10.3 | 14.1 | 8.6 | 9.7 |
| Electrical machinery | 9.7 | 12.8 | 10.1 | 7.5 |
| Oil derivatives | 9.4 | 11.0 | 10.2 | 3.5 |
| Non-metallic mineral products | 9.2 | 11.3 | 7.6 | 6.3 |
| Textiles | 8.7 | 9.8 | 11.4 | 3.9 |
| Miscellaneous industries | 8.4 | 10.7 | 10.8 | 3.9 |
| <u>All Manufacturing</u> | 7.6 | 9.9 | 8.0 | 3.6 |
| Food | 6.6 | 8.0 | 6.4 | 4.1 |
| Metal products | 6.5 | 9.0 | 6.7 | 7.0 |
| Transport equipment | 6.5 | 4.7 | 7.2 | 4.1 |
| Clothing and footwear | 5.7 | 6.2 | 8.4 | 1.2 |
| Wood and cork products | 5.1 | 10.4 | 2.8 | -4.5 |
| Furniture | 4.9 | 12.1 | 2.3 | -2.0 |
| Tobacco | 4.3 | 7.8 | 3.1 | 3.5 |
| Printing | 4.1 | 10.5 | 2.1 | 0.9 |
| Leather | 3.3 | 5.7 | 7.5 | -6.8 |
| Agriculture | 2.3 | 1.6 | 3.5 | 0.9 |
| Machinery (non-electrical) | 1.9 | 2.5 | 5.7 | -3.0 |

Source: Estimates made for this study from data from NSSG, Annual Industrial Survey (various issues).

Expenditures for imports of fuel (particularly crude oil) as a share of all imports increased substantially after 1973. The share of imports of raw materials decreased, while that of agricultural imports fluctuated (see National Statistical Service of Greece, Statistical Yearbook). Changes in the composition of Greece's imports, shown in Table 4.14, reflect the country's intensified investment efforts (e.g., the rise in the share of imports of investment goods), an increase in the use of domestic materials and a rise in value added products (as shown by the decline in the share of imports of raw materials), and growing domestic production of consumer goods. Total Greek imports of intermediate goods, crude oil, and investment goods rose from 8.3 percent of GDP in 1961 to 22.6 percent in 1981 (see Appendix Table A.6).

Table 4.11 Indices of Real Wages and Salaries in Industry
(1970=100)

| Year | Index of Real Weekly Wage | | | | Index of Real Monthly Salary | | | |
|------|-------------------------------|----------------|---------------------------------|----------------|-------------------------------|----------------|-----------------------------------|----------------|
| | Gross | | Net | | Gross | | Net | |
| | Paid by Employer ^a | | Received by Worker ^b | | Paid by Employer ^a | | Received by Employee ^b | |
| | Index | Percent Change | Index | Percent Change | Index | Percent Change | Index | Percent Change |
| 1982 | 60.5 | -- | 60.5 | -- | 67.3 | -- | 67.2 | -- |
| 1983 | 59.7 | -1.3 | 60.9 | 0.7 | 66.5 | -1.2 | 67.9 | 1.0 |
| 1984 | 65.1 | 9.1 | 67.7 | 11.2 | 68.7 | 3.3 | 71.6 | 5.5 |
| 1985 | 69.1 | 6.1 | 71.1 | 5.0 | 71.0 | 3.4 | 73.1 | 2.1 |
| 1986 | 74.7 | 8.1 | 75.5 | 6.2 | 80.0 | 12.7 | 80.9 | 10.7 |
| 1987 | 83.5 | 11.8 | 83.3 | 10.3 | 87.4 | 9.3 | 87.3 | 7.9 |
| 1988 | 90.1 | 7.9 | 88.9 | 6.7 | 93.1 | 6.5 | 91.9 | 5.3 |
| 1989 | 95.7 | 6.2 | 95.8 | 7.8 | 96.7 | 3.9 | 96.7 | 5.2 |
| 1970 | 100.0 | 4.5 | 100.0 | 4.4 | 100.0 | 3.4 | 100.0 | 3.4 |
| 1971 | 102.9 | 2.9 | 104.3 | 4.3 | 102.4 | 2.4 | 104.0 | 4.0 |
| 1972 | 106.7 | 3.7 | 110.3 | 5.8 | 104.7 | 2.3 | 108.3 | 4.1 |
| 1973 | 99.0 | -7.2 | 108.1 | -2.0 | 102.8 | -1.8 | 112.2 | 3.6 |
| 1974 | 96.4 | -2.6 | 108.8 | 0.7 | 96.3 | -6.3 | 108.7 | -3.1 |
| 1975 | 108.1 | 12.1 | 116.5 | 7.1 | 107.2 | 11.3 | 115.5 | 6.3 |
| 1976 | 120.7 | 11.7 | 128.6 | 10.4 | 116.7 | 8.9 | 124.4 | 7.7 |
| 1977 | 126.2 | 4.6 | 136.4 | 6.1 | 123.1 | 5.5 | 133.0 | 6.9 |
| 1978 | 142.5 | 12.9 | 150.2 | 10.1 | 133.2 | 8.2 | 140.4 | 5.6 |
| 1979 | 141.8 | -0.5 | 151.9 | 1.1 | 133.2 | 0.0 | 139.9 | -0.4 |
| 1980 | 138.6 | -2.3 | 152.7 | 0.5 | 130.5 | -2.0 | 136.7 | -2.3 |
| 1981 | 136.2 | -1.7 | 151.8 | -0.6 | 124.1 | -4.9 | 137.7 | 0.7 |
| 1982 | 153.1 | 12.4 | 163.6 | 7.8 | 123.5 | -0.5 | 139.5 | 1.3 |
| 1983 | 152.4 | -0.5 | 161.9 | -1.0 | 130.5 | 5.7 | 132.3 | -5.2 |

-- = not applicable.

^a Deflated by wholesale price index. The wage and salary indices include employers' and employees' contributions to social security.

^b Deflated by the consumer price index. The wage and salary indices include employees' contributions to social security.

Source: Estimates based on data from the National Security Organization (IKA), National Statistical Service of Greece.

Appendix Table A.7 shows the import penetration ratios for each manufacturing division, while Appendix Table A.8 shows the geographic origin of Greek imports. Changes in the penetration ratios in the various manufacturing sectors varied considerably between 1960 and 1975. The shares of imports from the EEC, the European Free Trade Area (EFTA), the OECD countries, and the socialist countries all increased during the 1960s, but by 1981 the shares of all these groupings except those of the EEC had fallen well below their high points in the 1960s. This change reflected the large rise in imports of crude oil from the Middle East and Africa.

Table 4.12 Trade Data for Greece, 1961-1981

| Year | Imports (US\$ million) | Exports (US\$ million) | Aggre- gate Trade Ratio ^a | Bilateral Trade as Per- cent of Exports | Bilateral Trade as Per- cent of Imports | Openness of the Economy ^b |
|------|------------------------------|------------------------------|-----------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|-----------------------------------------------|
| 1961 | 565 | 234 | 0.28 | 34.5 | 17.9 | 0.27 |
| 1962 | 640 | 243 | 0.295 | 33.8 | 15.9 | 0.26 |
| 1963 | 730 | 296 | 0.31 | 29.0 | 14.5 | 0.27 |
| 1964 | 868 | 308 | 0.30 | 31.5 | 15.6 | 0.26 |
| 1965 | 1,022 | 331 | 0.30 | 32.0 | 16.5 | 0.28 |
| 1966 | 1,147 | 404 | 0.30 | 34.5 | 14.9 | 0.30 |
| 1967 | 1,156 | 453 | 0.305 | 28.6 | 14.4 | 0.27 |
| 1968 | 1,244 | 465 | 0.30 | 27.8 | 15.8 | 0.28 |
| 1969 | 1,429 | 530 | 0.26 | 26.1 | 13.1 | 0.28 |
| 1970 | 1,705 | 612 | 0.315 | 25.1 | 11.7 | 0.30 |
| 1971 | 1,945 | 625 | 0.33 | 19.8 | 8.6 | 0.29 |
| 1972 | 2,441 | 835 | 0.365 | 19.0 | 9.1 | 0.29 |
| 1973 | 4,097 | 1,231 | 0.44 | 20.8 | 9.2 | 0.34 |
| 1974 | 4,659 | 1,774 | 0.46 | 18.1 | 7.9 | 0.38 |
| 1975 | 5,072 | 2,030 | 0.51 | 17.5 | 9.5 | 0.42 |
| 1976 | 5,560 | 2,228 | 0.47 | 18.3 | 12.9 | 0.43 |
| 1977 | 6,425 | 2,522 | 0.50 | 15.5 | 8.4 | 0.42 |
| 1978 | 7,341 | 2,999 | 0.57 | 16.4 | 11.8 | 0.40 |
| 1979 | 10,110 | 3,932 | 0.67 | 16.9 | 4.3 | 0.40 |
| 1980 | 10,903 | 4,094 | 0.57 | 15.4 | 7.6 | 0.44 |
| 1981 | 11,468 | 4,772 | 0.58 | 0 | 0 | 0.40 |

^a Ratio for goods and services: $(X+M)/GNP$.

^b $(X+M)$ of goods divided by GDP, estimated in current prices.

Sources: Estimates made from data from Bank of Greece (1982) and Monthly Statistical Bulletin (various issues); and from NSSG, Statistical Yearbook of Greece (various issues).

Table 4.13 Annual Average Percentage Change in Value of Imports
(current U.S. dollars)

| Period | 1960-70 | 1970-80 | 1980-81 |
|--------------------------|---------|---------|---------|
| Greece | 10.8 | 18.3 | -16.5 |
| OECD | 10.3 | 19.7 | -5.1 |
| European members of OECD | 10.2 | 19.7 | -11.3 |
| World | 9.3 | 20.4 | -1.0 |

Source: IMF (1982).

Table 4.14 Imports by Major Category, 1952-1982
(percent)

| Year | Intermediate Inputs (excluding crude oil) | Crude Oil | Investment Goods | Consump- tion Goods | Freight |
|------|----------------------------------------------------|--------------|---------------------|---------------------------|---------|
| 1952 | 38.6 | 6.8 | 14.7 | 39.9 | - |
| 1953 | 38.0 | 5.7 | 12.9 | 44.1 | - |
| 1954 | 39.4 | 4.6 | 13.5 | 42.4 | - |
| 1955 | 36.1 | 4.3 | 14.0 | 49.0 | - |
| 1956 | 34.8 | 3.3 | 14.7 | 47.3 | - |
| 1957 | 36.4 | 3.3 | 11.1 | 46.7 | 2.5 |
| 1958 | 32.0 | 3.4 | 18.0 | 44.5 | 2.0 |
| 1959 | 29.9 | 6.9 | 18.2 | 44.7 | 0.3 |
| 1960 | 29.6 | 6.4 | 15.7 | 48.2 | 0.1 |
| 1961 | 28.0 | 5.4 | 17.8 | 48.8 | 0.1 |
| 1962 | 27.9 | 4.9 | 22.3 | 44.9 | - |
| 1963 | 27.0 | 3.6 | 18.9 | 50.2 | 0.2 |
| 1964 | 27.4 | 3.3 | 21.7 | 46.8 | 0.9 |
| 1965 | 26.7 | 3.0 | 25.3 | 43.7 | 1.3 |
| 1966 | 25.9 | 3.7 | 24.7 | 44.7 | 1.1 |
| 1967 | 23.7 | 5.0 | 26.3 | 43.8 | 1.1 |
| 1968 | 23.1 | 5.9 | 26.3 | 43.7 | 1.0 |
| 1969 | 24.8 | 4.5 | 27.5 | 42.3 | 0.9 |
| 1970 | 24.3 | 4.2 | 30.0 | 40.7 | 0.8 |
| 1971 | 23.9 | 4.2 | 30.1 | 41.0 | 0.8 |
| 1972 | 21.9 | 5.7 | 33.6 | 38.2 | 0.6 |
| 1973 | 22.5 | 5.6 | 29.2 | 42.1 | 0.6 |
| 1974 | 25.0 | 14.0 | 27.5 | 32.8 | 0.8 |
| 1975 | 21.3 | 13.1 | 30.5 | 34.5 | 0.7 |
| 1976 | 20.6 | 14.8 | 27.8 | 36.2 | 0.6 |
| 1977 | 21.2 | 12.1 | 28.5 | 37.6 | 0.6 |
| 1978 | 20.9 | 12.0 | 27.5 | 39.0 | 0.5 |
| 1979 | 20.0 | 18.4 | 24.4 | 36.7 | 0.5 |
| 1980 | 21.9 | 23.4 | 22.4 | 31.7 | 0.5 |
| 1981 | 17.1 | 29.2 | 19.5 | 33.7 | 0.4 |
| 1982 | 16.8 | 24.5 | 20.5 | 37.8 | 0.4 |

- = negligible.

Source: Estimates made on the basis of data from NSSG, Statistical Yearbook of Greece (various issues).

Table 4.15 shows how various manufacturing sectors ranked in terms of average annual growth of imports during the period 1961-80. All industries had growth rates that exceeded the national income growth rate. Twelve industries had annual rates of growth exceeding 10 percent. Nine individual industries, the manufacturing sector as a whole, and agriculture showed the quickest import growth between 1970 and 1974, while eight other manufacturing industries experienced the quickest average growth in imports during 1975-80.

Table 4.15 Average Rate of Annual Growth in Imports by Sector, 1961-1980

| Sector | Average Rate of Annual Growth | | | |
|-------------------------------|-------------------------------|----------------------|----------------------|----------------------|
| | 1961-80 (percent) | 1961-69 (percent) | 1970-74 (percent) | 1975-80 (percent) |
| Tobacco | 21.8 | 14.4 | 11.6 | 39.2 |
| Furniture | 17.7 | 21.5 | 8.4 | 19.2 |
| Beverages | 17.6 | 15.1 | 25.8 | 20.2 |
| Clothing and footwear | 16.5 | 12.8 | 22.4 | 27.3 |
| Leather | 13.5 | 16.9 | 11.6 | 9.2 |
| Miscellaneous industries | 11.6 | 7.2 | 6.7 | 12.9 |
| Printing | 10.9 | 8.8 | 3.8 | 12.8 |
| Chemicals | 10.8 | 7.1 | 14.1 | 9.6 |
| Electrical machinery | 10.8 | 10.6 | 12.2 | 8.1 |
| Non-metallic mineral products | 10.7 | 5.1 | 2.4 | 14.5 |
| Transport equipment | 10.6 | 13.3 | 7.6 | 8.4 |
| Metal products | 10.2 | 5.1 | 7.1 | 18.0 |
| Machinery (non-electrical) | 9.6 | 8.9 | 12.8 | 5.7 |
| <u>All Manufacturing</u> | 9.5 | 7.2 | 12.8 | 8.1 |
| Basic Metal Industries | 9.3 | 4.6 | 20.9 | 10.4 |
| Paper | 9.3 | 5.6 | 16.5 | 2.5 |
| Oil Derivatives | 7.2 | 5.2 | 11.2 | 2.9 |
| Textiles | 6.7 | 5.1 | 11.9 | 3.7 |
| Food | 6.6 | -0.6 | 15.6 | 4.3 |
| Rubber and Plastic Products | 6.4 | 1.6 | 7.6 | 10.7 |
| Wood and Cork Products | 5.3 | 4.8 | 5.6 | 8.7 |
| Agriculture | 4.7 | 6.9 | 7.9 | -0.3 |

Sources: Estimates made for this study from data from NSSG, Annual Industrial Survey (various issues), and Statistical Yearbook of Greece.

All analyses of the factors that affected Greece's import growth show the great importance of growth of economic activity. Below are our estimates of total imports (TOTM) for 1962-81 for the following groups of products:

FOOD = Food and live animals
RAWM = Nonedible raw materials, excluding fuels
MINF = Minerals, fuels, etc.
CHEP = Chemical products
MANF = Manufactured goods classified by chief raw material
MATE = Machinery and transportation equipment

The above groupings correspond to categories 0, 2, 3, 5, 6, and 7 of the SITC, while total imports correspond to category 9. The six categories named accounted for the major part of Greek imports.

Both linear and log-form equations were used, and the best statistical results (shown below) were obtained with log-form equations and the CORC estimation method. The dependent variables are the logarithms of the indexes of volume of the above categories of imports. The independent variables are the logarithm of GDP in constant 1970 prices (LGDP), the relative price of imports adjusted for tariffs and taxes (LRELP), and a one-year lagged-imports explanatory variable. The last variable was introduced into all of the equations but was found to be statistically significant only for total imports. Thus, the results shown for the six categories came from equations from which the lagged variable was removed.

The effective exchange rate for imports, which was used as a separate variable, did not produce satisfactory results. The relative price of imports was estimated as $(UVI/H) \cdot (100+R_n/100+R_o)$, where UVI represents the index of value of each category of imports, H represents the index of wholesale prices, R_n represents the total tariffs and taxes collected from each category of imports as a percentage of such imports, and R_o represents the price of the last index in base year 1970. Exchange rate changes were assumed to be reflected by the changes in import prices.¹³ Standard errors are shown in parentheses. R-squares were adjusted for degrees of freedom.

$$\begin{aligned} \text{LTOTM} = & -1.0167 + 0.1628\text{LGDP} + 0.0016\text{LRELP} + 0.3402\text{LTOTM-1} \\ & (0.0518) \quad (0.0057) \quad (0.1719) \quad (1) \\ \text{R2} = & 0.979, \text{ D.W. Stat.} = 1.509 \end{aligned}$$

$$\begin{aligned} \text{LFOOD} = & -1.5772 + 0.2492\text{LGDP} - 0.0089\text{LRELP} \\ & (0.0250) \quad (0.0355) \quad (2) \\ \text{R2} = & 0.984, \text{ D.W. Stat.} = 1.934 \end{aligned}$$

$$\begin{aligned} \text{LRAWM} = & -7.5662 + 0.9745\text{LGDP} - 0.0489\text{LRELP} \\ & (0.1928) \quad (0.2471) \quad (3) \\ \text{R2} = & 0.960, \text{ D.W. Stat.} = 2.267 \end{aligned}$$

$$\begin{aligned} \text{LMINF} = & -14.4427 + 1.5267\text{LGDP} - 0.0532\text{LRELP} \\ & (0.0570) \quad (0.0322) \quad (4) \\ \text{R2} = & 0.974, \text{ D.W. Stat.} = 1.973 \end{aligned}$$

$$\begin{aligned} \text{LCHEP} &= -13.4954 + 1.4542\text{LGDP} - 0.2364\text{LRELP} \\ &\quad (0.0492) \quad (0.1054) \quad (5) \\ R^2 &= 0.988, \text{ D.W. Stat.} = 1.725 \end{aligned}$$

$$\begin{aligned} \text{LMAN} &= -7.9983 + 1.0171\text{LGDP} - 0.5372\text{LRELP} \\ &\quad (0.0903) \quad (0.2538) \quad (6) \\ R^2 &= 0.968, \text{ D.W. Stat.} = 1.377 \end{aligned}$$

$$\begin{aligned} \text{LMATE} &= -10.2823 + 1.1915\text{LGDP} + 0.0234\text{LRELP} \\ &\quad (0.2667) \quad (0.0275) \quad (7) \\ R^2 &= 0.971, \text{ D.W. Stat.} = 1.703. \end{aligned}$$

In all the equations the coefficients for the effect of GDP have the right sign (positive), are statistically significant, and (in five of the six import categories) show strong elasticity. Elasticity was low only for food/live animals. With respect to total imports, the coefficient was higher for lagged than for unlagged imports. Imports of minerals and fuels, chemical products, and machinery and transport equipment showed the highest elasticities. The elasticities of manufactured goods classified by raw material used, and of raw materials exclusive of fuels, were around 1.0.

The coefficients for relative price changes (including tariffs and taxes) had the right sign (negative) in all equations except total imports. They were statistically weak or not significant, and very small, except in the case of manufactures classified by raw material.¹⁴ These findings suggest that the growth of the economy, rather than the gradual reduction in tariffs or changes in relative wholesale prices, was the major factor responsible for the growth of imports. Raw materials, intermediate products, and capital goods were needed for fast expansion of production for domestic consumption and exports, while imports of final goods were demanded by consumers, whose rapidly growing incomes enabled them to buy more expensive foreign products.¹⁵

Greek Export Performance after Association with the EEC

Greece's exports increased slightly faster than its imports after 1961, and the ratio of exports to imports increased. Exports in 1961 were equal to only 41.4 percent of imports, however, and as a result there was a widening of the trade deficit. As a percentage of GNP, exports rose from 5.9 in 1961 to 11.3 in 1981. Over the same period, the index of openness of the Greek economy rose from .27 to .40 (see Table 4.12). On average, Greek exports grew faster than world or OECD exports did (Table 4.16).

The composition of Greece's exports changed quite a bit during the 1961-81 period of association with the EEC (see Table 4.17). The shares of agricultural products and raw materials decreased a great deal, while the shares of manufactured products and fuels rose very quickly. Nontraditional exports include fuels, most manufactured exports, and many agricultural exports, such as fruits, vegetables, and flowers. The average growth of agricultural exports was low, while that of many manufacturing industries was extremely high (Table 4.18). The change in the composition of exports reflected rapid industrial development and the orientation of

most industries toward greater exports (Table 4.19). It was seen above that multinationals were responsible for a disproportionate share of manufactured exports. The percentage of exports going to EEC countries increased between 1960 and 1974 (Appendix Table A.9), then decreased as exports to oil-producing countries went up. The share of exports going to the EEC started rising again in 1981.

Table 4.16 Annual Average Percentage Change in Value of Exports
(current U.S. dollars)

| Destination | 1960-70 | 1970-80 | 1980-81 |
|--------------------------|---------|---------|---------|
| Greece | 12.2 | 23.3 | -18.6 |
| OECD | 10.1 | 18.9 | -1.6 |
| European members of OECD | 10.3 | 19.4 | -7.4 |
| World | 9.3 | 20.7 | -1.7 |

Source: Export Research Center (KEEM), (1984).

Table 4.17 Structure of Greek Exports, Selected Years
(percent)

| Type of Export | 1960 | 1965 | 1970 | 1975 | 1980 | 1983 |
|-----------------------|------|------|------|------|------|------|
| Agricultural products | 64.8 | 66.4 | 41.2 | 32.2 | 25.7 | 33.1 |
| Raw materials | 25.2 | 19.8 | 16.9 | 8.7 | 7.8 | 6.7 |
| Fuels | * | * | 1.0 | 11.0 | 15.6 | 6.9 |
| Manufactured products | 9.9 | 13.8 | 40.9 | 48.1 | 50.8 | 52.4 |

* Less than one-half of 1 percent.

Source: Export Research Center (KEEM), (1984).

Rising exports were an important factor in the growth of the manufacturing sector in the 1960s and 1970s. Voloudakis and Fylactos estimated that demand for manufactured exports during the period 1954-63 accounted for only 1.6 percent of growth in manufacturing output, rose to 8.3 percent in the period 1963-70, and increased again to 19.3 percent between 1970 and 1977 (see Voloudakis and Fylactos 1982, pp. 23-24). The same researchers found that expansion of Greek exports during the period 1964-78 was overwhelmingly due to penetration of Greek exports into foreign markets and to increased total world trade. The general increase in world demand played an important role in the increase in total Greek exports but had a lesser role in the increased demand for manufactured exports. Market penetration, especially by manufactured exports, weakened somewhat in the

1970s. This decrease in competitiveness occurred during a period when subsidization of exports became more significant. Voloudakis and Fylactos (1982, pp. 36-38) could not ascertain whether that reflected a genuine decrease in competitiveness or weak export promotion policies.

Table 4.18 Average Rate of Annual Growth of Exports, by Sector
(percent)

| Sector | 1961-80 | 1961-69 | 1970-74 | 1975-80 |
|-------------------------------|---------|---------|---------|---------|
| Oil derivatives | 60.1 | 111.3 | 42.7 | 10.3 |
| Electrical machinery | 38.7 | 61.3 | 41.1 | 8.1 |
| Clothing and footwear | 35.1 | 45.7 | 42.0 | 5.5 |
| Paper | 34.7 | 59.0 | 14.5 | 24.6 |
| Basic metal industries | 29.3 | 68.0 | 21.8 | 2.6 |
| Metal products | 28.5 | 26.7 | 39.8 | 15.9 |
| Non-metallic mineral products | 25.5 | 26.1 | 52.2 | 9.2 |
| Textiles | 21.4 | 24.2 | 26.3 | 11.1 |
| Miscellaneous industries | 20.3 | 19.8 | 22.4 | 12.9 |
| Furniture | 20.0 | 32.9 | 13.8 | -4.8 |
| Food | 19.6 | 19.1 | 19.8 | 13.9 |
| <u>All Manufacturing</u> | 18.4 | 25.9 | 24.3 | 4.9 |
| Rubber and plastic products | 18.2 | 26.7 | 7.9 | -4.1 |
| Beverages | 17.7 | 22.8 | -4.9 | 21.8 |
| Wood and cork products | 14.4 | 3.1 | 55.4 | 43.1 |
| Leather | 14.1 | 25.1 | 19.9 | 2.1 |
| Chemicals | 12.4 | 17.0 | -18.3 | 14.5 |
| Transport equipment | 12.0 | 3.0 | 22.4 | -10.0 |
| Machinery | 7.9 | -8.6 | 53.3 | 0.4 |
| Printing | 4.9 | 4.5 | 10.1 | -19.9 |
| Agriculture | 3.2 | 4.7 | 5.5 | -1.7 |
| Tobacco | -6.7 | -1.5 | 34.9 | -22.9 |

Source: Estimates made for this study with data from NSSG, Annual Industrial Survey (various issues).

Table 4.20 shows that while the growth of world trade had a positive effect on Greek exports, the composition of these exports had a negative effect between 1964 and 1978; that is, Greek exports consisted largely of products facing slow growth or declining world demand. It seems that this was true not only for traditional Greek exports but also for many of the products which began to be exported during the latter 1960s and 1970s. It may be that many of those products were traditional products also produced abroad by industries that were moving out of developed countries or whose markets were shrinking.

Table 4.19 Exports of Greek Manufacturing Industries, Selected Years
(exports as percentage of value of production)

| Industry | 1961 | 1963 | 1965 | 1970 | 1975 | 1980 |
|-----------------------------------|------|------|------|------|------|------|
| Food | 3.6 | 2.3 | 3.2 | 5.6 | 10.1 | 12.2 |
| Beverages | 1.3 | 0.9 | 0.8 | 4.5 | 2.2 | 3.5 |
| Tobacco | 0.1 | 0.2 | 0.15 | 0.1 | 0.1 | 0.05 |
| Textiles | 1.9 | 2.2 | 2.6 | 7.0 | 12.4 | 23.0 |
| Clothing and footwear | 1.4 | 0.7 | 0.8 | 5.9 | 28.4 | 38.8 |
| Wood and cork products | 2.7 | 0.7 | 0.2 | 0.7 | 3.8 | 3.9 |
| Furniture | 0.2 | 0.15 | 0.3 | 0.45 | 1.6 | 1.0 |
| Paper | 0.15 | 0.9 | 2.1 | 2.2 | 3.8 | 11.5 |
| Printing, publishing | 2.6 | 1.8 | 1.8 | 1.8 | 4.8 | 1.6 |
| Leather | 18.8 | 18.4 | 17.5 | 23.4 | 37.6 | 30.2 |
| Products of rubber and plastic | 1.4 | 0.8 | 0.7 | 2.7 | 2.5 | 1.1 |
| Chemicals | 8.7 | 4.5 | 5.5 | 18.2 | 16.5 | 27.0 |
| Oil derivatives | 0.03 | 0.8 | 0.3 | 4.3 | 28.5 | 32.3 |
| Non-metallic mineral products | 1.9 | 1.6 | 1.5 | 3.0 | 18.7 | 19.6 |
| Basic metal industries | 3.1 | 3.2 | 10.1 | 40.9 | 33.1 | 31.7 |
| Metal products | 1.4 | 1.2 | 2.2 | 1.8 | 8.6 | 11.9 |
| Machinery | 11.0 | 5.5 | 4.7 | 1.4 | 5.7 | 7.0 |
| Electric machinery | 0.3 | 0.4 | 1.1 | 2.3 | 9.6 | 10.1 |
| Transport equipment | 2.9 | 2.7 | 3.7 | 1.9 | 7.3 | 3.3 |
| Miscellaneous industries | 6.7 | 8.7 | 12.7 | 13.4 | 26.3 | 34.7 |
| All Manufacturing | 3.0 | 2.1 | 2.7 | 7.7 | 14.2 | 17.1 |

Source: Estimates made for this study from data from NSSG, various Annual Industrial Surveys.

A number of studies have been carried out to assess the effects of Greece's export subsidies on the growth of exports. Some of the main findings of these studies are presented here.

The Voloudakis/Fylactos study mentioned earlier found that the subsidy variable's coefficient was nonsignificant in almost all of the many estimated equations. In several cases the coefficient even had the wrong sign (i.e., negative). The subsidy variable showed better results when combined with the price variable. The authors used annual data for the period 1962-78 and quarterly data for the period 1972-79 in single-equation export supply and demand functions. Their best-performing single equations were then combined in a simultaneous equations model. Only the most important export subsidies (see Table 3.3) were considered. The pure exchange rate effect was not separated from the overall price effect, as the authors could not find prices in foreign exchange terms for most of the export products.

Table 4.20 Relative Importance of Factors Affecting the Growth of Exports
(percent)

| Factor | Total Exports | | Manufacturing Exports | |
|------------------------------------------------------|---------------|-----------|-----------------------|-----------|
| | 1964-1978 | 1970-1978 | 1964-1978 | 1970-1978 |
| Growth of world trade | 65.8 | 75.2 | 15.5 | 56.7 |
| Commodity composition (product-mix of Greek exports) | -24.8 | -16.4 | -0.7 | -7.9 |
| Market distribution | 3.3 | 1.7 | 6.1 | 1.2 |
| Greek shares of growth of foreign market | 55.6 | 39.6 | 79.0 | 50.0 |
| Total growth of exports | 100.0 | 100.0 | 100.0 | 100.0 |

Note: The estimates show the relative positive or negative contribution of each of four factors to total growth of Greek exports during each period.

Source: Voloudakis and Fylactos (1982).

The study included analyses of both total exports and of certain manufacturing exports, including food/beverages/tobacco, textiles, clothing/footwear, chemicals/plastics, nonmetallic mineral products, and basic metals. Linear form equations proved better in most cases than log-linear form. The estimates of some of the supply equations used in that study are shown below;¹⁶ the main findings concerning demand functions and the simultaneous equations model are summarized without showing the statistical results. The findings for individual groups of manufactured exports are omitted, since the results were not very different from those for total manufactured exports, except that the subsidy rate coefficient for two sectors (food and nonmetallic minerals) was statistically significant at the 10 percent level, and the substitution of the composite price variable (i.e., the price including the subsidy rate) for the simple price variable increased the statistical significance of the coefficients in food, chemicals/plastics, nonmetallic minerals, and basic metals.

Single-Equation Export-Supply Functions

$$\text{XWORLD} = -43,884 + 143.57\text{Y1} + 220.12\text{P2TNP1}(-1), \text{R2} = .96, \text{D.W.} = .66$$

(18.14) (2.60) (1)

$$\text{XWORLD} = -47,217 + 149.04\text{Y1} + 246.67\text{P2TP1}(-1), \text{R2} = .965, \text{D.W.} = .78$$

(19.12) (3.32) (2)

$$\text{XEEC} = 16,167 + 75.37\text{Y1} + 57.43\text{P3TNP1}(-1), \text{R2} = .97, \text{D.W.} = 1.19$$

(23.03) (1.71) (3)

$$\text{XEEC} = -17,458 + 76.94\text{Y1} + 67.86\text{P3TP}(-1), \text{R2} = .977, \text{D.W.} = 1.30$$

(23.15) (2.20) (4)

$$\text{XM1WORLD} = -19,950 + 178.89\text{IMP1} + 103.90\text{PM1NP3}, \text{R2} = .978, \text{D.W.} = 1.2$$

(26.59) (2.99) (5)

$$\text{XM1WORLD} = -18,876 + 180.44\text{IMP1} + 98.99\text{M1P3}, \text{R2} = .981, \text{D.W.} = 1.26$$

(28.72) (3.62) (6)

$$\text{XM1EEC} = -9,950 + 93.09\text{IMP1} + 45.87\text{PM1NP3}, \text{R2} = .975, \text{D.W.} = 1.1$$

(22.55) (1.75) (7)

$$\text{XM1EEC} = -11,072 + 95.0\text{IMP1} + 57.63\text{PM1P3}, \text{R2} = .98, \text{D.W.} = 1.51$$

(25.36) (2.82) (8)

XWORLD = Total exports (excluding bilateral) to the world at 1970 prices.

XM1WORLD = Manufactured exports (excluding manufactured products of agricultural origin) to the world at 1970 prices.

XEEC = Total exports (excluding bilateral) to EEC at 1970 prices.

XM1EEC = Manufactured exports (excluding manufactured products of agricultural origin) to the EEC at 1970 prices.

Y1 = GDP at 1970 prices.

P2TP1(-1), P3TP1(-1) = Unit value index of Greek exports to the EEC and the United States, or only to EEC, respectively, deflated by GDP deflator of previous year.

P2TNP1(-1), P3TNP1(-1) = Composite price (price plus subsidy rate) of Greek exports to the EEC and the United States, or only to EEC, respectively, deflated by GDP deflator of previous year.

PM1P3 = Price index of manufactured exports (excluding products of agricultural origin) deflated by the deflator of the manufacturing sector (excluding food/beverages/tobacco).

- PM1NP3 = Index of composite price (price plus subsidy) of manufacturing exports (excluding products of agricultural origin).
- IMP1 = Index of manufacturing production.

The authors found that the dominance of the production activity variable in explaining export growth was such that "it overshadows the contribution of other variables and especially that of the subsidy rate" (Voloudakis and Fylactos 1982, pp. 53-57). There was evidence that exports were affected by nonindustrial traded output as well as by the output of nontrade sectors. For manufacturing exports the output variable had "overwhelming explanatory power." Capacity utilization, on the other hand, was nonsignificant. The price variable performed better with a one-year time lag. For total exports, better results were shown when subsidies were omitted from the function. For manufactured exports the subsidy variable showed better results only when combined with the price variable in equations 1,3,5, and 7 above. Manufactured exports showed more price sensitivity than total exports.

The authors mention possible statistical reasons for the disappointing showing of the subsidy variable but also consider as a possibility that fast growth in demand for Greek exports made the subsidy a windfall gain rather than a means of increasing price competitiveness. The strong elasticities of exports with respect to output were considered by the authors to be an indication of strong export bias with some time lag. The price elasticities of total exports were found to be low, while those for manufactured exports were even lower.

The findings of the single-equation demand functions show that the market size variable had overwhelming explanatory power in the demand function for total exports and for manufactured exports. The high elasticity coefficients of the market variable (in most cases higher than 2) were considered to be overestimates of total exports to the world and to the EEC, and for manufactured exports to the EEC, due to statistical problems and the fact that the expansion of Greek exports to the EEC was affected by the abolition of EEC restrictions on imports from Greece during the period of association. The price elasticity coefficients were rather low (clustering around 1.0), had the right sign (negative), and in several cases were statistically significant. The elasticities for exports to the EEC were higher. They were much lower for exports to the Middle East and Africa.

The simultaneous equations model produced output elasticities of supply and income elasticities of demand that did not differ substantially from those found with the single-equation models. Price elasticities increased considerably depending on the specific case, probably reflecting underestimation in the single equation models of the demand and supply function. No subsidy effect was found with the simultaneous equations model either.

Prodromidis and Anastasakou (1981) examined the demand function for Greek exports during the period 1958-73 for various groups of goods. Subsidies were considered only in the function for the prices of exports of consumer goods of agricultural origin, where they were used to adjust the relative price variable. The authors found that the various categories of Greek exports were affected either by income levels or by the level of industrial production in importing countries, and by the relative prices of the exports. Only exports of manufactured goods were found to have foreign-income and relative-price elasticities above unity. Both elasticities were low for other exports.

In another study, Gyparakis and Zompanakis (1982, pp. 148-163) investigated the relationships between exchange rate changes and the prices of Greek manufactured export products, and between the price and the volume of manufactured exports. Their quarterly data covered the years 1972-79 and refer to categories 5-8 of the SITC. They obtained their best statistical results with the CORC method and log-form of data. Among the various equations tried, the following gave the best results:

$$\begin{aligned} UV &= -1.02 + 0.19W + 0.42MAP + 9.55EX - 0.18SUB + 0.23WXP, \\ &\quad (0.09) \quad (0.08) \quad (0.24) \quad (0.11) \quad (0.14) \\ R2 &= 0.98, D.W. = 1.97 \end{aligned}$$

$$\begin{aligned} GX &= 0.40WD - 0.42PRRAT - 0.40D1 - 0.16D2 - 0.236D3 + 0.65GX(-1) \\ &\quad (0.11) \quad (0.43) \quad (0.07) \quad (0.06) \quad (0.06) \quad (0.12) \\ R2 &= 0.89, D.W. = 2.86 \end{aligned}$$

UV = Index of average value of exports of manufactures in \$US.

W = Cost of labor per unit of export product.

MAP = Cost of raw materials, semi-finished products and fuels.

EX = exchange rate, drachmas/\$US.

SUB = export subsidy payments (the subsidies considered were those used also by Voloudakis and Fylactos).

WXP = Index of average value of manufacturing exports of product groupings 5, 6, and 8 in twelve countries which are major competitors of Greece in manufactured exports.

GX = Index of volume of Greek manufacturing exports.

GX(-1) = GX index in previous quarter.

WD = External demand of markets for Greek manufactured exports.

PRRAT = Relative prices of Greek manufactured exports (excluding those of grouping 5 relative to prices of competitive countries in \$US).

Dj = A dummy for seasonality, j = 1, 2, 3 quarter.

The final effect of exchange rate changes on the volume of manufactured exports is the combined effect of exchange rate changes on prices and of price changes on the volume of exports. With the respective coefficients of 0.55 and -.42 shown above, the combined effect is equal to 2.31. That is, a 10 percent devaluation will result in a 2.31 percent increase in the volume of manufactured exports. Some of the important conclusions of the authors are, first, that a considerable part of the exchange rate change was not reflected in the price of manufactured exports; second, more than 80 percent of export subsidies did not appear to affect the prices of those exports negatively; third, estimates of volume elasticities in relation to prices fell within the levels found in studies of other countries. (See, for example, Stern, Francis, and Schumacher 1976.)

The generally poor showing of the subsidy variable may be due to measurement difficulties and to the fact that the subsidies used accounted for only part of the total subsidization. Papageorgiou carried out a much more detailed study of export promotion policies in Greece using data from 75 firms that were exporting manufactures in 1975. His aim was to estimate the "relative size of distortion in manufacturing measured against a free trade paradigm, the relative incentives of trade and industrial policies between production for domestic sales -- the import substitution effects of these policies -- and production for exports -- the outward orientation of the same set of policies" (Papageorgiou 1983, p. 5.1). He found that the effectiveness of export promotion policies cannot be determined without analyzing the total structure of trade and industrial policies. Papageorgiou estimated nominal and effective protection and effective subsidization. Some of his conclusions were, first, that in addition to tariffs, other sources of protection (indirect taxes, advance deposit requirements, import licensing, and higher interest rates for financing imports of consumer goods than for financing domestically produced goods) contributed substantially to nominal protection for domestic sales; second, that the most important export incentives in the period examined were, in order of priority, the export cash payment, the interest rate subsidy, and the exemption of intermediate inputs from all indirect taxes;¹⁷ third, that a comparison of nominal protection for domestic sales and for export sales showed that overall trade policies provided greater encouragement for production for the domestic market than for exports; and fourth, that incentives were widely dispersed at the firm and sectoral level, causing resources to move into the most protected industries at more than a socially optimum rate. Effective protection coefficients for domestic sales and for exports suggested a strong bias in favor of import substitution. The customs' union with the EEC favored old, established industries in Greece (e.g., textiles, food processing, toys, shoes, clothing). Effective protection was higher for firms exporting to the EEC than for those exporting to non-EEC countries. Papageorgiou also found that trade policies were primarily responsible for shaping the structure of incentives and manufacturing production in the 1970s, and that nominal protection for export sales was correlated positively with nominal protection for a firm's total sales. Nominal protection for export sales and for total sales were weakly correlated with effective protection for total production. Rank correlation coefficients, on the other hand, showed the above relationships to be strongly positive.

Balance of Payments Position and External Indebtedness

During the period of association with the EEC the Greek trade deficit increased from \$330.6 million in 1961 to \$6.7 billion in 1981 (Table 4.21). The trade deficit in fuels, raw materials, and capital goods was especially large (Table 4.22). A substantial surplus in invisibles allowed Greece to cover most of its trade deficit, however. The main sources of invisibles earnings were emigrant remittances, transport income (mainly of persons working in shipping), and tourism (Table 4.23). The current account deficit was covered by net capital inflow, and foreign exchange reserves increased in most years until the end of the association period. Reserves started showing a decline in 1981 due to a drop in capital transfers from abroad and a substantial increase in invisibles payments.

Large surpluses in invisibles and in the capital account enabled Greece to import large quantities of capital equipment, fuels, and materials in the 1960s and 1970s. Without those surpluses, import growth would not have been as rapid as it was.

Table 4.21 Balance of Payments, 1961-1981
(millions of U.S. dollars)

| Year | Receipts from Exports | Payments for Imports | Trade Balance ^a | Receipts from Invisibles | Payments of Invisibles |
|------|-----------------------------|----------------------------|-------------------------------|--------------------------------|------------------------------|
| 1961 | 234.3 | 564.9 | -330.6 | 357.2 | 76.1 |
| 1962 | 342.6 | 640.3 | -397.7 | 435.3 | 87.6 |
| 1963 | 295.9 | 730.2 | -434.3 | 497.2 | 99.0 |
| 1964 | 308.4 | 867.8 | -559.4 | 517.4 | 129.3 |
| 1965 | 330.9 | 1,022.2 | -691.3 | 561.0 | 136.8 |
| 1966 | 403.5 | 1,146.5 | -743.0 | 638.6 | 154.6 |
| 1967 | 452.6 | 1,155.6 | -703.0 | 662.5 | 184.0 |
| 1968 | 464.9 | 1,244.4 | -779.5 | 720.8 | 194.2 |
| 1969 | 530.3 | 1,429.1 | -898.8 | 791.3 | 240.7 |
| 1970 | 612.2 | 1,704.9 | -1,092.7 | 951.0 | 266.9 |
| 1971 | 624.8 | 1,945.2 | -1,320.4 | 1,293.5 | 317.3 |
| 1972 | 835.4 | 2,441.3 | -1,605.9 | 1,606.5 | 402.1 |
| 1973 | 1,230.5 | 4,047.2 | -2,816.7 | 2,195.9 | 570.3 |
| 1974 | 1,774.1 | 4,659.4 | -2,885.3 | 2,460.5 | 720.4 |
| 1975 | 2,029.9 | 5,072.2 | -3,042.4 | 2,850.3 | 764.7 |
| 1976 | 2,227.5 | 5,560.5 | -3,333.0 | 3,187.8 | 786.8 |
| 1977 | 2,522.4 | 6,425.1 | -3,902.7 | 3,700.1 | 876.9 |
| 1978 | 2,998.5 | 7,342.3 | -4,342.8 | 4,442.6 | 1,037.7 |
| 1979 | 3,932.0 | 10,109.8 | -6,177.8 | 5,663.0 | 1,366.7 |
| 1980 | 4,093.9 | 10,903.4 | -6,809.5 | 6,159.4 | 1,566.0 |
| 1981 | 4,771.5 | 11,468.0 | -6,696.5 | 6,495.1 | 2,206.2 |

Table 4.21 (continued)

| Year | Invisibles Balance ^b | Balance on Current Account | Net Capital Inflow ^c | Foreign Exchange Reserves, December 31 |
|------|------------------------------------|----------------------------------|---------------------------------------|----------------------------------------------|
| 1961 | 281.1 | -49.5 | 87.7 | 265.5 |
| 1962 | 347.7 | -50.0 | 109.1 | 284.9 |
| 1963 | 398.2 | -36.1 | 103.0 | 292.8 |
| 1964 | 388.1 | -171.3 | 170.6 | 281.2 |
| 1965 | 424.2 | -267.3 | 221.3 | 250.2 |
| 1966 | 484.0 | -259.0 | 260.1 | 276.6 |
| 1967 | 478.5 | -224.5 | 173.8 | 286.1 |
| 1968 | 526.6 | -252.9 | 263.3 | 321.9 |
| 1969 | 550.6 | -348.2 | 313.2 | 317.0 |
| 1970 | 684.1 | -408.6 | 373.3 | 310.1 |
| 1971 | 976.2 | -344.2 | 378.1 | 506.8 |
| 1972 | 1,204.2 | -401.5 | 840.5 | 1,031.9 |
| 1973 | 1,625.6 | -1,191.5 | 1,034.5 | 1,048.3 |
| 1974 | 1,740.1 | -1,145.2 | 924.3 | 936.7 |
| 1975 | 2,085.6 | -956.7 | 1,015.3 | 1,112.2 |
| 1976 | 2,401.0 | -932.0 | 929.3 | 1,029.0 |
| 1977 | 2,823.2 | -1,079.2 | 1,328.3 | 1,207.5 |
| 1978 | 3,384.0 | -958.8 | 1,347.1 | 1,477.1 |
| 1979 | 4,296.3 | -1,881.5 | 1,542.1 | 1,518.4 |
| 1980 | 4,593.4 | -2,216.0 | 2,270.6 | 1,517.0 |
| 1981 | 4,288.9 | -2,407.6 | 1,888.0 | 1,188.6 |

^a Includes suppliers' credits.

^b Includes aid, reparations, and restitutions.

^c Does not include aid, reparations, or restitutions.

Source: Bank of Greece (1982).

The inflow of foreign private capital was substantial and increased almost continuously up until 1981. In the 1960s the effort to achieve high rates of economic growth resulted in growing imports of capital and semi-processed goods. This led to increased external borrowing by the public sector and by public corporations (Table 4.24). This borrowing increased faster in the 1970s because Greece needed more foreign exchange to make payments on its accumulated external debt and to pay the higher prices on crude oil. This borrowing contributed to an ever-increasing deficit in the current account and in the government's budgets. Support, through borrowing, of an exchange rate which some economists believed to be overvalued, was accentuated, particularly after 1979.

There are no reliable data on privately held debt in Greece for the period 1961-81. Some unofficial estimates suggest that total external debt (including private debts, foreign exchange deposits in Greek banks, and certain undisclosed loans for purchases of military equipment) may have

been twice as high as public and publicly guaranteed debt. Public and publicly guaranteed debt is shown in Table 4.25. An escalation of external debt in the 1970s is apparent, as is an increase in all the principal ratios indicating debt or service payments as percentages of key macroeconomic variables and a decrease in the ratio of foreign exchange reserves to total outstanding debt (Table 4.26).

The Effect of Changes in Imports on Employment

There is no evidence that the increase in imports resulted in greater unemployment in Greece. Unemployment data are not available, but employment statistics collected by the National Statistical Service show that employment in manufacturing increased as a whole and in nineteen of the twenty manufacturing industries. Average employment growth was in many cases very rapid (see Table 4.9). Employment decreased only in the tobacco industry and in agriculture. Despite the high growth rate of tobacco imports, the decrease in employment in the tobacco industry cannot be attributed to liberalization. Imports of tobacco products continued to account for a very low percentage of total consumption, and domestic production increased. The main factors responsible for the decrease in employment in tobacco were a drop in exports (see Table 4.18) and internal and external emigration of labor. These population movements led to greater mechanization in tobacco manufacturing industries.

Table 4.22 Components of Balance of Trade, Selected Years
(millions of U.S. dollars)

| Item | 1961 | 1965 | 1970 | 1973 | 1975 | 1980 | 1981 |
|----------------------------------------------|-------|-------|-------|--------|--------|--------|--------|
| <u>Imports</u> | | | | | | | |
| Food | 99.8 | 177.1 | 222.6 | 756.8 | 550.0 | 1208.4 | 1288.2 |
| Raw materials | 140.0 | 230.5 | 366.5 | 724.5 | 899.0 | 1958.6 | 1623.5 |
| Fuels | 47.7 | 71.0 | 116.3 | 413.5 | 844.0 | 2982.2 | 3685.6 |
| Capital goods | 116.6 | 262.9 | 517.2 | 1180.3 | 1545.0 | 2445.1 | 2239.3 |
| Manufactured consumer goods | 160.4 | 267.1 | 468.2 | 948.2 | 1199.2 | 2251.7 | 2581.6 |
| <u>Exports</u> | | | | | | | |
| Food and beverages | 60.4 | 103.7 | 174.8 | 366.5 | 511.0 | 926.9 | 904.8 |
| Tobacco | 80.7 | 111.2 | 101.9 | 88.3 | 168.0 | 194.5 | 228.8 |
| Raw materials and semi-processed goods | 50.4 | 43.0 | 57.2 | 136.6 | 109.3 | 125.7 | 128.7 |
| Mining products | 15.4 | 22.6 | 45.9 | 73.1 | 142.3 | 279.7 | 291.2 |
| Fuels | - | - | 2.9 | 46.4 | 87.5 | 248.5 | 783.5 |
| Manufactures | 11.1 | 33.8 | 223.8 | 477.2 | 981.7 | 2249.5 | 2374.3 |
| Other | 16.5 | 16.6 | 5.7 | 42.5 | 30.2 | 69.1 | 60.2 |

Source: Bank of Greece (1982).

It was not competition from foreign agricultural products that induced people in the Greek countryside to move to cities or abroad in the 1960s. In fact, the relationship with the EEC facilitated Greek agricultural exports to EEC countries and helped raise agricultural incomes. One could therefore claim that fewer people left the rural sector than would have done so if Greece had not become affiliated with the EEC.

Patterns of employment growth in Greece's manufacturing industries varied according to industry, but most of them experienced faster growth in the early 1970s and stagnation or decline at the end of the association period. Tables 4.9, 4.10, 4.15, 4.18, and 4.27 suggest that strong growth in value-added domestic production, induced in part by a stronger demand for Greek exports, may have more than compensated for any negative effects of imports on employment.¹⁸

Table 4.23 Invisibles Receipts and Payments, 1961-1981
(millions of U.S. dollars)

| Year | Receipts | | | | Total Receipts |
|------|----------------|----------------------|---------|---------|----------------|
| | Transportation | Emigrant Remittances | Tourism | Other | |
| 1961 | 102.0 | 107.5 | 62.5 | 85.2 | 357.2 |
| 1962 | 108.7 | 139.1 | 76.0 | 111.5 | 435.3 |
| 1963 | 125.3 | 168.1 | 95.4 | 108.4 | 497.2 |
| 1964 | 147.2 | 176.8 | 90.9 | 102.5 | 517.4 |
| 1965 | 163.8 | 207.0 | 107.6 | 82.6 | 561.0 |
| 1966 | 182.5 | 235.0 | 143.4 | 77.7 | 638.6 |
| 1967 | 214.5 | 232.1 | 126.8 | 89.1 | 682.5 |
| 1968 | 243.3 | 239.4 | 120.3 | 117.8 | 720.8 |
| 1969 | 244.0 | 277.3 | 149.5 | 120.5 | 791.3 |
| 1970 | 276.9 | 344.6 | 193.6 | 135.9 | 951.0 |
| 1971 | 369.2 | 469.6 | 305.3 | 149.4 | 1,293.5 |
| 1972 | 435.6 | 575.3 | 392.7 | 202.9 | 1,606.5 |
| 1973 | 600.1 | 735.4 | 514.9 | 345.5 | 2,195.9 |
| 1974 | 874.4 | 645.3 | 436.0 | 504.8 | 2,460.5 |
| 1975 | 844.8 | 781.6 | 643.6 | 580.3 | 2,850.3 |
| 1976 | 914.1 | 803.2 | 823.7 | 646.8 | 3,187.8 |
| 1977 | 1,126.6 | 924.8 | 980.6 | 668.1 | 3,700.1 |
| 1978 | 1,177.2 | 984.4 | 1,326.3 | 934.7 | 4,422.6 |
| 1979 | 1,518.9 | 1,168.2 | 1,662.3 | 1,313.6 | 5,663.0 |
| 1980 | 1,815.9 | 1,083.0 | 1,733.5 | 1,527.0 | 6,159.4 |
| 1981 | 1,826.4 | 1,080.1 | 1,881.0 | 1,707.6 | 6,495.1 |

Table 4.23 (continued)

| Year | Payments | | | | Total Payments |
|------|----------------|--------|------------------------------------|-------|-------------------|
| | Transportation | Travel | Interest, Dividends, Profits | Other | |
| 1961 | 11.3 | 19.4 | 7.3 | 38.1 | 76.1 |
| 1962 | 15.3 | 21.8 | 7.7 | 42.8 | 87.6 |
| 1963 | 15.9 | 27.5 | 7.7 | 47.9 | 99.0 |
| 1964 | 15.1 | 38.6 | 9.1 | 66.5 | 129.3 |
| 1965 | 18.3 | 41.5 | 13.1 | 63.9 | 138.6 |
| 1966 | 32.7 | 40.6 | 18.6 | 62.7 | 154.6 |
| 1967 | 30.6 | 40.8 | 25.2 | 87.5 | 184.0 |
| 1968 | 30.3 | 42.4 | 30.8 | 90.5 | 194.2 |
| 1969 | 30.2 | 47.9 | 39.1 | 123.5 | 240.7 |
| 1970 | 42.0 | 55.3 | 55.9 | 113.7 | 266.9 |
| 1971 | 62.8 | 73.7 | 72.4 | 108.4 | 317.3 |
| 1972 | 77.7 | 95.8 | 82.7 | 145.9 | 402.1 |
| 1973 | 142.0 | 113.3 | 104.3 | 210.7 | 570.3 |
| 1974 | 154.1 | 130.1 | 180.8 | 255.4 | 720.4 |
| 1975 | 172.4 | 154.6 | 195.1 | 242.6 | 764.7 |
| 1976 | 144.6 | 150.7 | 219.6 | 271.9 | 786.8 |
| 1977 | 155.1 | 164.0 | 215.8 | 342.0 | 876.9 |
| 1978 | 177.6 | 223.8 | 268.7 | 367.6 | 1,037.7 |
| 1979 | 206.9 | 302.4 | 367.3 | 490.1 | 1,366.7 |
| 1980 | 265.7 | 309.1 | 465.8 | 525.4 | 1,566.0 |
| 1981 | 371.7 | 361.1 | 823.1 | 650.3 | 2,206.2 |

Source: Bank of Greece (1982).

Business Failures

Estimates made for this study showed that the number of unpaid drafts, bills, and checks tended to rise at an increasing rate until 1967 and at a diminishing rate until 1970.¹⁹ In 1971, 1973, 1974, and 1975, however, the number of such items decreased in absolute terms. The upward trend then recommenced in 1976. But the fast growth in the first part of the 1960s was not necessarily related to the reduction in import barriers. Instead, it probably reflected defaults related to the great expansion of sales of consumer goods on the installment plan, the inadequate financing and poor management of new small businesses, and rapid growth in the total volume of credit transactions. The deceleration in the growth rate of unpaid bills in the late 1960s and the absolute decrease in the early 1970s reflected the booming economy, more responsible financial behavior by consumers, and the disappearance of shaky firms.

Table 4.24 Annual Inflow of Foreign Capital, 1961-1981
(millions of U.S. dollars)

| Year | Inflow of Private Capital ^a | Commercial Credits | Loans of Central Bank | Loans of Government | Loans of Public Corporations |
|------|----------------------------------------|--------------------|-----------------------|---------------------|------------------------------|
| 1961 | 96.5 | 3.5 | 4.3 | 24.4 | 10.3 |
| 1962 | 120.1 | 28.6 | 1.2 | 1.3 | 14.3 |
| 1963 | 119.4 | 21.0 | 1.2 | 1.1 | 0.5 |
| 1964 | 187.1 | 29.5 | 1.2 | 44.4 | 3.1 |
| 1965 | 239.9 | 36.5 | 0.6 | 25.7 | 29.6 |
| 1966 | 281.3 | 43.0 | -0.2 | 83.3 | 6.7 |
| 1967 | 221.9 | 21.1 | - | 38.2 | 32.3 |
| 1968 | 323.6 | 65.1 | 31.4 | 42.0 | 25.9 |
| 1969 | 391.4 | 51.0 | 53.7 | 50.6 | 33.1 |
| 1970 | 456.3 | 82.9 | 12.8 | 30.4 | 13.7 |
| 1971 | 587.2 | 86.8 | 81.1 | 17.9 | 28.3 |
| 1972 | 997.8 | 198.2 | 174.9 | 17.8 | 122.5 |
| 1973 | 1,206.7 | 161.4 | 79.7 | 94.0 | 244.3 |
| 1974 | 1,104.9 | 125.4 | 262.5 | 115.0 | 66.8 |
| 1975 | 1,364.1 | 229.5 | 331.1 | 93.7 | 15.9 |
| 1976 | 1,277.3 | 3.8 | 60.7 | 97.0 | 81.3 |
| 1977 | 1,715.7 | 8.2 | 272.6 | 116.7 | 90.2 |
| 1978 | 1,704.0 | -70.9 | 240.1 | 183.4 | 133.7 |
| 1979 | 1,983.7 | 174.9 | 249.8 | 122.6 | 257.0 |
| 1980 | 2,769.6 | 311.0 | 748.6 | 44.4 | 354.4 |
| 1981 | 2,541.2 | -6.0 | 697.0 | 95.6 | 438.2 |

^a Business capital, nonbusiness capital, loans, and foreign exchange deposits of commercial banks.

Source: Bank of Greece (1982).

The total number of bankruptcies was higher in the 1960s than it was in the 1970s. Data on bankruptcies per 1,000 manufacturing/ handicraft firms (see Appendix Table A.10) for 1958, 1963, 1969, 1973, and 1978, show that the bankruptcy rate was highest in 1958 (1.5 per 1,000) and 1969 (1.8 per 1,000), and lowest in 1963 (1.1), 1973 (1.1), and 1978 (1.2).

The data suggest that in the initial period of association with the EEC there were increased liquidity problems, followed by higher bankruptcy rates. In the late 1960s and early 1970s, however, there was a significant improvement in company liquidity, followed by a reduction in bankruptcies. It seems unlikely that the increased liquidity difficulties and bankruptcies of the early and mid-1960s were caused by the liberalization process that started in 1961. The reduction in Greek tariffs was very gradual, and the effect on annual imports was moderate,

while domestic production and exports increased quickly. As a result, the market for domestic manufactures expanded despite the rise in imports. In addition, service and other firms which would not have been affected much by the reduction in trade barriers also showed higher bankruptcy rates during the early period of association.

Table 4.25 External Payments, 1961-1981
(millions of U.S. dollars)

| Year | Interest, Dividends, and Repatriation of Profits | Servicing of Total Debt | Servicing of Public Debt |
|------|-----------------------------------------------------------|----------------------------|-----------------------------|
| 1961 | 7.3 | 8.8 | 5.0 |
| 1962 | 7.7 | 11.0 | 7.4 |
| 1963 | 7.7 | 16.4 | 9.2 |
| 1964 | 9.1 | 16.5 | 11.7 |
| 1965 | 13.1 | 18.6 | 11.6 |
| 1966 | 18.6 | 21.2 | 13.8 |
| 1967 | 25.2 | 48.1 | 35.5 |
| 1968 | 30.8 | 60.3 | 40.6 |
| 1969 | 39.1 | 78.2 | 42.8 |
| 1970 | 55.9 | 83.0 | 48.4 |
| 1971 | 72.4 | 109.1 | 66.6 |
| 1972 | 82.7 | 157.3 | 101.3 |
| 1973 | 104.3 | 172.2 | 73.3 |
| 1974 | 180.8 | 180.6 | 98.4 |
| 1975 | 195.1 | 348.8 | 246.9 |
| 1976 | 219.6 | 348.0 | 283.6 |
| 1977 | 215.8 | 387.4 | 293.5 |
| 1978 | 268.7 | 356.9 | 294.7 |
| 1979 | 367.3 | 441.6 | 383.0 |
| 1980 | 465.8 | 499.0 | 406.5 |
| 1981 | 823.1 | 653.2 | 515.4 |

Source: Bank of Greece (1982).

Impact of Liberalization on the Government Budget

It is not possible to estimate with any accuracy the impact of trade liberalization on the Greek national budget, since it is impossible to say what would have happened during the 1961-81 period without Greece's association with the EEC. To have examined possible changes in trade and related budget magnitudes under several hypothetical sets of circumstances would have been impractical, but below are some estimates based on one possible set of circumstances.

Revenues from tariffs and taxes on imports showed continuous absolute growth throughout the association episode (Table 4.28). As a percentage of total budget revenues, however, they fluctuated, showing an upward trend until 1966 and a declining trend afterwards due to faster growth in other revenue items. From 15.3 percent in 1961 these revenues increased to 17.8 percent in 1966 and then dropped to 9.6 percent in 1981. Budget expenditures for refunding tariffs, exemptions, interest rate subsidies, and other export-related subsidies to nonagricultural sectors rose from 0.6 percent of total expenditures in 1961 to 4.5 percent in 1981 (National Statistical Service of Greece, National Accounts). Liberalization caused continuous tariff reductions while also presumably encouraging imports. The tariff reductions had negative effects on import-related budget revenues, while the encouragement of imports had positive effects. If one assumes that the percentage of imports subjected to tariffs each year without the EEC connection would have been the same as the percentage actually charged during the period, that total imports would have increased according to the import elasticity of demand observed during 1953-62, and that the average rates of import tariffs and taxes would have been those observed in 1962, import-related budget revenues would have been those shown in Table 4.28. The same table shows estimates of hypothetical budget expenditures on export incentives, based on the assumptions that during 1961-81 exports would have increased according to the same supply elasticity observed between 1953 and 1962 even if Greece had not been associated with the EEC, and that the rate of subsidization of nonagricultural exports²⁰ would have been unchanged since 1962. In reality, one cannot know what Greece would have done about exports without its association with the EEC. If one assumes that exports would not have been as necessary because there were fewer imports, export subsidies would have been smaller. Alternatively, one might assume that imports of fuels, capital goods, raw materials, and semi-processed goods would have increased rapidly even if Greece had adopted an import-substitution strategy. Rapid growth of exports would then have been required to prevent a huge deficit in the trade balance. Indeed, one could assume that without free access to the Common Market, Greece might have chosen costlier export incentives.

On the basis of the assumptions mentioned above, we find that in 1975 the total amount collected from tariffs and taxes on imports was 13.8 billion drachmas less than the amount that would have been collected under our assumptions, while actual export subsidy payments exceeded hypothetical payments by about 5 billion drachmas. In the same year, revenues and expenditures of the ordinary budget amounted to a bit more than 137 billion drachmas. The combined effect of lower import-related revenues and higher export-related expenditures was equivalent to almost 14 percent of actual revenues or expenditures. The effect became stronger in the late 1970s, but it did not change much in comparison to the total budget. In 1979, for example, the difference between actual and hypothetical import-related revenues was nearly 41 billion drachmas, while the difference in export-subsidy payments was nearly 15 billion drachmas, but the combined effect was equivalent to less than 13 percent of total ordinary budget revenues.

Appropriateness of Circumstances for Sustaining Liberalization

In the early 1960s, soon after Greece had become an associate member of the EEC, all of the 24 OECD countries had satisfactory growth

rates (see Table 4.1); some countries, in fact, had outstanding growth rates. These circumstances facilitated the growth of Greek exports.

As this chapter indicates, favorable circumstances for Greece lasted until 1973. They included rapid economic growth, rising employment in industry and services, drastic transformations in the structures of production and trade, cautious monetary and fiscal policies and expansion of the public sector, remarkable price and exchange rate stability, increasing surpluses in the balance of invisibles and the capital account, and growing foreign exchange reserves. These factors softened the undesirable side effects that liberalization usually has on production, employment, the balance of payments, and the budget. Changes in Greece's political circumstances did nothing to upset the movement toward liberalization.

Table 4.26 External Debt of Greece
(millions of U.S. dollars and percent)

| Year | Total Debt Outstanding (TDO) | TDO/ Total Exports | TDO/GNP | Total Debt Service/ Exports of Goods and Services | Total Debt Service/GNP |
|------|------------------------------|--------------------|---------|---------------------------------------------------|------------------------|
| 1960 | 103.0 | 26.0 | 2.9 | 2.0 | 0.2 |
| 1961 | 101.0 | 21.7 | 2.5 | 1.6 | 0.2 |
| 1962 | 335.2 | 65.9 | 7.8 | 3.9 | 0.5 |
| 1963 | 387.1 | 61.4 | 8.1 | 2.9 | 0.4 |
| 1964 | 494.1 | 79.7 | 9.2 | 3.1 | 0.4 |
| 1965 | 525.6 | 77.0 | 8.6 | 4.0 | 0.5 |
| 1966 | 588.3 | 82.4 | 8.7 | 5.4 | 0.6 |
| 1967 | 627.3 | 70.5 | 8.5 | 5.9 | 0.7 |
| 1968 | 720.2 | 75.4 | 9.0 | 5.8 | 0.7 |
| 1969 | 905.8 | 86.7 | 10.0 | 7.2 | 0.8 |
| 1970 | 1,082.7 | 89.6 | 10.7 | 8.4 | 1.0 |
| 1971 | 1,368.6 | 94.1 | 12.1 | 10.1 | 1.3 |
| 1972 | 1,794.7 | 95.8 | 13.9 | 9.2 | 1.3 |
| 1973 | 2,448.2 | 90.7 | 14.6 | 9.8 | 1.6 |
| 1974 | 2,857.0 | 80.8 | 14.7 | 9.8 | 1.8 |
| 1975 | 3,078.1 | 77.3 | 14.4 | 11.5 | 2.1 |
| 1976 | 3,123.7 | 70.3 | 13.5 | 11.2 | 2.1 |
| 1977 | 3,551.2 | 67.0 | 13.2 | 10.1 | 2.0 |
| 1978 | 4,010.2 | 62.2 | 12.3 | 9.0 | 1.8 |
| 1979 | 4,787.0 | 56.8 | 12.0 | 8.9 | 1.9 |
| 1980 | 6,515.8 | 71.1 | 15.7 | 10.0 | 2.2 |
| 1981 | 7,539.1 | 75.3 | 19.9 | 13.2 | 3.5 |

Table 4.26 (continued)

| Year | Total Debt Service/ Aggregate Foreign Exchange Receipts | Interest Payments/ Exports of Goods and Services | Interest Payments/ GNP | Interest Payments/ Aggregate Foreign Exchange Receipts | Reserves/ TDO | Reserves/ Imports of Goods and Services |
|------|---------------------------------------------------------------|--------------------------------------------------------|---------------------------|--------------------------------------------------------------|------------------|--------------------------------------------------|
| 1960 | 1.4 | 0.3 | 0.04 | 0.2 | 231.6 | 4.1 |
| 1961 | 1.1 | 0.3 | 0.03 | 0.2 | 263.0 | 4.0 |
| 1962 | 2.5 | 0.6 | 0.07 | 0.4 | 85.0 | 3.8 |
| 1963 | 2.0 | 0.5 | 0.06 | 0.3 | 75.6 | 3.4 |
| 1964 | 1.9 | 0.8 | 0.1 | 0.5 | 56.9 | 2.8 |
| 1965 | 2.5 | 1.6 | 0.2 | 1.0 | 47.6 | 2.1 |
| 1966 | 3.0 | 2.1 | 0.2 | 1.1 | 47.0 | 2.1 |
| 1967 | 4.1 | 1.9 | 0.2 | 1.3 | 45.6 | 2.1 |
| 1968 | 3.8 | 2.3 | 0.3 | 1.5 | 44.7 | 2.2 |
| 1969 | 4.6 | 2.8 | 0.3 | 1.8 | 34.9 | 2.5 |
| 1970 | 5.3 | 3.4 | 0.4 | 2.1 | 28.6 | 1.6 |
| 1971 | 6.1 | 3.6 | 0.5 | 2.2 | 37.0 | 2.2 |
| 1972 | 5.3 | 3.3 | 0.5 | 1.9 | 57.5 | 3.6 |
| 1973 | 6.0 | 3.4 | 0.5 | 2.0 | 42.8 | 2.3 |
| 1974 | 6.7 | 4.1 | 0.7 | 2.8 | 32.8 | 1.7 |
| 1975 | 7.8 | 4.3 | 0.8 | 2.9 | 36.1 | 1.9 |
| 1976 | 7.8 | 4.0 | 0.8 | 2.8 | 32.8 | 1.6 |
| 1977 | 7.1 | 3.0 | 0.6 | 2.1 | 34.0 | 1.7 |
| 1978 | 6.6 | 3.2 | 0.6 | 2.4 | 36.8 | 1.8 |
| 1979 | 6.7 | 3.5 | 0.7 | 2.7 | 31.7 | 1.3 |
| 1980 | 7.3 | 4.5 | 1.0 | 3.3 | 23.3 | 1.2 |
| 1981 | 10.1 | 7.1 | 1.9 | 5.4 | 15.8 | 0.9 |

Source: World Bank, External Debt Tables; estimates made from data from Bank of Greece (1982); and National Statistical Service of Greece.

Assessment of Liberalization during the 1961-1981 Period

Despite delays in implementation, the initial period of association with the EEC can be considered as one of successful liberalization. After a small rise in protectionism in 1961, attempts to protect domestic products began to decline. Tariffs on imports from the EEC were nearly eliminated, while tariffs on imports from third countries were reduced. QRs and bilateral trade arrangements were phased out, and the foreign trade sector expanded substantially. Exports and imports grew faster than GDP, with both ratios nearly doubling between 1961 and 1981. The dollar value of exports and imports increased by a bit more than 20

times. Because exports in 1961 were equal to only 31.2 percent of imports, the trade gap increased. On average, Greek foreign trade grew faster than world trade.

The establishment of many foreign-owned manufacturing firms, in combination with strong incentives to export goods, caused the share of manufactured exports to rise during 1961-81 from 18.9 to 68.7 percent of total exports. Most of Greece's exports today consist of goods that were not produced at all in Greece in the 1950s. Like exports of goods, exports of services expanded considerably, particularly in the 1970s.

Table 4.27 Average Annual Rate of Growth of Value Added per Employed Person by Sector, 1961-1980

| Sector | 1961-80 (in rank order) | 1961-69 (by sector) | 1970-74 (by sector) | 1975-80 (by sector) |
|-------------------------------|----------------------------|------------------------|------------------------|------------------------|
| Tobacco | 10.4 | 19.4 | 6.4 | 4.5 |
| Chemicals | 10.1 | 19.5 | 3.4 | 2.9 |
| Basic metal industries | 9.8 | 23.2 | -1.4 | 0.6 |
| Miscellaneous industries | 7.7 | 11.4 | 1.4 | 7.5 |
| Paper | 7.0 | 8.4 | 6.2 | 9.7 |
| Non-metallic mineral products | 6.4 | 7.3 | 2.6 | 6.7 |
| Textiles | 6.3 | 9.3 | 4.4 | 3.0 |
| <u>All Manufacturing</u> | 5.8 | 8.6 | 0.6 | 6.2 |
| Agriculture | 5.3 | 6.2 | 5.9 | 2.8 |
| Beverages | 4.4 | 3.2 | 1.8 | 7.5 |
| Electric machinery | 4.3 | 4.8 | 1.0 | 8.9 |
| Food | 2.7 | 2.4 | 1.5 | 4.1 |
| Oil derivatives | 3.2 | 10.7 | -4.2 | 0.6 |
| Wood and cork products | 2.5 | 6.0 | -5.0 | 7.3 |
| Printing | 2.3 | 9.4 | -1.0 | -1.7 |
| Furniture | 2.1 | 10.8 | -4.0 | -3.5 |
| Rubber and plastic products | 2.0 | 0.5 | 3.8 | -1.4 |
| Transport equipment | 1.9 | 4.3 | -5.5 | 1.3 |
| Metal products | 1.6 | 3.8 | -0.9 | 4.8 |
| Leather | 1.5 | 2.4 | 4.8 | -9.4 |
| Machinery | -1.4 | -3.7 | -0.8 | -1.2 |
| Clothing and footwear | -2.1 | 1.1 | -6.8 | -2.9 |

Source: Estimates made for this study from data from NSSG, Annual Industrial Survey (various issues).

Greece's initial period of association with the EEC countries encouraged a technological upgrading of the economy and attracted foreign investments in Greece, whose low labor costs enabled manufacturers to produce goods that could enter EEC countries duty free. It is doubtful that the Greek economy would have been transformed from a basically agricultural one to one producing and exporting mainly manufactures without the EEC relationship. Given the relatively small size of Greece's domestic market, the limited amount of domestic capital, and the necessity of importing investment goods and know-how, the prospects for a transformation of Greece's inward-oriented economy would have been rather small otherwise.

Furthermore, Greece's initial association with the EEC did not bring with it such undesirable side effects as high rates of unemployment and business failures, budgetary difficulties, or a reduction in Greece's foreign exchange reserves.

Table 4.28 Budget Magnitudes, Actual and Hypothetical

| Year | Collected | | | | Hypothetical | | Export Subsidies ^a | |
|------|------------------------|----------------------------------------|------------------------|--------------------------------------|------------------------|------------------------|-------------------------------|------------------------|
| | Tariffs | | Import Taxes | | Tariffs | Import Taxes | Actual | Hypothetical |
| | (billions of drachmas) | (as % of imports charged with tariffs) | (billions of drachmas) | (as % of imports charged with taxes) | (billions of drachmas) | (billions of drachmas) | (billions of drachmas) | (billions of drachmas) |
| 1960 | 2.0 | 19.9 | n.a. | n.a. | 2.0 | n.a. | 0.1 | 0.1 |
| 1961 | 2.2 | 19.7 | 0.7 | 6.4 | 2.2 | 0.7 | 0.1 | 0.1 |
| 1962 | 2.4 | 20.3 | 0.8 | 6.7 | 2.4 | 0.8 | 0.2 | 0.1 |
| 1963 | 2.7 | 19.7 | 1.0 | 7.1 | 2.9 | 0.9 | 0.3 | 0.1 |
| 1964 | 3.1 | 18.9 | 1.3 | 7.9 | 3.3 | 1.1 | 0.3 | 0.2 |
| 1965 | 3.7 | 18.4 | 1.6 | 7.8 | 4.0 | 1.3 | 0.3 | 0.2 |
| 1966 | 4.1 | 17.6 | 2.2 | 9.4 | 4.6 | 1.5 | 0.4 | 0.2 |
| 1967 | 4.3 | 17.6 | 2.4 | 9.6 | 4.9 | 1.6 | 0.5 | 0.2 |
| 1968 | 4.4 | 16.8 | 2.7 | 10.2 | 5.0 | 1.6 | 0.7 | 0.3 |
| 1969 | 4.8 | 16.6 | 2.9 | 10.0 | 5.7 | 1.8 | 0.9 | 0.3 |
| 1970 | 4.7 | 15.4 | 3.1 | 10.2 | 6.6 | 2.1 | 1.2 | 0.3 |
| 1971 | 4.9 | 15.2 | 3.3 | 10.2 | 7.7 | 2.5 | 1.6 | 0.4 |
| 1972 | 5.5 | 13.8 | 4.2 | 10.4 | 9.2 | 3.0 | 2.5 | 0.4 |
| 1973 | 7.0 | 12.2 | 6.0 | 10.5 | 14.3 | 4.7 | 4.6 | 0.6 |
| 1974 | 6.9 | 11.1 | 6.4 | 10.2 | 19.3 | 6.4 | 5.2 | 0.9 |
| 1975 | 7.6 | 10.6 | 8.1 | 11.3 | 22.2 | 7.3 | 6.4 | 1.3 |
| 1976 | 8.4 | 9.1 | 10.5 | 11.4 | 27.8 | 9.2 | 8.5 | 1.6 |
| 1977 | 10.1 | 8.1 | 12.3 | 9.8 | 31.9 | 10.5 | 11.0 | 1.7 |
| 1978 | 12.7 | 8.7 | 14.4 | 9.8 | 38.5 | 12.7 | 12.4 | 1.9 |
| 1979 | 15.7 | 8.9 | 18.6 | 10.6 | 45.6 | 15.0 | 16.9 | 2.3 |
| 1980 | n.a. | n.a. | n.a. | n.a. | 62.6 | 20.7 | 21.6 | 3.0 |
| 1981 | n.a. | n.a. | n.a. | n.a. | 102.3 | 33.7 | 30.6 | 3.1 |

^a Export subsidies for nonagricultural exports.

Note: The hypothetical tariff and import tax revenues have been estimated under the assumptions that imports since 1962 would have grown according to their income (GNP) demand elasticity during the preassociation period (1953-61, that the percentage of imports charged with tariffs and taxes would have been the same as the one observed in practice, and that the average rates of tariffs and import taxes would have been those actually observed in 1982. Hypothetical expenditures for export subsidization were estimated under the assumptions that exports would have grown according to their supply elasticity observed in 1953-61 and that the average rate of subsidization after 1962 would have been the one actually observed in that year.

Source: Estimates made for this study with data from NSSG, Statistical Yearbook of Greece, and National Accounts (various issues).

FOOTNOTES TO CHAPTER 4

1. Various exemptions from the personal income tax were abolished (1967), tax rates for low- and middle-income families were reduced, and exemptions for dependents (spouse and children) were raised (1971).
2. In 1975 the government increased the progressivity of the tax system and introduced taxation of real property. The share of public expenditures for health, education, and subsidies to low-income families gradually rose from 3.7 percent of national income in 1975 to 5.4 percent in 1982.
3. Although Greece offered almost the same fiscal advantages to shipowners as many "convenience flag" countries, the Greek flag is not seen internationally as a flag of convenience. Not all Greek-owned vessels were transferred to Greek registration, but by the 1980s the great majority of them were. See Tzoannos (1980).
4. The 1970 capital/output ratio was used because it was available from a study made by the Center of Planning and Economic Research. For an alternative method of estimation, see Vernardakis (1985, pp. 125-143).
5. According to OECD estimates for 1961 to 1970, the annual average consumer price increase was 2.1 percent in Greece, 3.3 percent in the entire OECD and 3.2 percent in the group of seven most industrialized OECD countries (OECD 1982).
6. The OECD estimates for 1971 to 1979 show an average price increase of 13.1 percent in Greece, 8.6 percent in the entire OECD, and 8.1 percent in the seven most industrialized OECD countries.
7. The OECD estimated that the average annual inflation rate during the period 1980-82 was 23.5 percent in Greece, 10.4 percent in the OECD as a whole, and 9.8 percent in the seven most industrialized OECD countries.
8. The interest rate paid on such blocked deposits is several percentage points below that paid on normal deposits. The government can borrow from such funds, at an interest rate below the market level. This policy constitutes in effect a hidden tax on blocked deposits.
9. The number of people engaged in agriculture, fishing, and logging dropped from almost two million in 1961 to little more than one million in 1981. Meanwhile, the number of people engaged in manufacturing rose from 488,600 in 1961 to 672,300 in 1981. See National Statistical Service of Greece, Statistical Yearbook (various issues).
10. Prolonged strikes at some firms prevented completion of important export contracts. After months of unrest, some of these firms were taken over by the state. Today, these firms remain in business but operate with large deficits.

11. In addition to high employment rates, other factors responsible for the low total amount of unemployment compensation payments were the strict eligibility requirements for receiving unemployment benefits and the small percentage of the labor force covered by unemployment insurance.
12. Salaries grew less quickly than wages in every year except 1977. Expanding industrial activity in that decade increased the demand for blue-collar labor and its remuneration. Labor market conditions for white-collar personnel were never as tight.
13. The general index of wholesale prices was used for MINF, MATE, and TOTM because it was not possible to construct separate indexes for these categories. The wholesale price index used for FOOD was the index for domestic food products (excluding beverages); for RAWM the index for primary production was used, while for CHEP the index for chemical products was used. The index for final domestic manufacturing products was used for MANF.
14. This could be attributed to the fact that it was mainly the prices of manufactures, not of agricultural products, that were affected by reductions in tariffs.
15. Using different groupings of imports during the period 1958-73, Prodromidis and Anastasakou (1981) found that real GDP, disposable income, industrial production, total investment, and value added were the main factors explaining imports of different goods. Lagged dependent variables appeared to play some role in certain groups of imports, while changes in relative prices (including changes in tariff and tax rates) played a role in other groups.
16. Only equations using annual data are shown because on the whole they gave better statistical results. See Voloudakis and Fylactos (1982, pp. 53-77).
17. Corporate tax allowances related to the value of exports, which constitute another important export incentive, could not be included in the estimates of nominal protection for export sales because of measurement difficulties.
18. A simple regression of changes in employment on changes in imports/value of product produced rather weak results for many industries.
19. In author's unpublished report to the World Bank, 1986.
20. The emphasis here is subsidies for nonagricultural exports because agricultural exports are assisted through subsidies designed to keep production costs down.

CHAPTER 5

EPILOGUE

This study shows that Greece has been moving toward greater trade liberalization for more than thirty years. Certain characteristics of this change from a protected economy are worth emphasizing:

1. Despite some minor setbacks caused by inappropriate government responses to temporary problems, there seems to have been a continuing desire to liberalize the economy. The liberalization effort of 1953 and the period of associate membership in the EEC were both the work of governments which were strong and stable, and both had the approval (or at least the tolerance) of other major political parties, most labor unions, most professional associations, and the public. The two governments that implemented greater liberalization were succeeded by governments that also wanted to open up the Greek economy. It is only in the last few years that certain political parties and a segment of the population have questioned the desirability of Greece's membership in the EEC.

2. Trade liberalization has been seen as a way to achieve more general objectives. In 1953 it was perceived as a necessary precondition for the stabilization and development of the economy. In 1961 it was expected not only to help develop and modernize the economy but also to strengthen Greece's political, military, and cultural ties with the West. Because it was seen as part of the broader and socially desirable objective of strengthening Greece's ties with the countries of Western Europe, trade liberalization became more acceptable to society.

3. The 1953 reform was characterized by boldness and suddenness, and later suffered minor reversals. The liberalization that occurred as part of the initial association with the EEC was very gradual and gave the Greek economy ample time to adjust to changing conditions.

4. Liberalization was broad and deep. Measures designed to protect Greek products were substantially reduced, imports and exports both grew extensively, and the structure of trade changed drastically. Manufacturing exports, which had been very insignificant in the early 1950s, increased tremendously, both in absolute terms and as a share of total exports. This increase was assisted in the 1970s by strong export promotion measures. In the first, and short, liberalization episode of 1953 there was limited reallocation of resources. The long relationship with the EEC, on the other hand, has brought about a drastic reorientation of the economy's resources.

5. In spite of economic problems in certain years, the Greek economy grew during both periods of trade liberalization. Growth has been particularly strong during the period of association with the EEC. Emigration, coupled with growth in other sectors of the economy, has steadily reduced the labor force in the agricultural sector. The government has been able, until recently, to ignore the negative effects of liberalization on the rate of employment, since unemployment did not become an important issue until the end of the 1970s.

6. Fast growth, in combination with the smallness of the industrial sector in 1953, meant that the economy could adjust to freer trade without much upheaval.

7. During the mid-1950s and early 1960s, Greece's monetary and fiscal policies were aimed at achieving stable growth. Inflation was a problem only in the earliest stages of the first episode and in the years immediately after 1973. During the intervening twenty years there was remarkable price stability. Domestic economic policies only began to contribute to inflation in the mid-1970s, following the international increase in oil prices. Until then, the ordinary government budget ran a surplus in most years. Deficits in the total budget were due to the need to finance public investments.

8. Greece needed little financial assistance from international organizations and foreign private banks from the mid-1950s to the mid-1970s. Public external borrowing only became important after the oil-price increase of 1973.

9. Despite a widening trade deficit, Greece's foreign exchange reserves have risen in most years. Increases in invisibles earnings and net inflows of foreign capital together have usually exceeded total trade deficits. Emigrant remittances have played an important role in this rise in foreign reserves, as have shipping remittances. The latter have had only slight costs, since they originate in a sector that operates and is financed outside Greece. Foreign exchange earnings from tourism have gradually become important, even though the production of tourist services involves considerable costs through its effects on foreign exchange. Net transfers of private capital have been important, particularly in the 1960s and early 1970s, but dividend payments and the payment of interest on foreign loans gradually became a significant drain on foreign exchange.

10. The stability of Greece's exchange rates has been remarkable. Only in the 1980s have large and frequent adjustments of exchange rates been necessary.

11. There is no evidence that liberalization as such caused government budget problems or problems for the Greek economy as a whole.

The Relation of Trade Liberalization to Recent Economic Difficulties

The economic problems which began after 1973 in Greece (inflation, budget and balance-of-payments difficulties, fast-rising public debt, growing unemployment) became acute in the 1980s. Some Greek politicians and members of the press have argued that the problems can be traced to Greece's initial association and eventual full membership in the EEC. These arguments have been well received by those who find it more attractive to believe that blame for the downturn should be placed on a "bad" outsider (the EEC) rather than on domestic policies.

But if liberalization was at the root of the country's current economic problems, those problems would have begun to appear in 1953, when protection began to be dismantled. The effects of liberalization had

largely been absorbed before Greece's recent economic troubles began. The difficulties experienced in the later 1970s and early 1980s were mainly due to such events as the Cyprus problem, the shift towards inflationary domestic policies, increases in the price of oil, and the worldwide recession. The adverse effect of the oil-price increase on Greece's economy would have been even worse if Greece had not liberalized her external transactions. Since oil is imported, expanding export earnings helped to soften the sharp increase in oil prices. The international recession of the 1970s and early 1980s would have reduced earnings of foreign exchange from tourism, shipping, and emigrant remittances, with or without trade liberalization. Without the association with the EEC, followed by full EEC membership, the number of Greek workers in EEC countries would have been smaller, and emigrant remittances would have been less. Greece's relation with the EEC undoubtedly helped Greece's export trade, which grew considerably even during the recession.

If domestic economic policies in the later 1970s had not become increasingly unsuitable for an open economy, the external disruptions would still have caused serious problems. However, with the momentum the economy had gained earlier it could have been possible to absorb these shocks as it did almost immediately after 1973-74 and could have performed reasonably well. But the public had become accustomed to fast growth and price and foreign exchange stability. Thus, the government came under pressure from various groups to increase transfer payments (pensions, subsidies to farmers, etc.) and to make other expenditures that did not contribute to economic growth.

The dangers associated with the absence of policies in the mid-1970s for sustaining liberalization, price stability, and economic growth escaped the attention of policymakers. While actively supporting trade liberalization and pressing for full EEC membership, the government also yielded to group pressures for policies that conflicted with trade liberalization. The outcome included fast expansion of nonproductive public expenditures, a decrease in public investment in the infrastructure, and rapidly rising budget deficits. The chief characteristics of the Greek economy in the 1980s have been higher rates of inflation, a deceleration of private investment, a decline of productivity, and deterioration of the work ethos and labor discipline.

The socialist government elected in 1981 took numerous steps that were unsuitable for a liberalized economy. The new government raised minimum wages and salaries by 25 percent, strengthened trade unionism, substantially increased transfer payments and expenditures on social projects, and expanded public ownership or control of manufacturing and service firms. Regardless of their social desirability, these steps had adverse effects on labor costs, the work ethos, the inflation rate, the competitiveness of firms, the government's budget, and the balance of payments. Measures to attract more private investment have not yet proved effective in dispelling Greek and foreign investors' reservations, and private investment has remained low.

Thus, there was a basic conflict after 1975. While the Greek economy was moving toward greater liberalization, economic measures were being adopted that were unsuitable for sustaining an open economy.

Greece's current economic and balance of payments difficulties are the culmination of that paradoxical situation. In the fall of 1985 the Greek government found it necessary to impose temporary restrictive measures (mainly a system of import deposits and the use of administrative measures to discourage imports) and increase its control over the economy. This has inevitably created conflict with the EEC and with other countries.

In the fall of 1986 the Greek government obtained a stabilization loan from the EEC and established a program of austerity aimed mainly at reducing the inflation rate and the budget and trade deficits. So far, these measures have had limited success. Unless the government reduces the size of the inefficient public sector, and encourages productive private investments, the conflict between Greece's treaty obligations to the EEC and its actual policies will probably become more intense. For the moment the EEC has chosen to tolerate restrictive measures and often turns a blind eye to Greek violations of the Community's goals. If current trends continue, however, the EEC and Greece may reach the point of open disagreement.

APPENDIX TABLES

Table A.1 Number of Products in Greek Import Tables, 1953-1975

| | 1953 | 1956 | 1958 | 1961 | 1975 |
|--------------------|--------------------|------|------|-------|----------------------------------------------------|
| Table | Number of Products | | | | |
| pa | - | 93 | 92 | 117 | 376 |
| Fb | - | 10 | 17 | 31 | all products not in Tables P, F-50 and F-100 |
| F-50 ^c | - | 58 | over | 2,000 | 371 |
| F-100 ^d | - | 31 | 89 | 118 | 273 |
| A ^e | 10 | 9 | 9 | 40 | 81 |
| B ^f | 45 | 45 | 45 | 45 | 47 |

a Imports allowed on credit and without import deposit.

b Imports allowed without import deposit but not on credit.

c Imports allowed with 50 to 70 percent import deposit (depending on year).

d Imports allowed with 100 to 140 percent import deposit (depending on year).

e Products subject to QRs.

f Table of QRs/licensing.

Source: Ministry of Commerce.

Table A.2 Actual and Imputed Payments for Export Subsidies, and Total Exports, 1953-1982
(millions of drachmas)

| Year | Duties and Taxes on Imported Inputs ^a | Refund of Stamp Tax ^a | Subsidy of Currency Commission 1970 ^b | Tax Deduction from Export Earnings for Export Penetration Costs |
|------|--------------------------------------------------|----------------------------------|--------------------------------------------------|-----------------------------------------------------------------|
| 1953 | n.a. | 0 | 0 | 0 |
| 1954 | 3.1 | 0 | 0 | 0 |
| 1955 | 7.6 | 0 | 0 | 0 |
| 1956 | 10.7 | 0 | 0 | 33.0 |
| 1957 | 11.1 | 0 | 0 | 50.0 |
| 1958 | 12.4 | 0 | 0 | 62.5 |
| 1959 | 14.8 | 0 | 0 | 71.6 |
| 1960 | 18.4 | 0 | 0 | 82.1 |
| 1961 | 22.5 | 0 | 0 | 94.1 |
| 1962 | 27.6 | 0 | 74.1 | 107.9 |
| 1963 | 33.8 | 0 | 93.3 | 129.5 |
| 1964 | 41.4 | 0 | 110.1 | 138.9 |
| 1965 | 50.7 | 0 | 119.0 | 150.0 |
| 1966 | 62.1 | 0 | 129.0 | 179.2 |
| 1967 | 76.1 | 0 | 148.7 | 213.5 |
| 1968 | 93.2 | 0 | 335.0 | 197.0 |
| 1969 | 114.2 | 0 | 528.8 | 237.1 |
| 1970 | 140.0 | 84.4 | 686.9 | 277.6 |
| 1971 | 171.5 | 175.4 | 868.0 | 278.3 |
| 1972 | 210.2 | 392.0 | 1,363.1 | 378.3 |
| 1973 | 257.6 | 573.6 | 2,031.2 | 555.8 |
| 1974 | 316.5 | 773.7 | 2,961.6 | 854.4 |
| 1975 | 383.7 | 989.0 | 3,959.2 | 556.5 |
| 1976 | 351.7 | 1,305.0 | 5,336.6 | 742.0 |
| 1977 | 317.5 | 1,792.5 | 6,794.7 | 1,168.6 |
| 1978 | 437.0 | 2,486.1 | 6,557.9 | 1,359.3 |
| 1979 | 423.8 | 2,873.8 | 8,088.0 | 1,550.0 |
| 1980 | 380.7 | 3,065.2 | 8,362.0 | 2,292.0 |
| 1981 | 274.8 | 3,112.9 | 14,458.0 | 2,569.0 |
| 1982 | 488.5 | 5,316.7 | 15,900.0 | 3,005.9 |

Table A.2 (continued)

| Year | Equivalent of Interest Rate Differential ^c | Total Non-Agricultural Export Subsidies | Subsidies to Agricultural Sector | Total Value of All Exports |
|------|-------------------------------------------------------|-----------------------------------------|----------------------------------|----------------------------|
| 1953 | 9.1 | 9.1 | 10.0 | 3,397 |
| 1954 | 12.3 | 15.3 | 10.0 | 4,556 |
| 1955 | 0 ^d | 7.6 | 11.7 | 5,484 |
| 1956 | 15.3 | 59.0 | 10.1 | 5,698 |
| 1957 | 17.7 | 78.7 | 16.7 | 6,585 |
| 1958 | 18.7 | 93.6 | 10.9 | 6,953 |
| 1959 | 16.5 | 102.9 | 6.8 | 6,127 |
| 1960 | 16.4 | 116.9 | 21.8 | 6,096 |
| 1961 | 18.0 | 134.6 | 47.4 | 6,700 |
| 1962 | 20.2 | 229.8 | 84.4 | 7,503 |
| 1963 | 27.8 | 284.4 | 106.2 | 8,703 |
| 1964 | 29.1 | 319.5 | 157.4 | 9,256 |
| 1965 | 24.3 | 344.0 | 221.1 | 9,833 |
| 1966 | 28.7 | 399.0 | 320.1 | 12,179 |
| 1967 | 38.5 | 476.8 | 419.8 | 14,856 |
| 1968 | 39.8 | 665.0 | 444.5 | 14,047 |
| 1969 | 47.1 | 994.3 | 366.7 | 16,608 |
| 1970 | 64.4 | 1,253.3 | 307.8 | 19,276 |
| 1971 | 95.3 | 1,588.5 | 422.3 | 19,874 |
| 1972 | 138.1 | 2,481.7 | 422.3 | 26,125 |
| 1973 | 190.6 | 4,608.8 | 529.2 | 42,811 |
| 1974 | 382.8 | 5,219.0 | 1,040.4 | 60,890 |
| 1975 | 552.8 | 6,441.9 | 1,667.1 | 74,441 |
| 1976 | 749.7 | 8,484.9 | 1,617.8 | 93,811 |
| 1977 | 888.2 | 10,961.4 | 2,482.8 | 101,330 |
| 1978 | 1,546.6 | 12,386.9 | 2,551.1 | 123,727 |
| 1979 | 3,949.7 | 16,885.4 | 2,543.5 | 144,238 |
| 1980 | 7,725.8 | 21,825.6 | 3,184.7 | 221,108 |
| 1981 | 10,152.1 | 30,566.4 | 4,381.2 | 237,928 |
| 1982 | 11,466.7 | 36,177.8 | n.a. | 286,281 |

n.a. = not available.

^a Refundings or exemptions.

^b Figures for 1962 to 1969 were result of previous subsidy program.

^c Difference between normal interest rate and low interest rate charged on export credit loans.

^d Not allowed in 1955.

Sources: Ministry of Finance, Bulletin of Customs' Directorate (various issues); Bank of Greece, unpublished data; NSSG, Statistical Yearbook of Greece (various issues); Voloudakis and Fylactos, unpublished study (1982).

Table A.3 Trade Ratios (Exports/Imports) by Major Product Group, 1955-1982

| Product Group | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | 1962 |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Food ^a | 139.7 | 82.7 | 163.1 | 217.8 | 190.1 | 138.8 | 141.1 | 161.5 |
| Raw materials ^b | n.a. | n.a. | 36.9 | 42.2 | 52.3 | 45.7 | 50.0 | 51.9 |
| Manufactures ^c | n.a. | n.a. | 4.0 | 2.2 | 3.0 | 3.5 | 3.1 | 3.5 |
| Fuels, lubricants ^d | n.a. |
| Total ^e | n.a. | n.a. | 46.9 | 49.4 | 46.7 | 42.0 | 41.8 | 39.9 |
| Total excluding fuels | n.a. |
| Product Group | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 |
| Food ^a | 167.4 | 140.9 | 115.9 | 124.3 | 114.1 | 116.6 | 60.1 | 95.9 |
| Raw materials ^b | 34.3 | 35.7 | 33.6 | 28.1 | 31.8 | 29.7 | 28.9 | 23.6 |
| Manufactures ^c | 12.6 | 15.8 | 22.2 | 22.9 | 18.6 | 21.7 | 22.4 | 37.0 |
| Fuels, lubricants ^d | 2.9 | 9.3 | 4.2 | 2.5 | 4.3 | 7.7 | 11.2 | 14.3 |
| Total ^e | 39.4 | 37.6 | 37.4 | 36.1 | 32.4 | 34.2 | 30.4 | 38.1 |
| Total excluding fuels | 41.2 | 39.1 | 38.8 | 37.5 | 33.5 | 35.6 | 31.0 | 41.2 |

(continued)

Table A.3 (continued)

| Product Group | 1963 | 1964 | 1965 | 1966 | | | | |
|--------------------------------|-------|------|-------|-------|--|--|--|--|
| Food ^a | 151.1 | 92.7 | 121.3 | 141.3 | | | | |
| Raw materials ^b | 44.6 | 40.7 | 28.4 | 31.8 | | | | |
| Manufactures ^c | 2.9 | 4.0 | 6.4 | 8.7 | | | | |
| Fuels, lubricants ^d | n.a. | n.a. | n.a. | 3.4 | | | | |
| Total ^e | 41.8 | 37.1 | 32.6 | 35.1 | | | | |
| Total excluding fuels | n.a. | n.a. | n.a. | 36.2 | | | | |

| Product Group | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 |
|--------------------------------|-------|-------|-------|-------|------|------|------|------|
| Food ^a | 123.4 | 113.0 | 116.8 | 107.4 | 97.6 | 92.8 | 88.0 | 77.5 |
| Raw materials ^b | 28.0 | 27.6 | 24.0 | 23.7 | 23.2 | 20.7 | 25.9 | 25.2 |
| Manufactures ^c | 35.8 | 39.5 | 36.8 | 38.2 | 38.7 | 47.9 | 49.2 | 44.1 |
| Fuels, lubricants ^d | 10.4 | 7.2 | 9.6 | 19.1 | 20.6 | 8.3 | 21.3 | 23.3 |
| Total ^e | 40.0 | 40.1 | 39.3 | 40.8 | 38.9 | 37.5 | 41.6 | 41.1 |
| Total excluding fuels | 46.9 | 45.5 | 42.8 | 42.9 | 42.0 | 46.0 | 49.1 | 46.0 |

n.a. = not available.

^a Exports included food, beverages, and tobacco, while imports included food only.

^b Exports included raw materials, minerals, and semi-processed products, while imports included raw materials.

^c Exports refer to manufactures, while imports refer to sum of manufactures (consumer) and capital goods.

^d Includes also the value of miscellaneous non-classified products not appearing in the table.

^e It also includes the value of miscellaneous nonclassified products not appearing in the table.

Source: NSSG, Statistical Yearbook of Greece (various issues).

Table A.4 Nominal and Effective Protection Estimated from Collected Tariff and Excise Tax Revenues and Realized Imports, Selected Years

| Industry | 1961 | | 1970 | | 1976 | | 1979 | |
|----------------------------------|---------|-----------|---------|-----------|---------|-----------|----------------|----------------|
| | Nominal | Effective | Nominal | Effective | Nominal | Effective | Nominal | Effective |
| Agriculture | 13.7 | 19.5 | 15.5 | 22.1 | 13.3 | 19.0 | 18.1 | 25.8 |
| Mining | 3.3 | 5.3 | 2.6 | 4.2 | 3.9 | 6.3 | 3.8 | 6.2 |
| Manufacturing ^a | 8.8 | 15.9 | 7.5 | 17.8 | 9.0 | 29.2 | 13.6 | 44.9 |
| Food ^b | 5.4 | -25.2 | 7.2 | -19.1 | 8.6 | -2.4 | 16.2 | 65.5 |
| Beverages | 79.4 | -179.9* | 126.7 | -725.4* | 122.4 | -55.4* | 14.1 | 1291.0 |
| Tobacco | 142.1 | -259.8* | 118.1 | -185.8* | 56.4 | -70.0* | 43.1 | 298.6 |
| Textiles | 40.1 | 73.6 | 34.9 | 53.7 | 16.6 | 28.6 | 22.2 | 60.1 |
| Shoes | 46.3 | -949.4 | 31.6 | 124.5 | 23.7 | 121.1 | 20.9 | 41.6 |
| Clothing | 27.7 | 37.1 | 33.0 | 6.7 | 31.6 | 131.3 | - ^c | - ^c |
| Wood and cork products | 18.6 | 30.8 | 16.1 | 15.3 | 19.0 | 28.0 | 16.2 | 36.2 |
| Furniture | 16.9 | 21.3 | 28.7 | 39.5 | 17.3 | 25.4 | 10.8 | 21.1 |
| Paper | 6.8 | 1.6 | 9.4 | -3.8 | 3.2 | 9.9 | 8.9 | 41.3 |
| Printing | 20.6 | 32.0 | 5.9 | 1.1 | -7.7 | -21.4 | -4.5 | 10.1 |
| Leather | 4.4 | -22.0 | -4.0 | -24.4 | -4.7 | -13.6 | 9.5 | 20.8 |
| Rubber and plastic | 9.9 | -3.9 | 15.8 | 21.0 | 12.9 | 30.0 | 10.2 | 39.5 |
| Inorganic chemicals, fertilizers | -4.5 | -28.0 | 2.2 | -6.6 | 0.03 | 0.6 | 5.0 | 21.3 |
| Organic chemicals | 17.5 | 11.1 | 10.8 | 7.4 | 3.8 | 7.4 | - ^d | - ^d |
| Cement, asbestos | -2.7 | -23.1 | 17.2 | 28.7 | 8.5 | 21.6 | 6.5 | 18.4 |
| Other non-metallic products | 31.2 | 92.2 | 14.4 | 21.6 | 14.0 | 22.2 | - ^e | - ^e |
| Basic metal products | 6.3 | -5.6 | 9.9 | 11.2 | 8.3 | 14.1 | 9.7 | 17.0 |
| Metal manufactures | 10.0 | 5.7 | 7.7 | 1.0 | 10.4 | 23.1 | 10.5 | 43.0 |
| Machinery (excl. electrical) | -3.1 | -14.0 | 6.0 | -19.2 | -5.7 | -13.2 | -4.3 | 9.0 |
| Electrical machinery | 10.5 | 9.9 | 6.9 | -5.0 | 9.9 | 22.9 | 8.6 | 29.6 |
| Transport equipment | 8.5 | 0.5 | 3.4 | -4.5 | 1.8 | 1.9 | -1.7 | 8.1 |
| Other | 27.4 | 112.6 | 16.6 | 36.5 | 13.8 | 23.1 | 12.6 | 38.8 |

* = Negative value added at world prices.

^a Omits fuels and sugar in 1961 and 1970.

^b Omits sugar for 1976.

^c Shoes and clothing combined in 1979 figure.

^d Inorganic chemicals and organic chemicals combined in 1979 figure.

^e Cement, asbestos and other non-metallic products combined in 1979 figure.

Source: Katsos and Spanakis (1983).

Table A.5 Changes in Income Velocity, in Monetary Base, and in the Contribution of the Government Sector to the Monetary Base, 1960-1981

| Year | Income Velocity of Money Supply ^a (percent) | Income Velocity of Cash Reserves ^b (percent) | Monetary Base (billions of drachmas) | Contribution of Government Sector ^c (billions of drachmas) |
|------|--------------------------------------------------------|---------------------------------------------------------|--------------------------------------|-----------------------------------------------------------------------|
| 1960 | -10.3 | -13.9 | 0.6 | 0.2 |
| 1961 | -3.3 | -2.1 | 2.4 | 0.1 |
| 1962 | -6.7 | -13.0 | 2.5 | 1.0 |
| 1963 | -2.7 | -9.2 | 2.8 | 1.1 |
| 1964 | -7.0 | -5.5 | 3.2 | 2.9 |
| 1965 | 0.3 | 0.0 | 2.9 | 0.2 |
| 1966 | -2.5 | -2.9 | 5.3 | 0.9 |
| 1967 | -5.8 | -8.9 | 4.4 | 2.8 |
| 1968 | -2.0 | -6.9 | 3.7 | 3.2 |
| 1969 | 6.4 | -3.4 | 1.8 | 2.8 |
| 1970 | 2.8 | -4.5 | 2.5 | -2.0 |
| 1971 | -1.1 | -8.2 | 8.1 | 4.2 |
| 1972 | -0.6 | -7.1 | 12.1 | -10.2 |
| 1973 | -0.2 | 8.7 | 13.4 | 20.7 |
| 1974 | -1.3 | 0.5 | 16.0 | -2.4 |
| 1975 | -1.9 | -5.5 | 18.6 | 13.0 |
| 1976 | 5.0 | -3.0 | 26.0 | 11.7 |
| 1977 | -2.4 | -6.5 | 30.8 | 21.3 |
| 1978 | -0.3 | -2.9 | 33.0 | 39.4 |
| 1979 | 3.3 | 0.6 | 22.8 | 39.8 |
| 1980 | 0.7 | 0.4 | 63.4 | 41.2 |
| 1981 | 0.2 | -9.9 | 133.3 | 117.9 |

^a Relation of GNP at current market price to average annual level of money supply.

^b Based on average annual level of income velocity.

^c Includes loans and advances by Bank of Greece to the government and to banks and individuals.

Source: Bank of Greece (1982).

Table A.6 Dependence of Greek Economy on Imports for Production of Gross Domestic Product, 1952-1982

| Year | Imports of Intermediate Inputs as Percent of GDP | Imports of Crude Oil as Percent of GDP | Imports of Intermediate Inputs Plus Imports of Crude Oil as Percent of GDP | Imports of Investment Goods as Percent of GDP | All Production Imports as Percent of GDP |
|------|--------------------------------------------------|----------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------|------------------------------------------|
| 1952 | 5.25 | 0.93 | 6.18 | 2.00 | 8.2 |
| 1953 | 5.34 | 0.80 | 6.14 | 1.82 | 8.0 |
| 1954 | 6.75 | 0.80 | 7.55 | 2.32 | 9.9 |
| 1955 | 6.17 | 0.73 | 6.90 | 2.39 | 9.3 |
| 1956 | 6.08 | 0.57 | 6.65 | 2.57 | 9.2 |
| 1957 | 6.47 | 0.59 | 7.06 | 1.98 | 9.0 |
| 1958 | 5.66 | 0.61 | 6.27 | 3.18 | 9.5 |
| 1959 | 4.69 | 1.08 | 5.77 | 2.86 | 8.6 |
| 1960 | 4.76 | 1.03 | 5.79 | 2.52 | 8.3 |
| 1961 | 4.51 | 0.88 | 5.39 | 2.86 | 8.3 |
| 1962 | 4.60 | 0.81 | 5.41 | 3.69 | 9.1 |
| 1963 | 4.67 | 0.63 | 5.30 | 3.26 | 8.6 |
| 1964 | 4.94 | 0.59 | 5.53 | 3.92 | 9.5 |
| 1965 | 5.17 | 0.58 | 5.75 | 4.89 | 10.6 |
| 1966 | 5.12 | 0.73 | 5.85 | 4.88 | 10.7 |
| 1967 | 4.35 | 0.93 | 5.28 | 4.84 | 10.1 |
| 1968 | 4.25 | 1.08 | 5.33 | 4.83 | 10.2 |
| 1969 | 4.63 | 0.84 | 5.47 | 5.13 | 10.6 |
| 1970 | 4.81 | 0.82 | 5.63 | 5.94 | 11.6 |
| 1971 | 4.83 | 0.85 | 5.68 | 6.07 | 11.8 |
| 1972 | 4.87 | 1.27 | 6.14 | 7.48 | 13.6 |
| 1973 | 6.31 | 1.58 | 7.89 | 8.19 | 16.1 |
| 1974 | 6.91 | 3.86 | 10.77 | 7.61 | 18.4 |
| 1975 | 5.88 | 3.60 | 9.48 | 8.41 | 17.9 |
| 1976 | 5.81 | 4.16 | 9.97 | 7.83 | 17.8 |
| 1977 | 6.01 | 3.42 | 9.43 | 8.06 | 17.5 |
| 1978 | 5.61 | 3.22 | 8.83 | 7.37 | 16.2 |
| 1979 | 6.08 | 5.58 | 11.66 | 7.42 | 19.1 |
| 1980 | 6.78 | 7.22 | 14.00 | 6.93 | 20.9 |
| 1981 | 5.88 | 10.01 | 15.89 | 6.70 | 22.6 |
| 1982 | 4.98 | 7.27 | 12.25 | 6.08 | 18.3 |

^a Imports of crude oil started in 1959.

Source: Estimates made on basis of data from NSSG, National Accounts of Greece and Statistical Yearbook of Greece.

Table A.7 Import Penetration Ratio by Industry, 1959-1975
(percent)

| Industry | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 |
|-------------------------------|------|------|------|------|------|------|------|------|------|
| Food | 12.6 | 11.0 | 14.9 | n.a. | 7.8 | 8.7 | 9.2 | 6.7 | 6.4 |
| Beverages | 0.8 | 0.8 | 0.8 | n.a. | 0.8 | 0.7 | 0.8 | 1.1 | 1.1 |
| Tobacco | 0.0 | 0.0 | 0.0 | n.a. | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Textiles | 16.7 | 16.2 | 16.1 | n.a. | 12.9 | 13.7 | 14.7 | 15.9 | 14.7 |
| Clothing and footwear | 4.2 | 4.2 | 3.3 | n.a. | 1.4 | 1.4 | 1.3 | 1.6 | 1.6 |
| Wood and cork | 53.1 | 52.7 | 52.0 | n.a. | 31.7 | 29.3 | 32.3 | 34.7 | 29.5 |
| Furniture | 0.8 | 1.6 | 1.6 | n.a. | 1.0 | 1.5 | 2.1 | 2.4 | 1.6 |
| Paper | 39.6 | 38.8 | 39.4 | n.a. | 35.5 | 36.0 | 35.4 | 33.5 | 33.8 |
| Printing and publishing | 3.1 | 3.1 | 5.9 | n.a. | 4.7 | 6.1 | 6.0 | 6.1 | 6.3 |
| Leather | 19.3 | 20.3 | 18.3 | n.a. | 11.4 | 9.1 | 11.6 | 11.9 | 9.1 |
| Rubber and plastic products | 50.2 | 49.4 | 51.7 | n.a. | 23.1 | 23.8 | 21.9 | 19.3 | 19.4 |
| Chemicals | 36.9 | 32.9 | 39.1 | n.a. | 50.3 | 49.3 | 45.9 | 45.6 | 44.1 |
| Petroleum and coal products | n.a. | 23.3 | 24.1 | n.a. | 33.3 | 32.4 | 43.9 | 31.7 | 24.8 |
| Non-metallic mineral products | 12.6 | 13.7 | 14.2 | n.a. | 8.4 | 8.5 | 9.5 | 9.1 | 8.8 |
| Basic metal industries | 60.4 | 56.9 | 56.5 | n.a. | 58.9 | 64.3 | 63.7 | 56.7 | 57.3 |
| Metal products | 7.8 | 27.3 | 29.7 | n.a. | 15.5 | 17.7 | 20.5 | 16.9 | 15.6 |
| Machinery (non-elec.) | 86.0 | 84.0 | 84.6 | n.a. | 74.6 | 76.1 | 77.5 | 75.3 | 75.0 |
| Electrical supplies | n.a. | 56.2 | 48.6 | n.a. | 45.4 | 41.1 | 42.5 | 37.2 | 40.8 |
| Transport equipment | 54.6 | 56.9 | 49.6 | n.a. | 46.1 | 51.5 | 48.4 | 60.9 | 57.9 |
| Miscellaneous manufacturing | 51.8 | 51.2 | 50.4 | n.a. | 55.2 | 56.0 | 59.8 | 58.1 | 56.8 |
| Average Ratio | 25.4 | 27.7 | 29.9 | n.a. | 23.6 | 24.7 | 25.8 | 25.2 | 24.2 |

(continued)

Table A.7 (continued)

| Industry | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 |
|-------------------------------------|------|------|------|------|------|------|------|------|
| Food ⁴ | 6.4 | 6.0 | 6.2 | n.a. | n.a. | n.a. | 7.5 | 8.2 |
| Beverages | 1.1 | 1.1 | 1.2 | n.a. | n.a. | n.a. | 2.5 | 1.4 |
| Tobacco | 0.1 | 0.1 | 0.2 | n.a. | n.a. | n.a. | 0.2 | 0.2 |
| Textiles | 13.7 | 13.8 | 12.2 | n.a. | n.a. | n.a. | 11.9 | 12.1 |
| Clothing and footwear | 1.7 | 1.9 | 1.6 | n.a. | n.a. | n.a. | 3.6 | 1.7 |
| Wood and cork | 30.8 | 28.3 | 22.4 | n.a. | n.a. | n.a. | 17.4 | 14.7 |
| Furniture | 2.2 | 1.4 | 1.6 | n.a. | n.a. | n.a. | 1.5 | 1.6 |
| Paper | 31.8 | 30.8 | 31.9 | n.a. | n.a. | n.a. | 35.5 | 43.3 |
| Printing and publishing | 5.8 | 5.7 | 6.3 | n.a. | n.a. | n.a. | 4.9 | 6.0 |
| Leather | 16.3 | 27.8 | 25.1 | n.a. | n.a. | n.a. | 37.2 | 30.2 |
| Rubber and plastic products | 17.2 | 14.6 | 14.4 | n.a. | n.a. | n.a. | 9.8 | 10.3 |
| Chemicals | 43.5 | 42.7 | 43.5 | n.a. | n.a. | n.a. | 40.2 | 41.5 |
| Petroleum and coal products | 22.5 | 22.7 | 21.3 | n.a. | n.a. | n.a. | 13.5 | 12.8 |
| Non-metallic mineral products | 7.9 | 7.8 | 10.1 | n.a. | n.a. | n.a. | 7.2 | 8.8 |
| Basic metal industries | 49.2 | 50.2 | 43.0 | n.a. | n.a. | n.a. | 54.8 | 38.6 |
| Metal products | 16.2 | 14.0 | 15.4 | n.a. | n.a. | n.a. | 11.5 | 10.5 |
| Machinery (non-elec.) | 76.0 | 75.1 | 76.4 | n.a. | n.a. | n.a. | 74.6 | 72.4 |
| Electrical supplies | 39.0 | 36.2 | 33.3 | n.a. | n.a. | n.a. | 36.7 | 38.1 |
| Transport equipment | 63.9 | 59.6 | 46.3 | n.a. | n.a. | n.a. | 39.4 | 42.3 |
| Miscellaneous manufacturing | 48.9 | 48.9 | 56.5 | n.a. | n.a. | n.a. | 53.8 | 59.8 |
| Average Ratio | 24.5 | 24.7 | 26.9 | n.a. | n.a. | n.a. | 24.4 | 23.5 |

n.a. = not available.

Source: NSSG, Statistical Yearbook of Greece (various issues). Estimates made by Institute of Economic and Industrial Research (IEIR).

Table A.8 Greek Imports by Source, Selected Years, 1955-1981
(percent)

| Source | 1955 | 1960 | 1965 | 1970 | 1975 | 1980 | 1981 |
|-------------------------------------------------------|------|------|------|------|------|------|------|
| EEC | 53.3 | 44.5 | 51.4 | 49.8 | 42.5 | 39.7 | 50.0 |
| EFTA | 9.0 | 7.0 | 9.5 | 9.4 | 7.3 | 6.1 | 5.2 |
| Other OECD countries | 1.1 | n.a. | 5.9 | 15.5 | 12.8 | 12.7 | 6.5 |
| Socialist countries | 4.8 | 10.7 | 11.1 | 6.8 | 5.6 | 7.4 | 7.1 |
| Middle East and North Africa | 1.0 | 3.9 | 3.1 | 4.8 | 18.7 | 22.2 | 19.1 |
| North America | 19.4 | 15.2 | 10.6 | 6.8 | 8.2 | 5.3 | 5.6 |
| Imports from above areas as percent of all imports | 88.6 | 81.9 | 91.7 | 93.1 | 95.2 | 93.4 | 93.4 |

n.a. = not available.

Source: NSSG, Statistical Yearbook of Greece (various issues).

Table A.9 Greek Exports by Destination, Selected Years, 1955-1983
(percent)

| Destination | 1955 | 1960 | 1965 | 1970 | 1975 | 1980 | 1981 |
|-------------------------------------------------------|------|------|------|------|------|------|------|
| EEC | 63.3 | 43.8 | 45.4 | 52.2 | 49.9 | 47.6 | 52.5 |
| EFTA | 7.9 | 7.1 | 5.3 | 4.7 | 3.8 | 2.3 | 2.6 |
| Other OECD countries | 1.1 | 1.7 | 3.7 | 3.2 | 3.9 | 1.8 | 1.8 |
| Socialist countries | 7.7 | 26.3 | 27.2 | 23.2 | 14.8 | 12.8 | 9.0 |
| Middle East and North Africa | 5.4 | 5.5 | 7.3 | 6.7 | 18.2 | 25.0 | 24.5 |
| North America | 13.0 | 14.3 | 10.0 | 8.2 | 5.7 | 6.1 | 6.6 |
| Imports from above areas as percent of all imports | 98.4 | 98.7 | 98.9 | 98.2 | 96.3 | 95.6 | 97.0 |

Source: NSSG, Statistical Yearbook of Greece (various issues).

Table A.10 Ratio of Bankruptcies per 1,000 Establishments in Manufacturing, Selected Years, 1958-1978^a

| Industry | 1958 | 1963 | 1969 | 1973 | 1978 |
|--------------------------------------------------------------|-------|-------|-------|-------|------|
| All Manufacturing and Handicraft | 1.51 | 1.12 | 1.77 | 1.12 | 1.18 |
| Food | 1.04 | 0.40 | 0.58 | 0.95 | 0.57 |
| Beverages | 0.48 | - | - | 0.36 | 2.10 |
| Tobacco | - | - | - | - | - |
| Textiles | 6.16 | 8.73 | 6.26 | 3.74 | 4.56 |
| Footwear, other wearing apparel and made-up textile goods | 2.07 | 0.71 | 2.87 | 0.80 | 2.05 |
| Wood and cork | 1.49 | 0.81 | 1.33 | 0.94 | 0.49 |
| Furniture | - | 0.82 | 1.59 | 1.11 | 1.11 |
| Paper | 8.26 | - | - | 5.32 | 2.25 |
| Printing, publishing and allied industries | 2.14 | - | - | 2.90 | 2.11 |
| Leather and fur | 3.47 | - | - | - | 2.65 |
| Rubber products | 3.10 | - | - | 1.13 | 1.83 |
| Chemical industries | 0.25 | - | - | 3.13 | 2.74 |
| Non-metallic mineral products | 2.50 | - | - | 1.92 | 0.95 |
| Basic metal industries | 71.43 | - | - | 96.77 | - |
| Metal products, except machinery and transport equipment | 0.42 | - | - | 0.92 | 0.82 |
| Machinery and appliances | 3.47 | - | - | 1.56 | 0.45 |
| Electrical machinery | - | - | - | 1.06 | 0.19 |
| Transport equipment | 0.62 | - | - | 0.62 | 0.45 |
| Other industries | 1.44 | 15.70 | 17.28 | 0.26 | 0.26 |

^a Data on actual number of manufacturing establishments were available only for these years.

Source: Estimates made on basis of data in NSSG, Statistical Yearbook of Greece (various issues).

REFERENCES

- Alexander, Alec P. (1964) Greek Industrialists, Athens: Center of Economic Research.
- Archibald, George Christopher (1964) Investment and Technical Change in Greek Manufacturing, Athens: Center of Economic Research.
- Baltas, Nikos (1975) "An Econometric Investigation of Interrelationship between Capital Formation and Economic Growth in Greece," Ph.D. thesis, University of Birmingham.
- Bank of Greece (1978) The First Fifty Years of the Bank of Greece (in Greek), Athens.
- Bank of Greece (1981) Monthly Statistical Bulletin, various issues.
- Bank of Greece (1982) The Economy of Greece (in Greek), Athens.
- Bank of Greece (1984) Summary of the Annual Report of Governor D. Chalikias for the Year 1984 (in Greek), Athens.
- Bitros, George (1985) Price Controls and Their Consequences (in Greek), Athens: Institute of Economic and Industrial Research.
- Chalikias, Demetris (1963) Economic Development of Greece and Balance of Payments (in Greek), Athens: Bank of Greece.
- Chalikias, Demetris (1976) Possibilities and Problems of Credit Policy: The Greek Experience (in Greek), Athens: Bank of Greece.
- Charitakis, George (1929) Economic Yearbook of Greece (in Greek), Athens: Union of Greek Banks.
- Chiotis, George P. (1964) "Regional Planning and Economic Development: A Comparative Study of Regional Planning in France, Italy and Greece," Ph.D. thesis, University of Manchester.
- Drakatos, Konstantinos (1966) Greek Statistics of Foreign Trade and Balance of Payments (in Greek), Athens: Papazissis Publishers.
- Drakos, George (1980) The Industry in Greece (in Greek), Athens, privately published.
- Economou, George (1975) Empirical Analysis of Factors Affecting Wages, Salaries and Prices in Greek Industry (in Greek). Athens: Center of Planning and Economic Research.
- Efstratoglou, Konstantinos (1967) "Economicos Tachydromos," May 4.
- Efstratoglou, Konstantinos (1983) Theoretical and Empirical Analysis of Public External Debt and Lending: The Case of Greece, 1960-1981 (in Greek), Athens: Center of Planning and Economic Research.

- Eliadis, Evaggelos (1954) "Stabilization of the Greek Economy and the 1953 Devaluation of the Drachma," IMF Staff Papers, 4(1) (September).
- Ellis, Howard S., Dionidis Psilos, Richard Westebbe, and Kaliori Nikolaou (1965) Industrial Capital in the Development of the Greek Economy (in Greek), Athens: Center of Planning and Economic Research.
- Enepekidis, Joannis G. (1979) An Outline of the Greek Import Control System and its Impact on Trade (in Greek), Athens.
- Fakiolas, Rossetos (1969) Factors Affecting Industrial Development in Greece (in Greek), Athens, privately published.
- Fakiolas, Rossetos (1978) The Greek Trade Union Movement (in Greek), Athens: Papazissis Publishers.
- Gamaletsos, Theodoros (1984) Habit Formation and Inflation in Demand Analysis: A System-wide Approach, Athens: Center of Planning and Economic Research.
- Garganas, Nikos and Petros Momferatos (1979) Intersectoral Analysis of Contribution of Cost to the Formation of Prices in Greece (in Greek), Athens: Bank of Greece.
- Georgakopoulos, Theodoros (1976) The Value-added Tax in Greece, Athens: Center of Planning and Economic Research.
- Georgakopoulos, Theodoros (1977) Indirect Taxes and Industry in Greece (in Greek), Athens: Institute of Economic and Industrial Research.
- Germidis, Dimitrios and Maria Negreponi-Delivani (1975) Industrialization, Employment and Income Distribution in Greece, A Case Study, Paris: OECD.
- Giannitsis, Anastasios (1982) The Foreign Banks in Greece. The Postwar Experience (in Greek), Athens: Papazissis Publishers.
- Goudi, Marina (1953) The Adjustment of the Rate of Exchange (in Greek), Athens, privately published.
- Gyparakis, Emmanuel and George Zompanakis (1982) "Effects of Exchange Rate Changes on Greek Manufacturing Exports," in Bank of Greece, The Economy of Greece, Athens.
- Hassid, Joseph (1977) Greece and the EEC, A Comparative Study of Industrial Structure (in Greek), Athens: Institute of Economic and Industrial Research.
- Hassid, Joseph (1980) Greek Industry and the EEC (in Greek), Athens: Institute of Economic and Industrial Research.
- Humman, W. (1977) Greek Industry in the European Community: Prospects and Problems, Berlin: German Development Institute.
- IMF (1982) International Financial Statistics.

- Karavias, Theodoros (1964) "The Assistance of the U.S.A. to Greece during the Period 1944-1962" (in Greek), Review of Economic and Political Science, Athens, Issues 3-4.
- Katochianou, Dimitra (1984) Sectoral-Spatial Analysis of Greek Manufacturing (in Greek), Athens: Center of Planning and Economic Research.
- Katsos, George and Nikos Spanakis (1983) Industrial Protection and Entry (in Greek), Athens: Center of Planning and Economic Research.
- Export Research Center (KEEM) (1984) Forty Years of Greek Exports (in Greek), Athens.
- Export Research Center (KEEM) (1985) The Outward Orientation of Greek Production (in Greek), Athens.
- Export Research Center (KEEM) (1985) The Competitiveness of Greek Products during 1961-1983 (in Greek), Athens.
- Kintis, Andreas (1982) Growth of Greek Industry (in Greek), Athens: Gutemberg.
- Korliras, Panayotis (1984) Experiences, Problems and Prospects of Monetary and Credit Policy in Greece (in Greek), Athens: Bank of Greece.
- Kottis, George C. (1979) "Industrial Decentralization and Regional Development," in Preparation for Greece's Entry into the Common Market (in Greek), Athens: Institute of Economic and Industrial Research.
- Kottis, George C. (1980) Industrial Decentralization and Regional Development (in Greek), Athens: Institute of Economic and Industrial Research.
- Kottis, George C. (1981) Selected Economic Issues (in Greek), Athens: Papazissis Publishers.
- Kottis, George C. (1986) "The Service Sector in Greece: A Regional Perspective," FAST Program of the Directorate-General for Science, Research and Development, Brussels: EEC (European Economic Community).
- Koutsoumaris, George (1962) The Location Patterns of Greek Industry, Athens: Center of Planning and Economic Research.
- Koutsoumaris, George (1963) The Morphology of Greek Industry, Athens: Center of Planning and Economic Research.
- Koutsoumaris, George (1976) The Financing and Growth of Industry (in Greek), Athens: Institute of Economic and Industrial Research.
- Krengel, Rolf and Dieter Mertens (1967) Fixed Capital and Future Investment Needs in Greek Industry (in Greek), Athens: Center of Planning and Economic Research.
- Lloyds Register of Shipping, Statistical Tables.

- Manassakis, Anne N. (1978) "Investment Incentives and the Investment Function in the Greek Industry," Spoudai, Vol. 90, No. 4.
- National Statistical Service of Greece (NSSG), National Accounts of Greece, various issues.
- National Statistical Service of Greece (NSSG) (1982), Labor Force Survey.
- National Statistical Service of Greece (NSSG), Annual Industrial Surveys.
- National Statistical Service of Greece (NSSG), Annual Census of Manufacturing, 1958, 1963, 1969, 1973, 1978.
- National Statistical Service of Greece (NSSG), Statistical Yearbook of Greece, 1958, 1966, 1979, 1982.
- National Statistical Service of Greece, Population Census.
- Negreponti-Delivani, Maria (1979) Analysis of Greek Economy (in Greek), Athens: Papazissis Publishers.
- Nikolaou, Kaliori (1980) Economies of Scale in Greek Industry (in Greek), Athens: Center of Planning and Economic Research.
- Organization for the Employment of the Labor Force (OAED) (1976 and 1982) Statistical Data 1955-60, and Yearly Accounts.
- Organisation for Economic Cooperation and Development (OECD) (1964) The Mediterranean Regional Project, Greece, Paris.
- Organisation for Economic Cooperation and Development (OECD) (1982) Economic Outlook, Paris.
- Organisation for Economic Cooperation and Development (OECD) (1983) Economic Surveys, Greece, Paris.
- Panagiotopoulos, Demetris (1984) Monetary Policy in Greece, The Experience of the Last Twenty Years (in Greek), Athens, privately published.
- Papadakis, Joannis (1978) The Policy of Controlled Interest Rates. Implications for Economic Equilibrium and Development (in Greek), Athens: Institute of Economic and Industrial Research.
- Papadakis, Joannis (1984) Money and Economic Activity, The Greek Experience 1950-1975 (in Greek), Athens: Institute of Economic and Industrial Research.
- Papageorgiou, Demetrios (1983) Export Promotion Policies in Greece, Washington, D.C.: World Bank.
- Patsouratis, Vasilis (1980) The Greek Corporate Tax System: Some Aspects of Business Tax Harmonization, Ph.D. thesis, University of Glasgow, Glasgow.

- Pavlopoulos, Panayotis (1986) Income Shares, Trends, Causes, Effects (in Greek), Athens: Institute of Economic and Industrial Research.
- Pepelasis, Adamantios A. and Pan A. Yotopoulos (1962) Labor Surpluses in Greek Agriculture, 1953-1960, Athens: Center for Economic Research.
- Petraki-Kottis, Athena (1986a) "Women's Labor Force Participation Rates in Greece: Shifts Over Time and Regional Variation," Athens: Center of Economic Research, The Athens Graduate School of Economics and Business Science.
- Petraki-Kottis, Athena (1986b) Female-Male Earnings Differentials in Manufacturing Industries in Greece: A Statistical Exploration, Athens: Center of Economic Research, the Athens Graduate School of Economic and Business Science.
- Prodromidis, Kyprianos P. (1976) Foreign Trade of Greece, Athens: Center of Planning and Economic Research.
- Prodromidis, Kyprianos P. and Z. N. Anastasakou (1981) Import and Export Trade of Greece (in Greek), Athens: Center of Planning and Economic Research.
- Provopoulos, George A. (1982) The Public Corporations and Organizations (in Greek), Athens: Institute of Economic and Industrial Research.
- Provopoulos, George A. (1985) The Public Sector in the Greek Economy; Recent Tendencies and Economic Implications, (in Greek) Athens: Institute of Economic and Industrial Research.
- Roumeliotis, Panayotis (1977) Direct International Investment and National Economy, the Case of Greece (in Greek), Athens: Center of Planning and Economic Research.
- Singh, B. P. (1984) The Impact of Tourism on the Balance of Payments: The Case of Greece, Athens: Center of Planning and Economic Research.
- Stern, Robert Mitchell, Jonathan Francis, and Bruce Schumacher (1976) Price Elasticities in International Trade, London: Macmillan.
- Tzoannos, John G. (1977) Greek Merchant Marine and EEC (in Greek), Athens: Institute of Economic and Industrial Research.
- Tzoannos, John G. (1980) The Fiscal Regime for Shipowning Firms in the EEC, Athens: Institute of Economic and Industrial Research.
- Vaitsos, Constantine, A. Giannitsis, and Peter Petrakis (1982) Choices for the Development of Greek Industry (in Greek), Athens, unpublished.
- Vartholomeos, Ioannis (1984) Intersectoral Effects of Public Expenditure (in Greek), Athens: Center of Planning and Economic Research.
- Varvaressos, Kyriakos (1952) Report on the Greek Economic Problem, Prepared at the Request of the Government of Greece, Washington, D.C.

Vernardakis, Nikos (1985) "Capital Utilization, its Determinants and Export Subsidies," Hellenic Economic Review, 7(2) (August).

Voloudakis, Evangelos and Panayotis Fylaktos (1982) Greek Exports: Determinants and Policies, 1960-1979, report to the World Bank (unpublished).

Zolotas, Xenophon (1958) Monetary Stability and Economic Development (in Greek), Athens: Bank of Greece.

Zolotas, Xenophon (1966) Current Monetary and Economic Developments in Greece (in Greek), Athens: Bank of Greece.

Zolotas, Xenophon (1975) Developments and Prospects in the Greek Economy (in Greek), Athens: Bank of Greece.

Zolotas, Xenophon (1976) Greece in the European Community (in Greek), Athens: Bank of Greece.

Zolotas, Xenophon (1976) Guidelines for Industrial Development in Greece (in Greek), Athens: Bank of Greece.

Distributors of World Bank Publications

ARGENTINA
Carlos Hirsch, SRL
Galeria Guemes
Florida 165, 4th Floor-Ofc. 453/465
1333 Buenos Aires

**AUSTRALIA, PAPUA NEW GUINEA,
FIJI, SOLOMON ISLANDS,
VANUATU, AND WESTERN SAMOA**
D.A. Books & Journals
11-13 Station Street
Mitcham 3132
Victoria

AUSTRIA
Gerold and Co.
Graben 31
A-1011 Wien

BAHRAIN
Bahrain Research and Consultancy
Associates Ltd.
P.O. Box 22103
Manama Town 317

BANGLADESH
Micro Industries Development
Assistance Society (MIDAS)
House 56, Road 7A
Dhanmondi R/Area
Dhaka 1209

BELGIUM
Publications des Nations Unies
Av. du Roi 202
1060 Brussels

BRAZIL
Publicacoes Tecnicas Internacionais
Lda.
Rua Peixoto Gomide, 209
01409 Sao Paulo, SP

CANADA
Le Diffuseur
C.P. 85, 1501 B rue Ampere
Boucherville, Quebec
J4B 5E6

CHINA
China Financial & Economic Publishing
House
8, Da Fo Si Dong Jie
Beijing

COLOMBIA
Enlace Ltda.
Apartado Aereo 34270
Bogota D.E.

COSTA RICA
Libreria Trejos
Calle 11-13
Av. Fernandez Guell
San Jose

COTE D'IVOIRE
Centre d'Édition et de Diffusion
Africaines (CEDA)
04 B.P. 541
Abidjan 04 Plateau

CYPRUS
MEMRB Information Services
P.O. Box 2098
Nicosia

DENMARK
Samlunds Literatur
Rosensøens Allé 11
DK-1970 Frederiksberg C

DOMINICAN REPUBLIC
Editores Taller, C. por A.
Restauracion e Isabel la Catolica 309
Apartado Postal 2190
Santo Domingo

EL SALVADOR
Fusades
Avenida Manuel Enrique Araujo #3530
Edificio SISA, 1er. Piso
San Salvador

EGYPT, ARAB REPUBLIC OF
Al Akram
Al Galaa Street
Cairo

The Middle East Observer
8 Chawarbi Street
Cairo

FINLAND
Akateeminen Kirjakauppa
P.O. Box 128
SF-00101
Helsinki 10

FRANCE
World Bank Publications
66, avenue d'Iéna
75116 Paris

GERMANY, FEDERAL REPUBLIC OF
UNO-Verlag
Poppeladorfer Allee 55
D-5300 Bonn 1

GREECE
KEME
24, Ippodamou Street Platia Plastiras
Athens-11635

GUATEMALA
Librerias Piedra Santa
Centro Cultural Piedra Santa
11 calle 6-50 zona 1
Guatemala City

HONG KONG, MACAO
Asia 2000 Ltd.
6 Fl., 146 Prince Edward Road, W.
Kowloon
Hong Kong

HUNGARY
Kultura
P.O. Box 139
1389 Budapest 62

INDIA
Allied Publishers Private Ltd.
751 Mount Road
Madras - 600 002

Branch offices:
15 J.N. Heredia Marg
Ballard Estate
Bombay - 400 038

13/14 Asaf Ali Road
New Delhi - 110 002

17 Chittaranjan Avenue
Calcutta - 700 072

Jayadeva Hostel Building
5th Main Road Gandhinagar
Bangalore - 560 009

3-5-1129 Kachiguda Cross Road
Hyderabad - 500 027

Prarthana Flats, 2nd Floor
Near Thakore Bang, Navrangpura
Ahmedabad - 380 009

Patiala House
16-A Ashok Marg
Lucknow - 226 001

INDONESIA
Pt. Indira Limited
Jl. Sam Ratulangi 37
Jakarta Pusat
P.O. Box 181

IRELAND
TDC Publishers
12 North Frederick Street
Dublin 1

ITALY
Licos Commissionaria Sansoni SPA
Via Benedetto Fortini, 120/10
Casella Postale 552
50125 Florence

JAPAN
Eastern Book Service
37-3, Hongo 3-Chome, Bunkyo-ku 113
Tokyo

KENYA
Africa Book Service (E.A.) Ltd.
P.O. Box 45245
Nairobi

KOREA, REPUBLIC OF
Pan Korea Book Corporation
P.O. Box 101, Kwangwhamun
Seoul

KUWAIT
MEMRB Information Services
P.O. Box 5465

MALAYSIA
University of Malaya Cooperative
Bookshop, Limited
P.O. Box 1127, Jalan Pantai Baru
Kuala Lumpur

MEXICO
INFOTEC
Apartado Postal 22-860
14060 Tlalpan, Mexico D.F.

MOROCCO
Societe d'Études Marketing Marocaine
12 rue Mozart, Bd. d'Anfa
Casablanca

NETHERLANDS
InOx-Publikaties b.v.
P.O. Box 14
7240 BA Lochem

NEW ZEALAND
Hills Library and Information Service
Private Bag
New Market
Auckland

NIGERIA
University Press Limited
Three Crowns Building Jericho
Private Mail Bag 5095
Ibadan

NORWAY
Narvesen Information Center
Bertrand Narvesens vei 2
P.O. Box 6125 Etterstad
N-0602 Oslo 6

OMAN
MEMRB Information Services
P.O. Box 1613, Seeb Airport
Muscat

PAKISTAN
Mirza Book Agency
65, Shahrah-e-Quaid-e-Azam
P.O. Box No. 729
Lahore 3

PERU
Editorial Desarrollo SA
Apartado 3824
Lima

PHILIPPINES
National Book Store
701 Rizal Avenue
P.O. Box 1934
Metro Manila

POLAND
ORPAN
Polec Kultury i Nauki
00-901 Warszawa

PORTUGAL
Livraria Portugal
Rua Do Carmo 70-74
1200 Lisbon

SAUDI ARABIA, QATAR
Jarir Book Store
P.O. Box 3196
Riyadh 11471

MEMRB Information Services
Branch offices:
Al Alsa Street
Al Dahna Center
First Floor
P.O. Box 7188
Riyadh

Haji Abdullah Alireza Building
King Khaled Street
P.O. Box 3969
Dammam

33, Mohammed Hassan Awad Street
P.O. Box 5978
Jeddah

**SINGAPORE, TAIWAN, MYANMAR,
BRUNEI**
Information Publications
Private, Ltd.
02-06 1st Fl., Pel-Fu Industrial
Bldg.
24 New Industrial Road
Singapore 1953

SOUTH AFRICA, BOTSWANA
For single titles:
Oxford University Press Southern
Africa
P.O. Box 1141
Cape Town 8000

For subscription orders:
International Subscription Service
P.O. Box 41095
Craighall
Johannesburg 2024

SPAIN
Mundi-Prensa Libros, S.A.
Castello 37
28001 Madrid

Libreria Internacional AEDOS
Conseil de Cent, 591
08009 Barcelona

SRI LANKA AND THE MALDIVES
Lake House Bookshop
P.O. Box 244
100, Sir Chittampalam A. Gardiner
Marwatha
Colombo 2

SWEDEN
For single titles
Fritzes Fackbokaforetaget
Regeringsgatan 12, Box 16356
S-103 27 Stockholm

For subscription orders
Wennergren-Williams AB
Box 30004
S-104 25 Stockholm

SWITZERLAND
For single titles
Librairie Payot
6, rue Grenus
Case postale 381
CH 1211 Geneva 11

For subscription orders:
Librairie Payot
Service des Abonnements
Case postale 3312
CH 1002 Lausanne

TANZANIA
Oxford University Press
P.O. Box 5299
Dar es Salaam

THAILAND
Central Department Store
306 Silom Road
Bangkok

**TRINIDAD & TOBAGO, ANTIGUA
BARBUDA, BARBADOS,
DOMINICA, GRENADA, GUYANA,
JAMAICA, MONTSERRAT, ST.
KITTS & NEVIS, ST. LUCIA,
ST. VINCENT & GRENADINES**
Systematics Studies Unit
#9 Watts Street
Curepe
Trinidad, West Indies

TURKEY
Haset Kitapevi, A.S.
Istiklal Caddesi No. 469
Beyoglu
Istanbul

UGANDA
Uganda Bookshop
P.O. Box 7145
Kampala

UNITED ARAB EMIRATES
MEMRB Gulf Co.
P.O. Box 6097
Sharjah

UNITED KINGDOM
Microinfo Ltd.
P.O. Box 3
Alton, Hampshire GU34 2PG
England

URUGUAY
Instituto Nacional del Libro
San Jose 1116
Montevideo

VENEZUELA
Libreria del Este
Apdo. 60.337
Caracas 1060-A

YUGOSLAVIA
Jugoslovenska Knjiga
YU-11000 Beigrade Trg Republike

ZIMBABWE
Longman Zimbabwe
P.O. Box ST 125, Southerton
Harare

The World Bank

Headquarters

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.

Telephone: (202) 477-1234

Facsimile: (202) 477-6391

Telex: WUI 64145 WORLDBANK

RCA 248423 WORLDBK

Cable Address: INTBAFRAD

WASHINGTONDC

European Office

66 avenue d'Iéna
75116 Paris, France

Telephone: (1) 40.69.30.00

Facsimile: (1) 47.20.19.66

Telex: 842-620628

Tokyo Office

Kokusai Building
1-1 Marunouchi 3-chome
Chiyoda-ku, Tokyo 100, Japan

Telephone: (3) 214-5001

Facsimile: (3) 214-3657

Telex: 781-26838

