

APXAD

EMBARGO 21.30

SATURDAY 6.9.86

SPEECH

OF THE

PRIME MINISTER

ANDREAS G PAPANDREOU

ON THE OCCASION OF THE INAUGURATION

of the

51st INTERNATIONAL SALONICA FAIR

SALONICA 6.9. 1986

It is an especial pleasure for me once again to have the opportunity of addressing you tonight within the framework of the inauguration of the Salonica International Fair, to talk about the course of the Greek economy, and ^{its} prospects.

→ A year ^{has elapsed} since I stood at the same podium and expressed the basic economic choices and directions of the economic policy for the second four years of PASOK government.

About 11 months have elapsed since the policy for the stabilization and more rapid and self-sufficient development of the economy was announced and introduced. Evaluating the implementation and results of the economic policy during the intervening period is useful in order to make effective use of the progress which has been made and the possibilities which have been created as a result of recent favorable developments.

The basic conclusion which can be drawn is that it is necessary to continue the readjustment and the restoration of our economy with consistency and stability in order to ensure that the conditions which will support economic revival and the improvement of the standard of living on a more permanent base will prevail.

However, before I refer to the economic developments and prospects and undertake evaluation of the results of the economic policy, I consider it useful to summarize certain points concerning the problems of the economy and the basic choices we have made with regard to our economic policy. Because the Greek people have a right to be familiar with the choices and directions of the economic policy, its final and intermediate goals, and the strategy which we are following to achieve those goals.

The people, however, not only have a right, but must know why the achievement of the goals of stabilization and development of the economy demands mobilization of all the productive forces of the country, the programmed and coordinated action of the public and private sectors, social consensus, and the cooperation of all citizens and social groups.

→ For us, the consensus of the people is of importance. It is of the essence. It is not a peripheral matter. The first and foremost condition for the course established and pursued^{is} that we support each of our steps with the mature and conscientious volition of the people.

As I also said in my speech last year, the basic goals of the economic policy for the second term of PASOK government is the rapid stabilization of the economy and the continuation of the attempts to promote the necessary readjustments in the structure, organization and operation of the economy which will place the country on a course of self-sufficient economic development.

The economic imbalances and the social inequalities which prevailed at the beginning of the PASOK government's first term were considerable and unacceptable.

The improvement in the standard of living, of the farmer, the low wage earner, and the pensioner were necessary and constituted the central goal of the government. The consolidation of a contemporary welfare state with the expansion and improvement of the public health services, educational system, and retirement benefits was, and continues to be, a conscious political choice which is consistent with the basic principles of social justice.

The policy which the government followed during the first term was dictated, out of necessity, by the limits allowed by productivity, the ability to compete, the structural weaknesses of the Greek economy and the unfavorable conditions outside of Greece which exacerbated the consequences of the structural weaknesses and left even less room for the government to exercise its economic and social policy.

It is generally accepted that the basic cause of the economic problems and hardships we are facing is found in the longterm structural weaknesses of the Greek economy which are a result of the type and form of the economic development which was followed during the post-war period and especially in the inability to develop a modern competitive, industrial and economic structure.

These structural weaknesses manifested themselves through low productivity of the economy, the quantitative and qualitative insufficiency of the domestic productive force and the low competitiveness of Greek products, not only on the international market, but on the domestic market *also*.

The primary cause, of the trade balance deficit which has remained throughout the entire post-war period at an excessively high level is low productivity and the failure of domestic production to adapt to both domestic and external demand. The volume of the export of goods is not only low, in comparison to the level of imports but they continue to rely to a great extent on the traditional sectors of economic activity which, by their very nature, are not capable of developing further within today's structure.

The trade balance deficit has been covered for many years by tourism, shipping and foreign currency from Greeks abroad. The consequence has been the dependance of the equilibrium of the balance of payments to a great extent on invisible resources and the inflow of private capital, which, however, have proven particularly sensitive to the changes in international economic conditions. Thus, the crisis with regard to these sources of foreign currency after the end of the 70's led to a crisis concerning the total balance of payments.

Of course the plunge in the price of oil since the beginning of the year, the slackening of inflationary pressures and the decrease in interest rates internationally are having a favorable influence on the balance of payments and are creating new possibilities for the rapid readjustment of the economy.

It would be a serious mistake, however, to overestimate the consequences of these new favorable developments and base our economic policy on the hypothesis that economic difficulties can be overcome to a large extent and that, consequently, we can now slacken our efforts to correct the imbalances in the economy and especially in the balance of payments. As developments on the oil market the last three or four weeks indicate, we cannot assume that the reduction in the price of oil will be permanent. At the same time, it caused the upturn in the world economy and international commerce to slow down, ^{and thus} significantly limited the possibilities for the expansion of export activity.

Recently, in general, there has been a tendency for the international economic environment to worsen and the possibility of a new world economic recession in the immediate future cannot be ruled out.

Consequently, there is an urgent need for us to persist in the implementation of the policy for the stabilization of the economy which we have decided upon.

The second basic goal of the economic policy, that is promoting development, is identical with the restructuring of the economic structure of the country through productive investments the improvement of productivity and the strengthening of the competitiveness of our products. The realization of these goals is the only way to achieve the consolidation of a strong and self-sufficient economy which is the pre-requisite, not only for national independence and the promotion of our national pursuits, but also for the exercise, on a stable and permanent basis, of a just social policy.

In order to achieve the economic and social goals, it is necessary to radically confront economic imbalances and structural weaknesses and problems through the implementation of the appropriate policy based on three basic cornerstones:

Firstly: a bold policy for stabilizing the economy, particularly aimed at the immediate and radical confrontation of inflation and a drastic reduction, on a permanent basis, in the balance of payments deficit, a serious restricting factor for economic growth.

Secondly: a coordinated structural policy to promote the necessary changes in the structure of the economy and secure the expansion and modernization of the country's productive capital, as well as a restructuring of and increase in production.

Thirdly: a policy of institutional measures to modernize and improve the economy and have it operate more effectively.

In the past year emphasis was laid on the stabilisation of the economy. Under the pressure of serious economic imbalances and the structural weaknesses we inherited at the beginning of PASOK's first four-year term, as well as the unfavourable effects of the international circumstances, the adjustment of the economy in the first four-year term did not advance sufficiently. It was therefore necessary to accelerate the stabilising policy so as to drastically confront economic imbalances and achieve in a short time deescalation of inflation and a substantial decrease the balance of payments deficit.

Experience, both Greek and foreign, has proved that semi-measures do not suffice when serious macroeconomic imbalances coexist with deep structural weaknesses. The measures the government took last October for the stabilisation of the economy are indeed tough. Political courage and high sense of responsibility the government possesses were needed.

An economic and social cost was entailed in the short term with the policy being implemented since last October for a rapid stabilisation of the economy. But experience has proved that stabilisation is a condition for proceeding to a permanent economic

development to be mobilized. This means that the benefits which would ensue in the mid-term from the restoration and development of the economy would be greater than the short-term cost during the stage of stabilisation. Moreover the government pledges to the people that these benefits would be justly distributed.

The policy of economic stability being implemented pursues mainly the improvement of the country's foreign trade balance in two ways: First, with the immediate improvement of the competitiveness of the Greek products aiming at the support of the domestic production and the promotion of exports. Second, with the checking of the rate of increase of the total expenditures of the economy to levels in time with the capability of the domestic production to respond, both quantitatively and qualitatively, to demand.

In the first phase, competitiveness was encouraged by the last October's readjustment of the drachma's exchange parity. However, our basic goal is to ensure the economy's competitive capacity by dealing with the underlying causes of domestic inflation. The new incomes policy for 1986-87 will lead to a considerable slowing down of the rate of increase of production

costs, and therefore will play a considerable role in reducing inflation. At the same time, it will limit the effect of the devaluation on cost as well as on prices, thereby ensuring improved competitiveness on a permanent basis.

The second phase of our stabilisation policy is based on the control of domestic spending, with drastically reduced deficits and loan requirements in the public sector, as well as the application of a monetary policy which will support the desired reduction in the economy's loan requirements.

I have stressed that we cannot spend more than¹ the country is able to produce. Exceptions to this rule can only be justified under emergency conditions and for limited periods. Recourse to foreign borrowing to shore up a level of consumption higher than that justified by domestic productive abilities is no solution. Sooner or later it would lead to an economic impasse. Therefore the drastic reduction in the balance of payments deficit, as well as in foreign borrowing requirements was mandatory.

A reduced deficit in the public sector, something the government is consistently implementing, will have an immediate positive effect on the balance of payments,

deficit is considered to have dropped during the first seven months of the year by 21%. At the same time, there has been a considerable decrease in the loan requirements of public enterprises and organisations.

Again according to available data, the target of reducing loan requirements in the public sector by 4 percentage units of the gross domestic product in 1986 will be achieved. I feel there is no need to draw attention to the fact that the achievement of this particular goal is of crucial importance not only for the success of the stabilisation programme, but for a more effective use of economic sources for productive purposes.

Secondly, there has been clear and substantial progress towards reducing inflation. Following the increased rate of the last four months of 1985, an unavoidable consequence of the implementation of certain measures in the stabilisation programme (readjustment of the prices of goods and services offered by public agencies, the devaluation, deposits on imports), since the beginning of this year, inflation has been behaving in accordance with the predictions of the stabilisation programme. Consumer prices increased by 8.2% during the period January to August this year. Based on this development, as well as on the forecasts for the last four months

of this year, the goal of 16% predicted for this year will be reached, as against 25% in 1985. Even more significant is the fact that conditions conducive to a reduction in inflation to below 10% within 1987 are being created, on the condition that we will continue to implement the stabilisation programme with the same consistency and decisiveness.

Thirdly, with regard to the balance of payments, as usually happens in such cases, there have been unavoidable delays between the initial implementation of new measures and the reduction in the foreign deficit. However, there has been a great improvement in recent months. The balance of current exchange deficits in the period January to July of this year was 813 million dollars (38%) lower than the deficit in the same period last year. In June, for the first time in many months, there was a slight surplus in the balance of current exchange, while in July this surplus reached 157 million dollars, compared with a deficit of 150 million dollars and 132 million dollars in the corresponding months of 1985.

Even more significant is the surplus forecast for August. It must also be pointed out that the inflow of private capitals was particularly high in July of this

year. Taking these developments into consideration, the target we set in October 1985 (of a reduction in the current exchange deficit in 1986 to 1.7 billion dollars that is approximately half the corresponding deficit for 1985) is not therefore unattainable.

Political stabilisation has begun to show results. I stress this fact with particular satisfaction, as the people's sacrifices involved in confronting the economic crisis have started to bear fruit. Economic developments support the conviction that the difficult course towards stabilising the economy will have been completed within the time limits set, so that economic recovery and steady, self-sufficient growth can begin. We rose to the challenge and have been vindicated.

Economic developments have silenced those Cassandras who have been predicting the failure of the stabilisation policy ever since last October, and have been rumour-mongering in attempt to create confusion and uncertainty. Their forebodings were based neither on a correct assessment of economic data, nor on an objective critique of the government's economic policy.

Even worse - they did not back this up with realistic proposals for alternative ways to deal with the economic

crisis. Their predictions of the failure of the stabilisation programme, or even (this ever since PASOK came to power in 1981) an imminent financial crash and bankruptcy, were incited by petty political motives, and aimed at politically exploiting the country's financial difficulties. The progress which has been achieved in stabilising the economy is the best answer for them.

Now the people know who has the courage and the strength to pull the country out of its long-term crisis. They also know those who ^would not and could not forward even one serious proposal. They know who preferred to play opposition games at difficult moments for the country. However, it is about time to call a stop to this negative and sterile form of criticism. The country's interests demand it. It is in all our interest to contribute creatively to a coordinated nation-wide effort towards the stabilisation, recovery and growth of the economy.

I do not maintain that our economic problems have been beaten. However, we are on the right track and are therefore determined to continue to implement the stabilisation programme consistently. Of course, many difficult problems remain. For a transitional period, the stabilisation of the economy will have an undesirable

side-effect. It will have negative repercussions on unemployment, something which is a result of the effort to improve and rationally organise production. Unemployment is particularly undesirable for the socialist government of PASOK. In formulating and implementing the stabilisation policy, every possible effort was made to restrict to a minimum the negative repercussions on employment. We rejected other alternative stabilisation policies which would have led to an abrupt and even greater increase in unemployment. And we have succeeded in maintaining unemployment at an extremely low level, compared with other countries in Western Europe. At the same time, we have taken all the necessary measures to support employment and to soften the effects of unemployment as much as possible during the transitional stage of the application of the stabilisation programme. Within the framework of the National Council for Development and Planning, proposals and measures have been examined which will soon be implemented.

However, it must be understood that there can be no substantial progress, either with regard to unemployment or any of the other problems, until macro-economic balance is not restored. Thus, we will continue with our stabilisation policy during 1987. The government is determined to ignore pressure, fears for its popularity

without worrying about petty party concerns for costs or gains, in order to complete its efforts for the good of the country.

The government believes it has, and will continue to have, the support of the great majority of the Greek people, as the people expects us to deal with its problems substantially and decisively, not by covering things up, putting things off, glossing over and in the long run bogging things down within in a climate of temporary self-satisfaction.

The stabilisation of the economy is, of course, not an end in itself, although it should be recognised that the rapid reduction in inflation to acceptable levels, redressing the equilibrium in the balance of payments and the gradual stabilisation of the exchange parity of the drachma would in themselves constitute a considerable achievement. Economic stabilisation improves prospects for increasing effectiveness of new investments and creates, in general, the conditions which favour a pick-up in investments, which in turn improves productivity and competitiveness and sets the economy on a stable course for a self-sufficient development. It must be stressed that in order to increase investments there must be a period of a pick-up in yield. To achieve this improvement is one of the main objectives of the stabilisation programme. At the same time as stabilising the economy, we must deal with the structural problems, promote the necessary structural changes, and channel an ever increasing percentage of our economic resources to productive purposes, especially to economic areas and activities wherein we have, or can have, comparative advantages within the present competitive international economic environment. We must all understand - public bodies, the business world and workers - that the time is long past wherein we could base economic development, high levels of employment and improving living standards on subsidisation or other types of support.

Under the present conditions of the economy at home and abroad, productivity, competitiveness, advanced technology implementation, and especially the change in mentality and mode of work - within the public and private sectors - are of chief importance in

meeting up to the challenge of stiff international competition.

Before I make mention of development issues, I would like to make a number of observations as concerns government choices of stabilisation policy and criticisms of this stabilisation policy.

I think it is quite clear that the attempts of the government are to distribute fairly the social cost which stabilisation of necessity demands, given the most appropriate choice of measures, by restricting accordingly economic side-effects on the effective functioning of the economy.

Certain reactions were forthcoming from the workers as concerns the stabilisation programme, which are fully understandable. - Due to the fact that the income policy chosen by the government is truly a tough policy. The greater majority of the workers, however, understands the need for this stabilisation programme. They know that the government of PASOK always acts in accordance with the more permanent interests of the social whole and exhausts all possibilities to improve the economic position of the economically weaker sections of the population.

From the business world, which is the most rapid critic of inflation and ardent supporter of fiscal discipline, certain reactions were expressed vis-à-vis certain measures of the stabilisation programme, which by

its very nature is imperative to achieve economic discipline needed for the more equitable distribution of the cost entailed in economic stabilisation.

The business trade union bodies have started a crusade against the "credit strangle" which supposedly has been created in the private business sector with the implementation of the monetary programme. It must be said that this takes place at a time when outside observers of our economic programmes consider that the monetary and credit policies are not restrictive enough and the negative interest rates still in force for large categories of bank loans explain the pressure for more credit, in many cases to finance speculative activities.

The private business sector cannot base itself, at least not exclusively, on bank lending. It must also risk its own capital in the productive process. This is, in fact, a pre-condition for the private businessman to act responsibly and in the interests of the national economy, and bank credit, and for the private sector to play the role it rightly demands to play within economic life and the progress of the country. Experience as concerns excessive bank loans is truly painful. Overlending of the banks contributed to creating the heavily indebted and problematic enterprises which are a noose around the neck of the Greek economy.

The business world does not seem to understand the efforts of the government to clean up the public sector and the drastic reduction of public deficits. The reduction of lending needs in the public sector by four percentage points of the gross domestic product, which we are carrying out, demands serious efforts, as undertaken by the government. The private business sector, moreover, is not outside the creation of high fiscal deficits. Its contribution to public revenue is disproportionately low, and the cost to the state budget of subsidies and other support for production, investments and exports is considerable.

Also, the realignment of prices for goods and services provided by the public enterprises and other public bodies, at least to the extent that their deficits is not due to the bad organisation and functioning, is necessary to curtail public deficits.

We must all understand that we are one society, and all its citizens have the same rights and obligations. Also, that the modern state we create is to protect the income and living standard of the economically weaker members of society, to ensure that all citizens have opportunities for work, and equal possibilities of developing and using their abilities, and for the stronger members to progress without forgetting their social responsibility.

The government is also being criticized because the stabilisation measures

have not been completed with development and structural measures. I would like first of all to observe that in a number of sectors mentioned, when we announced the stabilisation programme as issues of especial attention, significant steps have been made. For example, the rationalisation of the public enterprises was promoted, measures were decided upon for rationalisation in industry, and socialisation was continued. We have stressed many times that the combination of measures in the stabilisation programme has been chosen with a basic criterion, - at the same time as bringing down inflation and improving the balance of payments, to protect domestic production and promote competitiveness of Greek products. The combination of the devaluation with the incomes policy ensures the maintenance of competitiveness and creates possibilities in the private sector, which if put to maximum use might bring about the necessary adaptations and improvement in performance.

Many of the measures in the stabilisation programme are developmental in nature.

I do not assert that the economic environment does not hold any further possibilities for improvement in the development of private enterprise. All the same, there is no doubt that we are not reticent on state support and subsidies for productive investments and exports.

The system of fiscal and credit investment incentives is quite generous. It must be said that to date 706 investment programmes have been completed at a total of 18,5 billion drachmas, subsidised with 4,6 billion drachmas, which created 7.169 new jobs and are at present under way, and another 859 investment programmes at a total of 42,9 billion drachmas subsidised to the tune of 12,5 billion drachmas which will ultimately create 15.155 new jobs. This is the beginning of a process based on the law 1262 ratified in 1982. An investment needs about two years on average to take fruit, from the moment of its initial drawing-up until the start of productive functioning. This means that in the immediate years to come there will be considerable improvement.

Substantial steps have been made on a perhaps slow but sure basis to rationalise the system of state intervention and measures to ensure better conditions for business capital risk to promote investments, the necessary adaptations, ^{thus} improving the running and performance of businesses, and promoting export competitiveness.

The system of state interventions and measures in force today - despite the fact that there is still margin for improvement - is much more rational as compared with the system inherited in 1981. It now has more simple, general, impersonal and easily applicable rules and is characterised by much greater transparency.

The question which arises is to which extent the private sector has responded and used the more favourable conditions we have tried to create, and chiefly the possibilities offered by some of the measures in the stabilisation programme to protect competitiveness of the economy and to promote it? Although the time elapsed since the announcement of the stabilisation programme last October is fairly short, from the available data it can be seen that response of the private sector has not been satisfactory. Many companies still depend on state subsidy and support for their running. It has not been understood that times have changed and that these companies must themselves undertake systematic efforts to improve the functioning and performance of the companies, adapting their production to the needs of the market, introducing better administration, adopting more effective methods of marketing, which will enable them to penetrate and win new markets, and introducing technological innovations. They must also mobilize more business capital, instead of supporting themselves on excessive bank loans.

Just as the business world must adapt its mentality and activities to the new conditions so too the workers must understand that ensuring work and improving income and living standards depend on the effective functioning and performance of the company, - whether public or private - for which they work. The social whole is not in a position to shoulder the cost of covering administrative deficits of the public enterprises, or the losses of private companies. Nor can valuable resources be

be sacrificed to cover administrative deficits of public enterprises, or to support the functioning of private enterprises running at a loss, instead of these resources being used for new investments or for improving basic social needs.

The general attitude is that the state can and must be charitable in the face of every difficulty. . The state must safeguard income, ensure work, provide capital for business activities and subsidies for those not prospering, ensure satisfactory medical care, etc.

The state however does not have any means of undertaking the consequences of the lack of productivity, the indifference and the lack of responsibility of each citizen. The state exists as a pivot of development. Because we all constitute the state and any bill being paid is a bill for all of us. What we are trying to do is to introduce a new and more rational organisation of society, within a new, modern and humane system of values.

We are doing our utmost to encourage new entrepreneurial forces with modern attitudes. We are promoting the small and medium-sized venture, because basically we believe that it constitutes the hot-bed of new business forces. We are also promoting the development of modern cooperative units or other forms of businesses (worker-share companies, socialised companies, self-management etc.)

At the same time, we are promoting processes of consensus at a company or sector level and are encouraging the development of new worker relations, adapted to the present attitudes and needs. For this reason, we believe that the country needs a strong, independent politicized (not along party political lines) trade union movement, which will not serve narrow corporative interests, but will defend and promote the more general interests of the working class and will be in a position to influence the basic choices of economic and social policy. We aim at and are promoting a new constellation of social forces, so that the voice of the worker, the farmer, the craftsman may reach the decision-making centres and have a say in shaping economic and social policy. These are efforts being promoted, among other things, with the National Council for Development and Planning.

As a final comment may I touch upon the issue of private entrepreneurial initiative. I know that the businessman develops his activities within a certain economic climate and it is quite fair that he aims at achieving a profit. As I said last year, from this same podium, profit is the motive force of private economies. And it is equitable and acceptable when it is not the result of exploitation of a monopoly force, when it is on a logical basis, when achieved through activities which contribute to the increase in productivity and production, and when a substantial amount is invested to improve and extend productive activities of the enterprise.

The central problem is to change the rules of the game, in a way that

entrepreneurial activity, both private and public can adapt more appropriately to present conditions and needs and better serve economic and social goals. The chief problem here is productivity. Improving productivity depends partly on investments. It also depends on correct organisation, on the mentality in the light of the problems at work, on initiative, on disposition for greater effectiveness. Productivity presupposes increased feelings of responsibility of the business man and the worker. Improving productivity is the key to improving one's living standard. Because any increase in nominal wages will depend on the inflationary pressures unless performance does not improve simultaneously. We need a much more flexible and effective public administration with a new outlook. Progress made is negligible because the issue is a difficult one. It comes up against an ailing mentality, created in the past. We must continue planning to step up efforts undertaken to create a modern state.

As an aside on the developmental role of the state let me say the following:-

As you know, the government is moving on now to a number of large developmental projects, involving large investment costs, which need financing in excess of 150 billion drachmas each over a long construction period. These projects are at a high drachma cost with an economic yield higher than the normal public works

These projects include the diversion of the Acheloos River, the Athens Metro, the oversea link between Rio and Antirio, National Highway Patra - Athens - Salonica - Idomenis, and parking houses in the large towns.

Financing for these very important and crucial projects, as concerns the development of our country, can only be covered by a programme of public investments. We are thus directing ourselves towards a combination of financing sources, in order to achieve solutions for financing which will be satisfactory, safe and with the least risk involved.

Permit me, at this point, to make special mention of the town and area of Salonica, since today is the special celebration for the co-capital. The town has had, as of September 1985 a Regulatory Plan, and the Organisation of Salonica, ie, that body which implements the Regulatory Plan of the town and which will study, observe and coordinate the measures for the protection of the Environment. At the same time a number of projects which have changed the face of the town are under way.

Within 1987 the central sewage pipeline of Salonica will have been completed and the waste treatment plant will be completed.

The new road axis of the town which channels traffic to the Halkidiki coast is in its final stages of completion.

The Eastern Arterial route which relieves the town of its regional traffic is under construction and the first eight kilometre stage will soon be

completed.

The large bridge of the Axis along the national route between Salonica-Halkidona has been finished and will be open to traffic in mid-September.

This puts a stop to the decades of discomfort for those travelling to Western Macedonia.

Despite the progress being made, the economic problems are still serious and difficult, because they are structural in nature. To deal with them we must undertake coordinated efforts, mobilize all productive forces of the country. It demands a pan-national mobilisation based on the equitable distribution of sacrifices needed for economic stabilisation and development, and of the economic benefits derived. The pre-conditions for overcoming economic difficulties we are facing do exist. We must however mobilize ourselves forcefully to make full of them.

If we pursue our policy conscientiously, then we will have laid down the foundations for a society of a different form and quality in life, for a society with greater social justice, with less exploitation, with new forms of relations in production, a society where the individual will be able to develop more freely, and put to maximum use possibilities available.