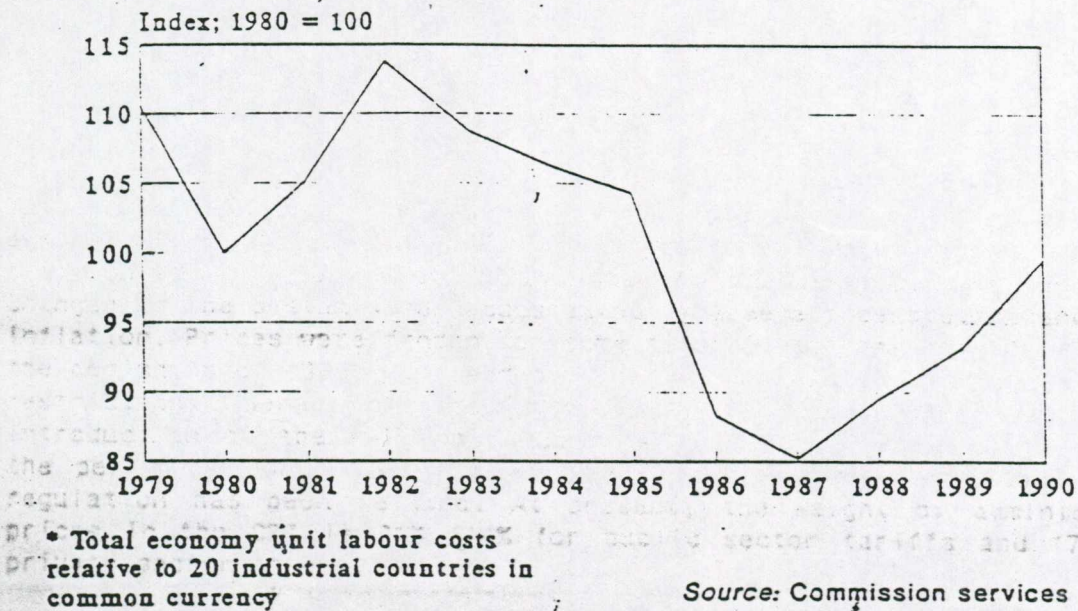


Graph 7

### Greece's international competitiveness total economy\*



Graph 8

### Greece's international competitiveness in manufacturing\*



42.1% in the same period. This severe loss in competitiveness was partially offset through the 1985-87 stabilization program. The program was abandoned in the fall of 1987 and another nominal expansion commenced. Between 1987:Q4 and 1990:Q4 Greece's total economy real exchange rate rose by 16.3%, while that for manufacturing rose by almost 30% but there has been some modest containment of these trends in 1991. These developments are indicative of the very adverse impact of the labour market policies on Greece's ability to perform in international markets, and, more importantly, in the context of the European Community.

### III.C Price Regulation and State Aids

A system of intensive price and profit controls was set in place in 1946 and governed Greece's price formation for over three decades; the system was codified in 1977. An extension of the regulations was implemented in 1979, covering a broader group of goods and services. Changes in the system were necessitated by Greece's persistent and high inflation. Prices were frozen for some time between the end of 1979 and the beginning of 1980, followed by a period of relaxation. However, new restrictions were initiated in 1982. In anticipation of the introduction of the VAT (on January 1, 1987), prices were frozen for the period November 1986-January 1987. In the subsequent years price regulation has been relaxed. At present, the weight of administered prices in the CPI is 31% (14% for public sector tariffs and 17% for private sector prices).

The fundamental motive for price controls has been to achieve social objectives, such as preserving the real income of wage earners, or providing wider access to various markets through influencing price formation. It appears that the policy has ultimately failed: inflation has been a constant threat to real wage gains, and the intensification of social strife is clearly related to price uncertainty; by creating a constituency, price controls become politically difficult to remove; finally, they have an effect on income redistribution which is not explicit, difficult to monitor, and the incidence of the implied subsidization is virtually impossible to assess<sup>(8)</sup>. Clearly, such social objectives could be better served through more orthodox intervention means (improve the competitive environment, for example) and through explicit provisions in the tax system.

Greece has traditionally provided a variety of subsidies to industry. The fact that these are explicit and more transparent than indirect subsidization through price controls does not make them less harmful. Indeed, such subsidies invariably distort market signals and have

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(8) The difficulties encountered in the easing and ultimate removal of price controls has become particularly evident in the housing market. Here the income redistribution effected through rent controls has resulted in important professional constituencies which are contesting the proposed reforms. These reforms are discussed in the next section.