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ECONOMIC POLICY AND DIRECTION

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INTRODUCTION

Doubts are often encountered as to the capabilities of Greece, both at home and abroad. A large part of the Greek population sometimes interprets the distance between Greece and its European partners either fatalistically or in nationalistic outbursts.

Nonetheless, whatever we have created we can also change -- provided, of course, that attainable targets are set by a realistic judgment of the environment and of our strengths and weaknesses. A sustainable development path is an achievable target. For that, however, we need a national development strategy.

Such a strategy should include:

- an economic transformation;
- an administrative restructuring transforming the public administration; and
- a new developmental approach to our international relations.

ECONOMIC TRANSFORMATION

The Greek economy is beset by three long-standing problems:

- macroeconomic instability with high public sector deficits and debt and protracted inflation;
- a continuous drop in private investment in real terms and decrease in product competitiveness, resulting in lower market shares and increased imports; and
- a limited but sustained drop in real income of a large part of the population.

It is beyond the scope of this note to analyze the causes of these problems which coexist today. I will go directly to the economic transformation that is required to overcome these problems and to set Greece on a sustainable development path.

I see this transformation extending along three lines of action:

- a new competitiveness and growth policy;
- a strategy for upgrading the Welfare State; and
- the establishment of a policy for economic stabilization and growth that is socially just and efficient.

A New Competitiveness and Growth Policy

In the competitive conditions of the European Union, we view competition not as a threat but as a development tool. In the environment of fast change, frequent realignment and unforeseen evolution, the concept of a static, permanent and unchanged comparative advantage loses its practical meaning. Comparative advantage in the modern environment is dynamic and must be earned. The comparative advantage must not be taken for granted. It is always under formulation and should be conquered.

Conquering competitiveness is above all the responsibility of each enterprise. In such an environment, the competitive strengths of each enterprise are formed depending on its management, technological and business choices.

What is required of an effective development policy under such circumstances is, thus, clear. The State should secure the conditions under which competition among sectors, activities and enterprises will promote those which can better meet competition. Development policy should help in forming and structuring comparative advantages and assisting enterprises adjust to the new conditions.

We view the role of the State in such a growth strategy as having a twofold function: a supervision and regulation activity and an intervention and support activity.

The State should see to it that the external business environment gets as little as possible in the way of structuring comparative advantage.

Beyond this enabling role of the State, i.e., the prevention of obstacles to development, there is and should be a more active policy. A development policy that intervenes directly, tries to increase the growth rate and to foster desirable growth. Such an intervention policy should function as a catalyst and facilitate the adjustment and modernization of enterprises but should not have a narrow sectoral character. What comes first is the promotion of infrastructure, whether material or human, so as to assist in the unhindered exercise of entrepreneurship, flexibility and growth potential.

The traditional, static perception of competitiveness almost automatically leads its supporters to the panacea of reducing the cost of labor. Greek workers have been subjected for five years to a continuous reduction of their real wages with minimal gains in competitiveness. The dynamic perception of competitiveness argues in exactly the opposite direction. The need to reduce wage costs is considered an indication of a problem in competitiveness and not as an achievement.

The penetration of a market, domestic or international, is undoubtedly the necessary criterion of competitiveness and the final objective of a policy of growth. The question is to ensure that this penetration is combined with an increase of the welfare of producers and that distortions and interventions that ultimately reduce the well-being of the society are avoided.

We believe that competitiveness should be beneficial, viable, just, effective and healthy. In other words, competitiveness should:

- be based on production methods that are environment-friendly;
- be maintained even when the competition among enterprises increases;
- lead to satisfactory returns for all factors of production;
- create the conditions for the prompt adjustment to new technologies and to liberated markets;
and
- be the basic evolution component which will lead enterprises to modernization and progress.

The sectors of industry, energy, research and technology are the central points of application of this growth policy. The success of the opening towards competitiveness as well as the forming of the competitive advantages that will support Greece in the 21st Century depend on the policy to be followed in these areas. The principles of this new growth policy are built in the Second Community Support Framework for the three sectors. Unlike older development initiatives, the Community Support Framework does not only represent the expenditure of large funds for the enlargement of the present structures but is also an effort towards a qualitative turn of the development process. A structural change aiming at establishing a new, different growth path.

The Community Support Framework is a structural intervention at the root of economic backwardness and introduces to each of the sectors it covers horizontal solutions to problems faced by enterprises.

- In industry, emphasis is put on upgrading and the control of quality of production and, more broadly, the promotion of infrastructure, both general and that which is special to the particular industry.

- For small and medium sized enterprises, partnerships and cooperation are promoted through networks for the distribution and specialization of the production processes and the promotion of innovative financing.
- In energy, the improvement of efficiency is promoted through the introduction of natural gas as an alternative option, through energy saving projects and through the organic integration of environmental factors in energy planning, such as the promotion of wind and solar power.
- In research and technology, the innovative ability of Greek enterprises is reinforced through projects utilizing the scientific potential of the labor force, cooperation with research bodies, etc.
- In investment, the new investment promotion law introduces a series of criteria for the promotion of integrated modernization project, as well as for the formulation of an administrative environment friendly to the investor.

Our country needs to turn towards growth. In the pessimism engendered by the structural malaise of the Greek economy, it is easy to forget its successes. Even in the most difficult times for the economy, there have been and still are enterprises and sectors that contradict the overall pessimism, exhibiting performance that is competitive in global terms. In the last few years, the number of these successes has been constantly increasing as a result of both the dynamism of the young managers and employees and the international developments that favor the potential of Greek enterprises.

- The new technologies do not favor large enterprises and mass production but smaller-scale enterprises. These are the majority of the Greek production potential.
- New markets are opening to which Greece has preferential access.
- The increasing availability of capital and new financial products favor the adjustment of financing to the needs of the particular borrower.

The shift to growth will be successful when more firms take advantage of the opportunities that appear in order to turn potentiality into competitiveness. The initiatives that were embodied in the Community Support Framework are only the start of an active growth policy in a competitive environment -- a first decisive step towards the establishment and consolidation of the shift to growth.

Upgrading the Welfare State

Even during a period of economic stabilization, one has to take care of the citizen and particularly the weaker strata of the population. Otherwise, there is a high risk that stabilization will lead to increased inequality and injustice.

Three areas have to be tackled:

- Social Security, where a radical improvement of the existing system is necessary;
- Consumer protection; and
- Human capital formation and retraining.

Concrete measures in these areas are necessary so that the economic crises will not threaten social cohesion. The largest possible number of employment opportunities should be given during the recovery stage. Significant first steps have been taken along the lines followed in all industrialized countries to a greater or lesser degree.

Socially Just and Long-Lasting Growth

Today, we are going through a period of stabilization with noticeable results. The drop of inflation, the growth of tax revenues, the containment of public sector spending and foreign exchange stability are remarkable successes. They create a favorable macroeconomic environment for increased private investment and economic growth. As the macroeconomic targets are met, we should shift our attention to other problems -- the by-products of the protracted stabilization period. The most important of these is the social distribution of the stabilization costs. At the same time, we have to take all the necessary measures to ensure that prudent fiscal policies will always be followed and the results of stabilization will have a lasting effect.

A bold tax reform should and is being undertaken to achieve these goals. The general direction is to reward the productive enterprises and labor and limit -- as much as possible -- the unofficial "black" economy. Fiscal consolidation cannot be lasting without an effective control mechanism of public expenditure, be it from the central administration, public enterprises or local administration.

TRANSFORMATION OF THE PUBLIC ADMINISTRATION

For a long time, public administration has been suffering from the clientele mentality which has characterized the relationship of the State and the political parties, on the one hand, and the citizens, on the other.

The hiring of large numbers of unskilled or unqualified employees during periods of fiscal expansion and the lowering or the leveling of wages during periods of contraction have had a detrimental effect on the public administration's efficiency and ability to respond to the increasing demands of a rapidly changing society and economy.

A radical transformation of the public administration is urgently required. Such a policy has to ensure that:

- the clientele mentality is effectively combated;
- all hirings are carried out in a transparent way as required by the recently enacted employment law which is being successfully implemented;
- emphasis be placed on the hiring of experts and appropriately trained skilled personnel who should also be placed in the right positions and participate in the decision-making process;
- the ineffective system of incentives and remuneration is changed so that able personnel will be attracted to public administration;
- independent units are created, which can more flexibly respond to special tasks; and
- effective use is made of all civil servants while reducing, to a minimum, the phenomenon of simultaneous large underemployment in some areas and lack of personnel in others.

DEVELOPMENTAL APPROACH TO INTERNATIONAL RELATIONS

International relations can be a major contributor in development. To date, the international contributions do not exhaust the potential for further development.

Our foreign policy has had a defensive character as it has been focused on the prevention and containment of real or imaginary threats and was frequently dominated by ethnocentric and isolationist tendencies. Instead, our foreign policy can open up new roads and create new opportunities promoting Greece's position in all sectors including the economy.

Our history shows that we have been successful only when we created or took advantage of international alliances.

Our effort ought to be focused in two directions: The European Union and the Balkans.

As the broad targets of the European Union are yet under formulation, we can take an active part in this process. By promoting our positions, we can ensure that the unification will contribute to our development targets, to the amelioration of the North-South gap and to economic and social cohesion.

In the Balkans, we ought to strengthen our comparatively advantageous position vis-à-vis our European partners. For this, we need to participate in the Balkan initiatives undertaken by the European Union.

We need to deepen the communication and cooperation between our citizens and those of our neighbors. To develop and expand economic relations by private and by public agents. To promote economic activity along the border regions and across our borders. We need more contacts, exchange of information and dialogue.

Greece can play a leading role in the region and can, thus, make a substantial contribution towards its development. We need, however, to adjust our national strategy to the requirements of our time. We have to overcome passive attitudes and look at the future as a challenge to our initiatives and creativity.