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**GREECE'S MODERNISATION PROCESS:
VISIONS AND NEW REALITIES**

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Introduction

It is a particular pleasure for me to find myself here, among many old friends. I would like to express to you my most sincere appreciation for the excellent job you have been doing here at the Hellenic Observatory, as well as for the opportunity to address the challenges we are facing and the opportunities opening up for Greece in the post-Olympic era.

Ten months ago the Olympic Games returned to Greece, the country of their birth, 108 years after the successful revival of the ancient games. They occurred at the end of a decade of substantial progress, 1994-2004, during which the country was transformed into a Euro-zone member, with an enhanced international profile, a sustained growth rate of 4% and a significantly modernised infrastructure.

A Decade of Progress

The PASOK government of Andreas Papandreou was back in power in late 1993. Since then, consecutive governments of PASOK have implemented one of the most ambitious and intensive macro-economic and structural adjustment programmes in the European Union (EU), allowing Greece to become, in 2000, a full member of the Economic and Monetary Union (EMU). Euro-entry removed monetary and exchange rate instability and, together with the very considerable decline in inflation and interest rates, provided economic policy with additional flexibility, stronger acceleration in credit growth and domestic demand.

Greece's membership of the Euro-zone is the most critical element in our efforts to bridge the gap with our European partners, created by decades of economic retardation. The fiscal deficit was reduced by more than ten percentage units of GDP in six years. The lowering of the deficit resulted from applying strict controls on public expenditure and from increases in the revenue side owing to a broadened tax base and an effective combating of tax evasion. Moreover, a major effort was undertaken to restructure and modernise loss-making public enterprises, especially in the transport sector, by promoting re-organisation, abolishing restrictive labor practices and

upgrading managerial efficiency with a view to increasing productivity and restoring financial balance.

Recently, the new conservative government attempted to challenge the extent of fiscal consolidation during the convergence period in an effort to darken the economic record of the PASOK socialist government. It has, however, been shown that the excess of the revised deficit figures over 3% of GDP is fully accounted for by the new government's decision to switch the recording of military expenditures from deliveries to cash payments.

Given the scale of Greece's defence modernisation effort – defence spending rose to 5% of GDP in 2000 – moving liabilities from future delivery dates to the years when orders and payments were made inflated dramatically past deficit figures. In whatever way one chooses to look upon it, Greece achieved the fastest macroeconomic convergence compared with any other member of the Euro-zone. The fiscal deficit fell from 13.9% of GDP in 1993 to less than 3% in 1999. Inflation fell from 14.1% to 2.2% , while growth accelerated from an historical average of 1.5% to 4% over the last eight years.

Furthermore, on the structural front, we implemented a substantial programme of privatisations covering banks and public utilities. We also created more efficient competition in product and service markets, by liberalising protected sectors, such as telecommunications and energy, and supporting innovative enterprise and investment. The vigorous pursuit of structural reforms and the completion of the privatisation programme injected dynamism in the growth process, by spreading a competitive culture and higher efficiency in the economy. Twenty - seven state enterprises and banks were privatised over a three-year period generating in the process substantial revenue in order to repay past debt.

Following financial market liberalisation, the Greek banking system underwent deep changes. In the past few years banks have engaged in a fierce battle for market share through mergers and take-overs that reshaped the landscape of the financial sector.

Liberalisation itself introduced greater flexibility in the markets, leading the way to a stock market boom, followed by a further opening-up of the financial sector and the emergence of sophisticated business such as derivatives and stock brokering creating thus greater opportunities for banks to grow.

Stability, structural reforms and the ensuing dynamism of the economy improved the environment for investment. Strategic partnerships, mergers and acquisitions and participation in Private Finance Initiative projects attracted investors. Foreign capital has been involved in major infrastructure projects such as the new Athens International Airport and the Rio-Antirio Bridge and has taken up considerable positions in Greek stocks and securities.

New International Horizons

The last decade also marked a new, enhanced international profile for Greece and, particularly, a more active role in the EU. The successful management of the Iraqi crisis and the signing of the Enlargement Treaty during the Greek Presidency underscored a new confidence as well as the recognition of a stronger voice in European affairs.

It is well known that Greek foreign policy is to a large extent being shaped by our disorderly relation with Turkey and the continuing illegal occupation of a large part of the Republic of Cyprus. Tensions between Greece and Turkey are aggravated by a series of Turkish claims on Greek sovereign rights which have brought the two countries in the past to the brink of war. We are, therefore, obliged to sustain vast expenses for military purposes. Only very recently we have been able to achieve substantial economies in the field of defence and that due to better management and radically reforming military command structures.

In recent years, we have initiated a policy of rapprochement with Turkey. Greece's attitude has undoubtedly led to an improvement in our relations in certain areas, notably economic cooperation, although there are no signs of a

Turkish change of policy in the critical issues of Cyprus and the respect of Greece's sovereign rights.

Turkey is a candidate for membership in the EU with the support of Greece. However, for this to be realised Turkey has to keep on its democratisation efforts, particularly as regards the role of the armed forces and the respect of human rights, not only through the adoption of the necessary legislation but by ensuring its actual enforcement by the entire state apparatus. It is of critical importance that Turkey changes attitude towards Cyprus and Greece in accordance with international law. Occupying part of a member-state of the EU and aggressively challenging sovereign rights and the air space of another hardly help a country aspiring to become EU member. By October 2005, progress in fulfilling these conditions will be examined and relevant conclusions will be drawn regarding the credibility of Turkey's effort to join the Union.

Greece's enhanced international role has also found expression in a stronger presence in the Balkans. Having ceased to be part of the problem, we have become part of the solution, acting in a positive and frequently effective fashion as a stabilising force in pursuit of security, peace and increased prosperity in the complex structure of Balkan states and nationalities. Political intermediation, military cooperation, economic and financial assistance, have been employed so as to promote wider goals, such as the establishment of democracy and the market economy, and the integration of the emergent states into the international system.

At the same time, Greece played an active role in advancing the cause of European political integration. We support the Constitutional Treaty, despite misgivings regarding the weakness of the provisions touching upon social policy and workers' rights, because we recognise the need for a strongly structured European political entity, with a capacity to act on the world stage. During the Greek Presidency on defence matters – which lasted for 12 months on account of Denmark's withdrawal from this field – we vigorously promoted the creation of the European Military Force capable of undertaking

independent peacekeeping operations in areas which are vital for European and world security.

The Olympic Stake

Through the Games, the world had the opportunity to see modern Greece, its relations with a distinguished past and its recent economic and social progress. Above all, it witnessed the ability of a small country to organise a huge and complex project, which had to take place under stricter security conditions than ever before, not only for its own benefit, but also for the benefit of humanity and world peace.

Their successful implementation followed the equally successful effort to join the Euro-zone and create conditions of stability and growth in the economy. They both contributed to bolstering national self-confidence regarding the long-contested – both internally and abroad – ability to achieve goals.

Apart from helping to initiate and complete extensive infrastructure projects the Olympic Games mark a new, dynamic phase for the Greek economy, based more on knowledge and modern structures, and also for the Greek society which became more extrovert and cosmopolitan, adopting a more international perspective.

Future economic and social benefits are very important. Services sectors in Greece, such as tourism, commerce, banking, insurance and transport, should enjoy a large positive impact, while construction and manufacturing have already reaped large benefits. Foreign capital will find post-Olympic Greece a more attractive destination than before. Productivity and competitiveness will increase as a result of the modern infrastructure, especially transport. Net revenue should be generated from the privatisation, lease, securitisation and commercial development of the Olympic projects. The Games left behind better organised and cleaner Olympic cities, with better transport and facilities. Construction and other sectors have acquired and applied know-how which they can now transfer to other projects and regions in Greece as well as abroad.

Modernisation: the Challenges Ahead.

Greece completed a cycle of substantial modernisation over the previous decade. Overcoming the economic instability and stagnation of the previous era, it managed to consolidate its finances, reduce inflation, accelerate growth and promote structural changes conducive to create a friendlier environment for enterprise and investment. Taking advantage of EU funding as well as the organisation of the Olympic Games, it succeeded in modernising its infrastructure, enhancing competitiveness as well as the quality of life of its citizens. Lastly, the entry into the Euro-zone and an open and dynamic foreign policy lifted its international profile allowing for a stronger voice in Europe and the world in defence of its national objectives and interests within its overall policy orientation for further European integration and a fairer and more peaceful world.

However, much more needs to be done in order to adjust economic and social structures to the modern international environment and enable Greece to respond to the aspirations of its people for prosperity, more and better jobs, and enhanced quality and prospects of life.

New privatisations, including private financing of public works, and liberalisations of protected sectors could reinforce the growth process while greater and more focused support of research and new technologies could further encourage innovative enterprise.

The main unfinished business of the past decade concerns, crucially, the efficiency of our state institutions in promoting economic development, social welfare and, more generally, tackling problems affecting the quality of life.

Critical branches of government such as general administration, local authorities, justice, the national health and education systems, suffer from overcentralisation, excessive bureaucracy, inefficiency, low quality of services, slow delivery, not to mention pockets of corruption, which inhibit economic and social progress.

These problems have long historical roots relating to the way the Greek state was created after the Independence War in early 19th century and the subsequent turbulent development of our political system. To analyse them goes beyond the scope of the present lecture.

What is relevant is to stress the importance of overcoming them so as to free resources and energies required for further modernisation. This is even more pronounced from a social-democratic or centre-left perspective which relies on a substantial role of the state in promoting economic growth and social justice. Failure to address squarely the issue of institutional modernisation, particularly as concerns the provision of social services, following the entry into the Euro-zone was, probably, the chief cause of PASOK's electoral defeat in 2004.

Radical reforms are necessary across the spectrum of economic and social institutions along the following lines:

- a)** Decentralisation of functions and financing and strengthening of market mechanisms so as to improve the quality of services and accelerate the speed of delivering outcomes. Greek state universities should gain freedom from the Ministry of Education so far as personnel management, pay policy, curricula and student selection are concerned, and accept that their funding will be related to evaluation results for their educational and research output. State hospitals should also gain additional degrees of managerial freedom in return for accepting that their funding will be related to efficiency criteria in delivering services.
- b)** Greater competition and flexibility regarding personnel policy covering promotions and pay so as to attract talent and ensure top quality at the higher echelons of the administration. Strict seniority rules prevailing in many branches of government such as justice should be abolished.
- c)** Reinforcement of independent authorities in fields such as competition and mass media, ensuring fair application of rules and sanctions. Strong and independent internal audit systems should be established so as to combat effectively corruption.

d) Last, but not least, drastic deregulation, involving abolition of antiquated laws and rules particularly regarding licensing as well as simplification of administrative procedures so as to remove obstacles to entrepreneurial activity and the creation of new firms. Such action is essential for promoting innovative enterprise and investment, both domestic and foreign, and attaining international standards of competitiveness.

This is a vast and ambitious project affecting many important sectors of economic and social policy. For it to be carried out, many features of the successful EMU project should be emulated: strong political will and leadership; a cohesive and efficient "task force" of committed politicians and officials; substantial dialogue and consultation with social partners and other interested parties in order to create the necessary alliances. This last point is particularly important because the implementation of such radical policies will undoubtedly encounter fierce opposition from entrenched interests and lobbies while provoking antiquated mentalities. Surmounting these resistances will require, beyond the will to reform, persuasion and skill. These are not qualities in excess supply, particularly in Greece's present government which has not demonstrated either the will or the capacity to promote such an ambitious reform agenda.

It is, however, urgent to proceed along these lines. Greece's future growth and eventual convergence with its EU partners hinge on creating a friendlier and more efficient environment for innovation, enterprise and investment. The prospects for jobs, equal opportunities and social welfare depend critically on the quality and efficiency of state systems in education and health.

Greece may perhaps have to wait for the return of a socialist government committed to a reform agenda. This, however, assumes that PASOK takes advantage of opposition time so that it equips itself with the will, the plans and the alliances needed to carry out this huge task and bring modernisation into the next stage, that of allowing people to fully reap the benefits of economic and technological progress.