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Γ.Α. 3

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3 Ιανουαρίου, 1994

Αγαπητέ κ. Υπουργέ,

ΠΡΑΚΤΙΚΑ

"Η ΩΡΑ ΤΗΣ ΕΛΛΗΝΙΚΗΣ ΟΙΚΟΝΟΜΙΑΣ"

Με μεγάλη χαρά σας εσωκλείουμε τα πρακτικά του συνεδρίου με θέμα "Η Ωρα της Ελληνικής Οικονομίας" που οργάνωσε το Ελληνο-Αμερικανικό Εμπορικό Επιμελητήριο την 1η και 2α Δεκεμβρίου, 1993 στην Αθήνα.

Ελπίζουμε να είναι ενδιαφέροντα και χρήσιμα.

Και πάλι σας ευχαριστούμε θερμά για την συμμετοχή σας σ'αυτή τη σημαντική εκδήλωση.

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THE GREEK ECONOMY: FOCUS ON THE FUTURE

Athenaeum Intercontinental Hotel, Athens
December 1,2, 1993

MINUTES

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CLOSING DINNER ADDRESS, SECOND NIGHT. SPEAKER: Andreas Papandreou, Prime Minister of Greece

The automobile of economic growth has ignition problems and cannot start. We will repair it. The automobile is still strong." With this statement, originally made by one of the founders of neoclassical economics, the Prime Minister expressed his confidence in the world economy's prospects for growth. While not hesitating to admit that John Meynard Keynes'statement had failed to come true, Papandreou unreservedly pledged his commitment to pull Greece out of recession. "The automobile of economic growth has never been stronger. Once we fix it, it will zoom to a new highway of material growth," he said. "But how this is to be achieved is yet to be discovered." Against this dramatic backdrop, Papandreou urged guests at the conference's closing dinner not to "lose our faith." He suggested that high technology would guarantee the prosperity of future generations and emphasised that the key to progress lies in the successful combination of old and new ideas. "Such a combination, I suggest, will remedy the ills of the Greek economy," he said, specifying its "high fiscal deficit, high public debt, high interest rates, high inflation, slow GDP growth, and unequal distribution of wealth, which has become worse over the last few years". At the heart of these problems lies the notion of "competitiveness," the Prime Minister stressed, echoing speakers who had addressed the conference earlier. The notion of competitiveness should be approached from a micro-economic point of view. "It is not states that compete, but businesses," Papandreou said. "It is here that I see old and new ideas coming together." Rejecting traditional views that competition relied on labor cost and production cost, Papandreou said the globalisation of the means of production has changed the rules of the game. The key notion to understand the concept of "national competitiveness which applies to Greece or any other state is productivity," which determines the level of wages and the productivity of capital. Today productivity is dependent on the so-called "acquired or dynamic comparative advantages". In other words, Papandreou said, those economies able to create such comparative advantages would rank high in competitiveness. In this process of creating a suitable economic environment for companies the role usually undertaken by the state is becoming less important. Instead what matters more is "the organisation of the productive unit".

Papandreou said there were two routes to organise production: the enterprise and the state. These follow contradicting ways. The enterprise becomes more competitive by specialising to the extent of "monopolising its products", whereas the state widens its cooperation with other states to create unions and federations, such as the European Union, the American NAFTA (North American Free Trade Association) and the Asian Free Trade Zone. "Within this changing model the Greek economy could grasp the opportunity to get off the ground," he said. Greece's modes of production, Papandreou said, were in tune with current international trends. By taking advantage of the European Union and its "flexible and specialized companies", it could overcome its economic problems and "rush into the 21st century". He insisted that the lack of heavy industry and multinational companies in Greece would not be an obstacle to economic growth in the 21st century and excluded the possibility that the state could play a dominant role in the process towards economic growth. "The state can only provide the spark," he said, while the rest is up to business initiative.

DINNER ADDRESS, FIRST NIGHT. SPEAKER: Miltiades Evert, Leader of the Opposition and President of the New Democracy Party

A stable and firm platform of social support is of paramount importance if Greece is to reform its economy and safely advance toward real growth. Economic policy tools can provide the desired results only if they are backed up by social consensus. However, at the heart of Greece's economic problems lies the lack of such consensus. What is therefore needed is radical social reform, Evert said.

The Greek people, including politicians, should become more sensitive to social issues and more concerned with the good of the whole rather then their individual interests. He suggested constitutional reform to distinguish more clearly between the role and scope of the government on the one hand and the parliament and the system of justice on the other. "This would be the crest of social reform", he said. Given social reform, Greece should clearly define its role toward the year 2000, Evert stressed. Attention should be paid to those sectors of the economy where Greece has or can develop considerable comparative advantage, such as tourism, shipping and the food processing industry, while the state should intervene less and let the private sector assume a dominating role in the direction of economic growth. Questioning whether more austerity without a policy to boost growth would remedy the country's economic ills, he called for the government to increase investment funds which, coupled with the Delors II funds, would finance large-scale projects to improve the country's infrastructure. This would, in turn, provide a solid base for Greek entrepreneurship to boost business both domestically and abroad, in such areas as the Balkans. Evert said the 1994 budget failed to spend enough on investment and to make provisions for interest rates to be reduced. However, despite its economic difficulties, Greece would manage to meet the Maastricht criteria in time, he said.

The New Democracy leader voiced his belief that political consensus would be the only way for Greece to increase its diplomatic muscle at international negotiating tables and to play a significant role in European politics. He also proposed a shift in Greece's policy in the Balkans. "Instead of being parties to judicial contests, we should become mediators for the Balkan problems," he stressed. In this context, he suggested that the northern Greek provinces of Macedonia and Thrace should be given more opportunities to develop their economic interests northwards and gradually become the center of economic activities in the Balkans.

THE VIEWS OF POLITIKI ANIXI ON THE GREEK ECONOMY SPEAKER: Antonis Samaras, President, Politiki Anixi Party

The PASOK government's economic policy is a bad version of the New Democracy's hopeless austerity programme, which relentlessly required more sacrifices by the poorer classes and put additional financial pressure on entrepreneurs, while offering no solution to Greece's acute economic problems, Antonis Samaras,leader of Greece's youngest and third strongest political party, Politiki Anixi (Political Spring), said in an address on the first day of the conference. Samaras fiercely criticised the draft of the 1994 budget, which had been released by the government only the day before, for failing to restore economic growth. He predicted gloomy days ahead for the Greek economy, with the primary deficit worsening and the fiscal deficit as a percentage of GDP increasing further, because of slow economic development and high interest rates. He gave a cautious welcome to the government's intention to reform the tax system and introduce "objective criteria" to clamp down on tax evasion, and suggested that a two-tier tax system, to complement the one proposed by the government, by providing taxpayers with the opportunity to seek "justice" in cases where the objective criteria failed to provide it, would be fairer. He said a new tax system was just one of a long series of fundamental changes indispensable for Greece to revive its economy. Such changes included re-definition of the state-citizen relationship, decentralisation of the public sector, which is currently based in Athens, more opportunities to younger generations, more incentives to entrepreneurs willing to invest in the country's less developed areas, and further liberalisationm of the banking and insurance sectors. Samaras said also that strengthening key sectors of the economy, such as shipping, tourism and agriculture, were of paramount importance for further development. He called also for the creation of a stock market based in Thessaloniki to breathe more life into Northern Greece's economy and stressed that special attention should be paid to organising the region's banking system, which, coupled with Greek business and economic expansion into the Balkans, could turn Greece's second largest city into a financial and trade center for the Balkans. The privatization of state companies should continue, except for companies of "strategic importance", such as the Hellenic Telecommunications Organization (OTE) and the Public Power Corporation (DEH), for which PASOK's intended strategy was correct — namely to partly privatize them by issuing shares on the stock market. "But the money generated should remain within the companies rather than go into the public coffers," he stressed. In regard to monetary policy, Samaras restated his long- standing proposal for what he called "aggressive devaluation of the currency", which he defined as gradual depreciation against other currencies at a steady rate according to a set timetable.

Such a monetary policy, he said, would provide a stable framework for the promotion of Greek exports, protect Greece from monetary crises and disentangle monetary policy from the austerity programme. So far, Samaras stressed, the country's monetary policy had been designed to assist fiscal policies, which was unacceptable. Monetary policy should be a means of economic growth rather than a platform for fiscal recovery.

Samaras proposed the creation of specific committees, including a "national council for competitiveness" and special councils for each economic sector, to promote economic growth. Samaras said his party's macro-economic programme and proposals for structural adjustments would increase annual revenues by around 3-3.5 trillion dr. Providing more incentives to small and medium size companies, removing constraints from certain overburdened sectors and introducing a system of licenses to others to guarantee that services offered meet certain requirements, are also high on the economic agenda of Politiki Anixi, he said.

LUNCHEON ADDRESS, FIRST DAY. SPEAKER: Stefanos Manos, Member of Parliament, New Democracy Party

Has the government abandoned Greece's commitment to the Maastricht criteria of converging with the rest of the European Union economies?" This question was asked by Stefanos Manos, former Minister of National Economy and Finance, in addressing the conference's first-day luncheon. Drawing a comparison between the new government's economic policies and those of New Democracy, Manos said the New Democracy government had implemented free market policies in a large number of economic areas:

* Collective salary agreements between employers and workers' unions were reached without any political intervention, while major restrictions on capital flows, working hours and price ceilings were removed.

* A new framework was set for accountants, competitiveness was improved, the tax system was simplified, and foreign investment increased

Focusing on the 1994 budget, Manos said it suffered from a serious flaw, as a result of the new government's effort to pass onto 1995 some of the financial burdens that should be dealt with in 1994. "Mr Gennimatas' 1994 budget appears fair but only at the expense of 1995. It is a dead-end and it shows that the government's policy will soon stumble against the wall,"he said. He specifically criticized the government for reversing or delaying his privatization program and warned that the business world would come across some "bad surprises". In particular, he said, public revenues would be deprived of 620 billion dr because the government had cancelled the construction of the Spata airport and the Thisvi electric power production unit. He said the New Democracy government had planned to sign the contract for the Spata airport "on the very day it was forced to step down, after three years of hard work on this project". On top of this, 70 billion dr would be lost because the government had called off the competition for the casino licenses, while the state's share from the OTE sale would have generated another 43 billion dr. "The government as a result will have to impose more taxes," Manos stressed. Manos also criticised the government for contracting two loans with foreign banks just a few days before the conference: a 100 billion yen loan with Japanese banks and a $1 billion loan with British ones. These loans, he said, would exert inflationary pressures. For the same reason he criticised the government's intention to cut interest rates and to re-impose a special tax on banking services, which would increase the cost of borrowing for Greek businesses. Despite government policies, he said, he was confident there would be economic growth in the private sector. In particular, he described Greek small and medium sized enterprises as a driving force of economic growth, given that the world economy increasingly appeared disenchanted by massive production and the model of multinational companies and was shifting toward self-employment and small-scale production. In this context Manos called upon Greek entrepreneurs to invest "more aggressively" in the Balkan and Eastern European markets. "This is our own area," he stressed, comparing China's relation to Hong Kong with Greece's to the Balkans. Manos also stressed that Greece should focus on four economic areas, namely textiles, agriculture, tourism and services, and develop them sufficiently to compete with other countries. "We should aim at improving our performance in these areas rather than at entering other fields of production, in which other countries are already ahead of us."

FORMER BRITISH CHANCELLOR

Norman Lamont, member of the British House of Commons and former Chancellor of the Exchequer, addressing the luncheon of the second day, said that Europe has been at its best when involved in the creation of a single European Market and least successful when producing a top-down approach in trying to create monetary union.

However, he continued, Monetary Union is dead on account of economic divergence. The idea of Jacques Delors was to achieve monetary union by a progressive tightening of the ERM bands, which could not stand the strain of grappling with rigid measures. The only way to attain a single currency is not the gradual course once thought possible, but the more immediate complexities of an overnight change, as when German monetary union was achieved.

It is clear that the French government will not hand over its monetary sovereignty irretrievably to the Deutschmark.

Dr. Helmut Schlessinger, the former head of the Bundesbank, used to say that the Treaty plots a political end using monetary means without defining the primary objectives. A single market does not need a single currency. The ERM worked better before it became caught up with Maastricht. The purpose of Maastricht could be seen as chiefly political and not, as was once thought, completely economic.

There are two reasons why it would be extremely unwise for European politicians to embark on another push for political union, Lamont said.

The first is that there is simply no popular wish for it, as can be seen in the figures of recent referendums. Both Ireland and France have at least 50% disapproval of monetary union and other federalist tendencies.

The second is that Europe does not constitute a single cohesive electorate.

This can be illustrated by comparison with the United States where the swing to the Republican or Democrat candidates is the same across the whole country, whereas the swing in general elections has been the opposite in Scotland to what it was in England. In countries where this does not happen, it can lead to tension.

There is no prospect that elections to the European Parliament will be fought on the same issues by the same parties across the continent, and reflect any notion of popular rolition.

The 1996 intergovernmental conference will be more decisive than Maastricht was. Politicians cannot legislate in the face of economic fundamentals but can legislate though new political structures.

OPENING SESSION

The conference was opened with presentations by National Economy and Finance Minister George Gennimatas and Industry and Commerce Minister Costas Simitis on the policies of their resective departments.

After stressing the importance of discussion with the social partners on new tax measures, Gennimatas said Greece's allies and partners in the EC should realize that despite the immense difficulties faced by this country in relation to its public economy, Greece is a factor of stability in the wider area of the Balkans, including Turkey. Inviting his audience to "imagine the social problems (in former Yugoslavoa) once the bloodshed ends", he said Greece's role would then be crucial for the peace and tranquility of the region, provided that it succeeded in stabilizing its economy. Also, it must make use of its comparative advantages in the region in the sectors of consumer goods, construction and tourism. A reduction of the cost of borrowing was an essential condition for an improvement of the financial and credit picture, and for that reason the government had imposed no new indirect taxes. The policy it had chosen was one that would bring down inflation, while also stressing development, stability, social protection and investment. Gennimatas said the producer classes "have never before seen so austere a budget", though at the same time the purchasing power of the work force had to be protected, after three years of austerity,both for social reasons and because of the effects on the markets if it were reduced still further.

He said the government was following a "fan-like" policy based on stabilization accompanied by development. "Our great weapon - - currently my only weapon — is social dialogue. The work force, producer classes and merchants must realize the need for permanent social dialogue that takes account of competitiveness and productivity as well as of workforce education and training and technology transfer. Referring to "certain positive developments", Gennimatas said some of the 2 billion dollars that left Greece during the pre- election period was now being repatriated, reserves were high, demand for bonds was intense and the stock exchange was in a position to supply resources as companies went private. Describing the 1994 budget as "sincere, realistic and possibly a bit optimistic", he said every effort would be made to reach the objectives set. He said the target for inflation was a rate "below 10%" by the end of the year, there would be a "logical depreciation but not devaluatiom of the drachma, wage increases in the public sector would be in the area of 10% also, and the growth rate should be "close to 2% and at least above 1.5%."

The need for a modern, powerful and competitive industry that will help the economy to achieve high development rates in order to guarantee full employment and improve conditions of work, reduce regional inequalities and minimize social and environmental costs was urged by Simitis, speaking on "the new industrial and trade policy." He said basic policy axes aim at creating a favorable climate for the development of business activity, especially by small and medium-sized industries, the strengthening of the competitiveness of Greek industry, technological modernization and penetration of international markets. Selection of the means to be used arise from Greek and international experience over the past decade, present conditions in Greece and likely needs over the coming decades, and industrial development policies internationally. Development of business activity requires economic and social stability, transparent and stable rules of the game, and the removal of disincentives represented by unnecessary and ineffective regulations. This involves both social dialogue and the question of relations between the state and private sector, and also clear and applicable rules of competition. A second principle centers on comparative advantages, which are neither static nor solely dependent on geography and raw materials but concern business administration and technology, something that accounts for the existence in every sector of successful and unsuccessful enterprises. "This means that our industrial policy cannot have a sectoral character, but must be based mainly on horizontal measures and actions supporting the efforts of industries to develop their own internal comparative advantages." These measures and aims will concern infrastructure in its widest meaning — transport, telecommunications, energy, research and technology — and the development of the human potential through education and train ing, as well as support for efforts to penetrate foreign markets. Turning to competitiveness, Simitis said this is now a matter more of quality than price, at a time when the internationalization of markets has almost eradicated the differentiation between internal and external competitiveness. In these conditions, competitiveness can no longer be supported by traditional means, many of which in any case are now incompatible with Community rules. Industrial policy, therefore, apart from supporting efforts of enterprises to increase productivity, concerns also the creation of the appropriate institutional framework and special infrastructure that will assist industries in raising the quality of their products. On the question of size of industry, international experience over the past two decades has favored networks of small and medium-sized units — something that has led large foreign enterprises to break up into smaller, interlinked autonomous units. In Greece, however,only 15% of industry is of a size suitable to become part of such chains. There will therefore be support for mergers, various forms of cooperation and the development of networks across the whole spectrum of production and distribution. Simitis said the government is mot dogmatic on the question of denationalization and privatization. It appreciates that state involvement had increased beyond all reason, and that many state-owned enterprises must either return to the private sector or be allowed to go out of business. The quality of management of an enterprise, and its competitive administration, is more important than ownership. The exception concerns the strategic sectors of national defense, energy, telecommunications and transport. Even in this area, however, there are activities in which the public and private sectors can coexist competitively, or in a complementary way, just as there are arrangements of a private sector character that can upgrade the operations of enterprises; as an example he cited recourse to the stock market for funds instead of the money market or state subsidies. Insisting on the importance of dialogue, Simitis concluded:"Our aim is to place Greek industry on a development course; either we shall succeed all together or we shall not succeed at all."

THE PRIVATIZATION PROCESS

SPEAKERS:

Christos Pachtas,Industry Undersecretary.

Peter Doukas, former Finance Undersecretary.

Sir Adam Ridley,Executive Director, Hambros Bank, London.

Graham Bishop, Chief Economist, Salomon Brothers,London.

Roman Ceska,First Deputy Minister for Administration and Privatization of National Property, Czech Republic.Laszlo Pal, Vice President of the Hungarian Parliament's Economic Committee.

Lord Moore,European Chairman, Monitor Company, London.

The lengthy session on privatization was devoted to an examination of programs carried through or under way in Britain, Hungary and the Czech Republic, suggestions on policies that might be examined by the Greek authorities, and the views of the present Greek Industry Undersecretary and former Finance Undersecretary. Giving the keynote speech, Lord Moore — who served for 10 years in Margaret Thatcher's government and oversaw the privatization of British Airways — contrasted the situation in Britain in 1979 with that 14 years later but insisted that every country must find its own natural model. In 1979, the state in Britain dominated key areas of the economy despite the "astounding failure" of state ownership as demonstrated by high prices, zero profits, high employee costs rising by far more than the retail price index and bad union relations. "Losses were running at 3 billion a year and service to the consumer was a sick joke." Now, 46 major companies had been privatized and two-thirds of the state sector transferred to the private sector, along with fully a million former state employees. While revenues were not a critical factor, over 50 billion had been raised in 14 years; consumer protection had become a reality and prices had fallen 27.5% in real terms. In the same period the shareholder proportion of the population had risen from 7% to 23%,while more than 90% of all eligible employees in the privatized enterprises had become shareholders. Discussing the "prime problem of the national interest", in terms of national security, the limitation of foreign ownership, the prevention of a "price rip-off" and regulation, Lord Moore said the so-called "golden share" was a mechanism that could be used to determine the method of control as distinct from ownership, pending determination through the parliamentary process of the restrictions to be applied, including compulsory provision of certain non-economic services and protection of the consumer against exploitation in monopoly situations. While a range of innovatory pricing techniques was available, the central element was to ensure competition. At the same time, "you must not expect to win the media battle, since to the media the price will never be right." Dismissing the concept of a "capacity problem", Lord Moore said the Thatcher government had been told that its 4 billion telecommunications sale was double the total capacity of the market. In the event it had been nine times oversubscribed, with shares purchased by two million new investors who had never owned shares before, proving that "capacity is unlimited if you create new markets for shares." This could be done through incentives to small shareholders and new programs of mass marketing. Turning to "what we have achieved, Lord Moore cited:

* The more effective use of resources, with benefits to the public.

* The massive extension of individual ownership by act of government policy, making a reversal impossible.

* The shift of the government role from protecting the producer to protecting the consumer, as regulator and not as owner.

* The "unleashing" of competition, directly and through the regulatory system. The British experience, he said, had demonstrated that the state did not need to own in

order to protect the national interest; the focus had been placed on the consumer and new markets had been opened.

IN HUNGARY

Discussing the course chosen by Hungary, Pal — a member of the presidium of the Hungarian Socialist Party — said his country had embarked on reforms earlier than the other Comecon members. The Hungarians had acquired the right to organize small private enterprises as early as 1980, while legislation providing protection for foreign investors had been passed by the last socialist government. The privatization process as such, however, was based on a 1988 act that had led to an influx of more than $5.5 billion in foreign exchange and the creation of more than 15,000 joint ventures. Hungary now applies all the basic laws for transition to a market economy along with systems — compatible with those of the European Community — oriented to the market economy and also clear and understandable for foreign partners. However, in Hungary as in all other East European countries, the economic situation today is tangibly worse than it was before the collapse of the old system. Common causes included attempting the transition too rapidly and the resulting over-supply of enterprises offered for privatization. Pal listed five principal approaches to privatization: sales by open bidding, sales through the stock exchange, the intake of additional capital by negotiations, "mass privatization" through coupons and vouchers, and the provision of special credits for managers and workers of firms to be privatized. In Hungary, main emphasis had been given to market oriented methods, through which more than 95% of state-owned firms had been reorganized as joint stock companies and some 45% of them had acquired new owners — among whom were included banks, foreign firms, managers, workers and Hungarian and foreign private citizens. By the end of 1992, 215 companies had been privatized with a state shareholding of 49% or less, bringing in more than $2 billion, and 317 companies worth $700 million with a state majority holding. Also, preferential credits or extended purchase arrangements had been developed to facilitate share purchases by Hungarian citizens, while the Hungarian parliament was now preparing to legislate new forms of common ownership. Pal said the Socialist Party, if it won the 1994 general elections, would continue the privatization program, since there was no intention of turning the clock back. "The socialist way of privatization will be to develop the whole of the Hungarian economy together with the competitiveness of the companies," while at the same time looking for "good partners."

IN THE CZECH REPUBLIC

Outlining the Czech experience, Ceska said that in 1990 some 98% of the economy was still state-owned; three years later 50% of the economy had already been privatized and by the end of next year the figure will have been brought to 80% covering all aspects of activity — industries, mines, retail and wholesale trade, communications and distribution and infrastructure in general. Given the Czech conditions of low purchasing power and the absence of a business class, the voucher system had been preferred. Targeted enterprises had been transformed into joint stock companies and the people had been given the opportunity to obtain vouchers for the purchase of shares. In the first phase alone, 5.5 million out of the total 10m million population had taken part, gaining experience in shares and also a sense of common interest. The result had been strong support for the privatization process and for the government, as well as appreciation by all political parties that there was no alternative route to transformation of the economy. Gross National Product was rising rapidly, especially in the privatized sections, with the privatized enterprises turning in the best performances. Strong new middle and business classes had been created, capable of restructuring the economuy and determined to support only political parties that would continue the policy. Privatization was also a way to solve budget problems, since even free transfers had earned some money; at the same time, however, the proceeds had been invested in infrastructure and not used for budget-reduction.

SOME SUGGESTIONS

Sir Adam Ridley said he assumed the new Greek government would continue with a policy of privatization, but in the direction rather of putting shares of privatized companies in the hands of large numbers of ordinary citizens than of disposal of state- owned companies by private treaty sale. In Britain, the privatization process had been essentially one of changing ownership after and not before a government-initiated reform of the enterprises; thus the new shareholders had taken over a business in good running order. Also, the process had been designed to raise "real money" from real private savings, and therefore it had been built up gradually and in harmony with the level and growth of private savings. Such a policy involves moving forward step by step, "relentlessly increasing one's ambitions, with success reinforcing success, until a sort of dynamic tradition becomes established." This contrasted with the Central or East European model: the Czech Republic had used voucher privatization, in Russia over 5,000 enterprises had been privatized in less than a year with a mixture of cash and vouchers, and in Poland the new center-left government was close to privatizing several hundred companies at a stroke as a follow-up to the previous government's mass privatization program. Each country had its own priorities and its own reasons for the strategies chosen. In central and East Europe, the authorities had too little time, money and expertize to restructure before the change of ownership, which in fact marked the beginning of the process and was driven onwards by the large number of new private shareholders. Raising revenue was a minor issue. Sir Adam said a new government had to decide whether it wanted to restructure state-owned companies in potentially complex ways before privatization or to sell shares quickly in order to fund the public deficit and control the money supply. "One suspects that the answer is sometimes 'yes' to both questions. If so, the government will wish to pursue an Anglo- French strategy at least in some cases, by restructuring quickly but radically, ensuring top-class management, and only then selling shares in a series of public listings of progressively greater scale and ambition." A government adopting this course could choose among a number of ways of making the flotations less risky, such as slightly underpricing the offer to individuals, squeezing institutional investor allocations in favor of domestic individual investors, offering incentives for holding shares for a long period, introducing special tax treatment for privatization shares and encouraging unit trusts, mutual funds and investment trusts while also ensuring that shareholders can trade their shares cheaply and simply from the start and resolving "questions of custody and fraud before the first scandal." Suggesting that elements could well be adopted from both approaches, Sir Adam declared:"Greece today can choose from the best of a variety of methods of ensuring the widest possible spread of ownership of privatized companies. Not for the first time, Greece can choose the golden mean between the best of East and West."

Graham Bishop said a privatization program usually aimed at raising revenue for the government and improving industrial efficiency. Since the new Greek government has already announced it will sell off perhaps 20% of the key state-owned companies, potential investors will assume that raising revenue is the priority in view of the fact that outside shareholders will not be able to enforce management accountability with such a small stake.

Also, the government's stated intention to make use of the Athens Stock Exchange raised the question of the distribution capacity of the domestic financial markets. The volume of envisaged privatization might require the public to increase their equity holdings by nearly half, for which an innovative strategy would be needed. Linking into Europe's Single Market in capital could provide a short-term solution, but in the longer run the need to solve the pensions problem provided the opportunity to build up the necessary pool of pension capital to repatriate some of the shares held by foreigners, as well as to provide new capital. Much of the Single Market is now operative, based on a commitment to the free movement of goods, people, services and capital. If the Single Currency ever comes into existence, the key question for investors in Greece will be whether this country will be able to participate in effective monetary union and tap into the world's largest pool of private savings to meet its development needs. The previous government had set out an ambitious convergence program that was intended to ready the Greek economy for the shock of joining such a group before the end of the century, and the new government had affirmed its intention to continue this policy. The more likely the prospect of Greece's eventual participation, the more likely it was that international investors would direct some of their portfolio into drachma- denominated assets.A key question for the investor in Greece was the extent to which the Greek financial markets had developed, or would develop in the future, so as to give access to the same financial sophistication as that available in the rest of the EC and elsewhere in the world. Drawing attention to the "demographic timebomb" in Europe, Bishop said that one of the biggest driving forces for change would be the funding of pensions.Since there would inevitably be legislation to ensure that pension funds were properly managed,such funds would be invested only where there was complete information about the risks involved, which would entail new disclosure requirements.This would focus attention on the value of the assets being purchased, since investors would be unlikely to purchase shares in a loss-making company unless they could see a clear path to profits and eventual dividends. Another aspect of transparency was that investors would want to be sure about the regulatory and managerial regime applied to a company where they controlled only 20% of the equity, and whether it was such as would be likely to produce a flow of profits. In conclusion, he said, the goal of distributing shares widely throughout Greece might require a 50% increase in the volume of shares held by the general public, the domestic financial markets seemed poorly positioned to handle this scale of transactions in the short run, and therefore the longer-term task of creating the necessary pool of capital by funding pensions should start immediately. In the short term a sizeable proportion of the privatizations should be open to foreign portfolio investors, even though they were likely to be willing to participate on a large scale only when the economy and currency were on course for stabilization.

GOVERNMENT AND OPPOSITION

Pachtas said the Greek government sought to create the necessary clear and stable framework that would lead to economic recovery and development and promote Greece's participation in European Union. At present, he said, Greece was in a phase of high unemployment and low competitiveness leading to deindustrialization, which necessitated a reconstruction effort. For the new government, privatization was an inseparable part of a cohesive policy to promote private initiative, and not a means of obtaining revenue. It was viewed as a mechanism that encouraged small firms and small investors and also a way of improving public corporations, to the benefit of the final consumer. Quoting from the Prime Minister's policy statement in Parliament toward the end of October, he said four conclusions could be drawn:the government accepts privatization and wishes to restrict the state, resulting revenue would be used not to cover public deficits bvt to finance industries' investment programs, use would be made of the stock exchange, and privatization is not a dogma but a machinery for industrial development and restructuring. Under the previous government, privatization had been characterized by ambitious and impossible goals, a lack of orientation and philosophy, erroneous planning, decisions that could not be implemented, and impracticable attempts to apply foreign models to Greek reality. As a result it had become a costly operation that had failed to achieve its goals. Anticipated revenues had not been collected, unemployment had risen since new jobs had not been created to make up for those lost, and investment had stayed low. However, Pachtas said, privatization if used properly could be an important element in economic adaptation, leading to modernization through healthy competition. The government was moving in this direction, through a social dialogue that would guarantee the necessary social consensus.

Doukas analysed the reasons why enterprises under state control were unable to compete and also, by consuming more of the national wealth than they produced, condemned the country to a far lower rate of development than could otherwise have been attained. Insisting that the ownership structure of enterprises under direct or indirect state control must be changed in order for their shareholders to acquire an immediate interest in the financial results, he proposed:

— The Neorion shipyards on Syros, Piraiki-Patraiki, Elinda and AEVAL should pass free of charge to their workforces, with a small participation by the local authorities of the areas concerned.

— For certain other enterprises, including the Hellenic Telecommunications Organization, between 10 and 20 per cent of the shares should be distributed to Greek citizens "almost free", 25 to 30 per cent should be sold through the stock exchange, and up to 5 per cent should pass to the work forces. This would create a mass of shareholders interested directly in the progress of the enterprise and at the same time avoid talk of a "sell-out", since all Greeks would have the opportunity to participate on equal terms in the distribution of shares. It was true, he said, that such a solution did not solve the immediate and acute problem of poor administration and operation of the enterprises, since the state would continue to exercise almost absolute control. However, the benefits would emerge in stages, through pressure from the new shareholders for the conclusion of arrangements with Greek or international partners with the required international standing.

GREECE IN THE NEW EUROPE SPEAKER: Yannos Papantoniou, Alternate Minister of National Economy

Greece hopes to contribute to Europe's struggle for full employment by promoting new labor market policies and focusing on strategies to accelerate economic recovery across the European Union (EU) when it takes the helm of the EU's rotating presidency for the first half of 1994, Papantoniou told the first day of the conference. These, he said, were Greece's top priorities on its economic agenda for Europe. His statement was delivered 10 days before European Union leaders officially approved the European Commission's white paper, "Growth, Competitiveness and Employment", which sets out a series of proposals aiming at creating more jobs and restoring job confidence across the Community. Greece's twofold aim to boost emplouyment and economic growth within the Union is clearly in tune with these ambitions. Papantoniou said Greece sought to focus primarily on promoting the implementation of policies which would gradually generate more jobs. Such methods, he said,included special training for the unemployed, an expansion of the network of job agencies, and subsidies to companies that recruited jobless. But these policies depended on the EU's commitment to support them financially, which could be achieved only if EU members agreed to contribute regularly in acordance with their GDP. As a cure for Europe's current "economic stalemate" and a safe way to enter upon a steady course of economic growth, Papantoniou suggested that the stronger EU economies should continue reducing their interest rates, warning that unless the Bundesbank made further cuts in German rates, economic recovery would be delayed. This would, in turn, put more pressure on the weaker European economies, including Greece. Papantoniou also called on the EU members to support small and medium size enterprises across the Union. Such companies, he said, being small and therefore flexible, could stimulate economic growth in a short time. Addressing the question of European Monetary Union (EMU), Papantoniou warned that it could not be achieved unless the European Union strengthened its economic and institutional ties. He said the currency union would collapse unless "there is some progress to allow for the gradual convergence of budgets, to alleviate the danger of economic crises, to eliminate regional discrepancies, to reduce unemployment and to balance the EU's democratic deficit", a reference to a key provision of the Maastricht treaty increasing the power of the European Parliament, of which he was a member during 1981-84. Failure to meet these goals would cause a serious problem, since Europe would integrate at different speeds. "Greece, in particular, should guard against such a development," Papantoniou stressed. "For national and geopolitical reasons we should not integrate at a slower pace." Briefly referring to the 1994 budget, Papantoniou voiced confidence Greece would meet the Maastricht convergence criteria on inflation, debt and deficits. He also suggested that the recent months of drift experienced across Europe due to the collapse of the exchange rate mechanism would "prove beneficial to the Greek economy" in its effort to meet the criteria, for three reasons. First, the need to widen ERM's bands put pressure on Germany and other European countries to cut their interest rates. "This will in turn allow Greece to do the same." Second, a delay in the course toward EMU would give Greece more time to bring its economy into line with those of its EU partners and to qualify for entrance to the third stage of EMU. And finally, European leaders had increasingly come to realise that the EU could not integrate fully unless real adjustment took place. This would include social and living standards as criteria, as well as attempts to reduce unemployment. "To promote such developments Greece should strengthen its cooperation with EU members facing similar structural problems," Papantoniou said. Greece's economic expansion into the Balkans was also an opportunity for the country to restructure its economy, he said. "This is an area of paramount importance for Greece. Between now and the year 2000 we have to invest heavily in the Balkan markets." Despite the drawbacks - high risk and state intervention - Papantoniou called on Greek business to expand its activities in the Balkan markets, pledging the government's commitment to support their endeavor by promoting Greek products there, encouraging Greek banks' support and providing an insurance framework of cover for high risk investments.

THE NEW TAX POLICY SPEAKER: Dimitris Georgakopoulos, Deputy Minister of Finance

The government's intention to clamp down on tax evasion by introducing "fair and objective" income criteria, tightening control to ensure the implementation of tax laws and simplifying the existing "complicated" tax legislation is top priority for its economic decision-makers, Georgakopoulos said in what was his first official presentation on the new government's tax policies. Voicing determination to "crack down on tax evasion and break up this long-sustained vicious circle", he declared: "We have to break the link between public deficits and inflation by forcing all Greek citizens to comply with the country's tax legislation." Georgakopoulos said the fiscal and tax policies introduced by the previous government were "ineffective", because they failed to provide the anticipated increases on the revenue side of the 1993 budget. This failure, he said, caused the budget's deficit to reach 24.5 per cent of GNP, while the state's borrowing requirements were estimated at 13.9 per cent of GNP. While Greece handles state funds representing 49 per cent of its GNP - which is around the European Union average - it fails to do the same in terms of tax-generated revenue. There, Georgakopoulos said, Greece lags behind the European Union average by nine percentage points. "At the heart of this discrepancy lies the system's inability to generate the anticipated direct tax revenues," he said. To remedy the shortcomings of the tax system, Georgakopoulos proposed the implementation of "objective criteria" as the only fair and efficient way of assessing the income of those who attempt to evade taxes. Direct tax revenue represents only 30 per cent of the country's total tax revenues, and most of this is contributed by pensioners and salary earners. "Objective criteria" would enable the tax authorities to evaluate the income of the self-employed, who represent, along with farmers, half of the economically active Greek population, he said. Stressing the need for the support of the working and professional classes on a set of criteria based on social consensus, Georgakopoulos called on their representatives to embark on a dialogue with the government. Georgakopoulos said retention of the existing business tax status was "crucial for the country's economic development sectors", such as the Athens Stock Exchange and capital markets. His proposal to encourage the use of "plastic money" was welcomed by bankers participating in the conference, but his stated intention to create a company directory on which all companies -both Greek and foreign - operating in Greece would be obliged to register was viewed somewhat cautiously. Some participants suggested later that this initiative run the risk of becoming yet another bureaucratic burden on enterprises.

As part of the government's plans to re-organise the fiscal authorities, Georgakopoulos announced the creation of tax control centers in all prefectures and the upgrading of the department of economic crime prosecution. He also indicated that the government planned to intensify controls on cargoes. To simplify the existing "too sophisticated" tax legislation by introducing a system using various codes would also be a key aspect of the government's tax policies. Georgakopoulos said officials at the Finance Ministry had already embarked on the project.

ISSUES OF COMPETITIVENESS OF THE GREEK ECONOMY

SPEAKERS:

Jason Stratos, President of the Federation of Greek Industries (SEB)

Panayotis Thomopoulos, OECD Paris

Didier Maillard, Chief Economist Banque Paribas,Paris

Miranda Xafa, former advisor to former Prime Minister Constantine Mitsotakis

Christos Protopapas, President, General Confederation of Greek Workers (GSEE)

Nick Mourkogiannis, The Monitor Company, U.S.A.

Opening the discussion, Stratos said there is little chance for the competitiveness of the Greek economy to improve unless the state acts decisively to reverse the country's "unfavourable to growth" macro-economic environment, and the private sector assumes a "new aggressive policy" to fully integrate into the European business environment. He spelled out measures and decisions to be taken by Greece's public and private sector to restore competitiveness and to open the way for Greece to converge ultimately with the rest of its European Union partners. Despite the fact that there is consensus among Greece's productive sectors over the need to improve the country's economic competitiveness, Stratos stressed that "much confusion has prevailed over what sort of action should be taken" due to the "relative and comparative" notion of the term competitiveness. He concentrated on six factors which "decisively affect" competitiveness:

* economic, monetary and fiscal policies
* skills of the workforce
* technological research and development
* performance of the public sector
* state economic intervention
* quality of infrastructure

Any attempts to improve competitiveness should move hand in hand and entail coordinated policy to affect each one of these sectors. To this end Stratos called for the creation of a body, which he named Central Council of Competitiveness, to supervise and assess any efforts to improve competitiveness. The creation of such a body has been a long- standing demand of the Federation of Greek Industries. Stratos put the blame for the deterioration of the Greek economy on four factors. First, the public deficit puts pressure on inflation and interest rates to remain high, which in turn "hamper productive investment". Second, the "gigantic size of the public sector" makes it harder for private initiatives to break through. Third, the underdeveloped state of the country's infrastructure, including communications, energy, transport. And fourth, the lack of special training programs to meet the needs of various production sectors. To rid the economy of these ills, Stratos suggested the state should concentrate on a) restoring a balanced macro-economic environment, b) simplifying existing bureaucratic procedures, c) boosting a well-organised development of the country's infrastructure, d) promoting education, training and rehabilitation, and e) using European funds to promote means of improving technical and business know-how, which will ultimately assist the private sector in re-organizing its operations. As far as the private sector was concerned, Stratos called on Greek businessmen and industrialists to set the continuous improvement of competitiveness as the chief priority when it comes to setting out their enterprises' strategic planning. His advice to Greek business embraced three courses of action to be followed jointly. First, Greek firms should aim at establishing close links ,with European companies. Such a cooperation should run through all stages of production and include the stage of product distribution. Second, Greek firms should restructure their operational practises to set the foundations for the cost of production to fall and for the quality of products to improve. This effort should aim at improving productivity, boosting investment on research and technology and introducing a wider range of products to meet demand in an ever-changing market. Finally, Greek firms should look for "new specialised markets" within the European Union. Competitiveness is not a technical notion, which needs technical advice and expertise. "It is not a technical problem of comparative cost", Stratos stressed. Competitiveness could come about only as the result of a wider action to upgrade the economic and social environment.

Greece has not benefited yet from the globalization of economic activities, Thomopoulos told the panel, stressing that it should aim at attracting more foreign investment. "If Greece had attracted additional foreign investment of $ 12 billion, its GDP would grow at three per cent a year," he said. Some of the benefits of foreign firms to their Greek counterparts would include better product composition and overall higher productivity rates.

Thomopoulos warned that unless Greece cured its deep-rooted structural problems, its potential to attract more foreign investment would remain low. He referred to a set of criteria, which he called "efficiency criteria", that would have to be met."Despite the fact that these criteria are not measurable", Thomopoulos said, Greece obviously ranked badly. The criteria would call for less bureaucracy, more transparency, skilled personnel, more sufficient services, including telecommunications and transport, and a stable economic environment. He expressed his confidence that Greece could see its GDP growing significantly, if it seized the opportunity of expanding economically in the Balkans and Eastern Europe. In comparison with its European Union partners, Greece could take advantage of its geographical position and historical ties with the people in these areas to expand its business.

Maillard expressed the view that Europe will see its economy pulling out of recession next year, but the pace of recovery will be rather slow due to "the lack of prospect for a dynamic household's income". Apart from the United Kingdom, which is likely to see a 2.5 per cent rate of growth in 1994 against 2 per cent this year, the major European economies "will not grow by substantially more than one per cent next year". Maillard said Greece "should not allow itself any sort of exuberant optimism" since, despite predictions suggesting that the European economy will reverse its economic performance, "the economic situation in Europe will provide little help for Greece to tackle its economic problems in 1994". Focusing on the developments and prospects for the European economy "which no doubt affect Greece", he said there is little doubt that the economic developments in Europe have a rather significant effect on the Greek economy. Not only is Greece a member of the European Union, but it is also "a rather small economy within the Union", with a GDP share of only around one per cent. There are two other reasons which explain why the Greek economy is heavily affected by the economic developments within Europe. First, "through the channel of external trade" as two-thirds of Greek exports are directed towards the European Union. Second, because of the reliance of the Greek economy on the transfers from the European Union. "The economic climate in Europe may indeed impact on the strength and sustainability of this support and the related expectations" he warned. In order to justify Banque Paribas' forecasts that the European economy will improve only "slowly and moderately" in 1994, Maillard offered a brief explanation of the present economic trouble in Europe. He attributed the current problem to "the discrepancy between the economic developments in Germany and in the United States at the end of the 80s and beginning of the 90s", due to the German reunification. The German reunification, Maillard suggested, delayed the expected downturn of the German economy, as demand, generated from Eastern Europe, increased. This boost gave rise to inflationary pressures in Germany, which culminated in 1992 with double-digit wage increase claims. As a result the Bundesbank tightened its monetary policy and increased interest rates. These put pressure on the European economies through the European Monetary System. At the same time the US loosened its monetary policy, causing the Deutschmark and the European currencies, tied to it through the Exchange Rate Mechanism, to appreciate against the dollar and other world currencies. As a result Europe saw a loss of competitiveness which, coupled with high interest rates, depressed its economy. The Bundesbank's shift in policy in autumn 1992 was too "gradual" to prevent monetary tensions within Europe, which ended up in the collapse of the old exchange rate mechanism in August 1993. Maillard stressed that the Bundesbank's shift in policy "should go further" in 1994, as other European economies would be better placed to respond positively, as they have already started seeing their competitive position improving. The restoration of the competitive position coupled with "the drop of short-term interest rates and the big drop of long- term interest rates" are of crucial importance for Europe to pull out of recession. Maillard said the European economies have been moving on the right track. France, for example, saw its long-term interest rates going down to six per cent in November from nine per cent in summer 1993. Despite his optimism, Maillard warned that the European economies needed time to remove their economic concerns, which were likely to remain for some time. He saw Germany being preoccupied with wage adjustments, tax increases, booming unemployment, which has been around 30 per cent higher than its annual increase, and with the funding of the reunification process. France is more likely to be concerned over its increasing unemployment and social security expenditures,and Italy over the need for fiscal adjustment and its political uncertainties, while Spain would have to follow a policy of wage and fiscal adjustment before setting out for an economic recovery.

Refraining from outlining a course of economic action suitable to Greece, Maillard warned the country's "authorities in charge of economic policy" that they "do indeed have the major share in influencing the evolution of the economic situation" despite Greece's reliance on the economic situation in other parts of Europe.

Xafa voiced her belief that the privatization of state-run companies and the gradual introduction of free market policies are indispensable tools to improve the competitiveness of the Greek economy, and said that any attempts to reverse such a policy, which had been pursued by the New Democracy government between 1990 and 1993, would have detrimental results for the economy's competitiveness and its potential to converge with the rest of the European Union economies. Outlining the economic policies initiated by the former government, she said they would play a crucial role in upgrading mthe country's economic competitiveness.

* Price controls were removed, foreign currency quotas were lifted, the banking system was liberated, and a series of regulations were abolished to stimulate competition among banks.

* Tax indices were decreased significantly and the special tax on banking operations was lifted to reduce the cost of borrowing.

* Modern practises and methods were introduced to the capital markets and banking system.

* Some state companies were privatized and others liquidated, allowing the state to use its funds for the development of more productive sectors.

* Legislation was introduced to allow the private sector to enter into such businesses as energy production and telecommunications, which had traditionally been state monopolies.

* Construction projects, such as the Spata airport, were contracted out to private companies through the self-financing system.

Xafa said these measures would benefit the competitiveness of the Greek economy, since they aimed at reducing the role of the state in the economic decision- making. This she saw as playing a significant role in boosting competitiveness. "The role of the state should be diminished both by cutting down on spending and by holding back from intervening in the economy," she stressed. "The state has failed to be a successful producer of goods and services worldwide." Xafa described denationalization as a key factor in improving productivity and competitiveness. Also, clamping down on bureaucracy is yet another factor of crucial importance to improving competitiveness. "Any action which boosts competition is beneficial to competitiveness," she said. "Those countries whose economies are strong have provided for intense competition within their domestic market." An obvious example, Xafa said, was Japan, where there are 16 computer manufacturers, 15 television set producers, nine car manufacturers and 33 shipyards. "The bulk of their production is exported, which shows that these companies are in no way dependent on the size of the local market." Xafa spoke strongly in favor of market-driven rather than state-sponsored measures to improve competitiveness. In Greece, she said, competition had usually been undermined by monopolies. "It is, for example, unacceptable that Greece, which is a tourist destination, should have no private casinos and marinas." The New Democracy government had passed a law providing for the creation of private casinos and the privatisation of existing marinas. The PASOK government had suspended both projects. Xafa said the only profit-making state companies in Greece are those operating as monopolies and enjoying the support of the state, such as OTE (telecommunications), DEH (power),the Sugar Industry, and ELDA (Hellenic Refineries, Aspropyrgos). Criticising the present government's decision to hold back on selling-off some of these companies, on the argument of "national interest", she declared: "state protectionism reflects a state's unwillingness to clash with certain lobbies or its aptness to succumb to other groups' invested interests."

Earlier in her presentation, Xafa had defined competitiveness as productivity. This, she said, meant that a country could improve its living standards only by constantly increasing productivity. This, in turn, could be made possible if products and modes of production are constantly improved, while production adjusts to market conditions. Xafa ruled out improvement of competitiveness through soft monetary policies or low interest rates. Germany and Japan, she noted, have strong currencies, but their competitiveness has not been harmed. Italy has high interest rates, yet it remains a strong and highly competitive economy. Xafa also drew the government's attention to the accelerating global economic integration, with Latin American and Eastern European states increasingly trying to gain a place in the international economic arena. These countries' efforts, she said, would cause economic competition to become sharper, which would require national economic policies to respond appropriately.

Protopapas expressed the view that the government's economic policy priorities should be to restore macro-economic balance, clamp down on tax evasion, reduce the rising unemployment, especially in underdeveloped areas, and use the funds of the Delors II package to promote growth rather than temporarily alleviate some of the country's financial problems. Calling on the government to place labor on an equal footing with other aspects of its economic policy, he said economic growth could be achieved only if workers and the government cooperated mclosely. He said the previous government's austerity programme had put unbearable economic pressure on employees and pensioners, while its monetary policy had deprived Greek products of their competitiveness in markets abroad. Protopapas, who has been an active member of the labor movement in Greece since the late 1970s and has held key positions in various labor unions, culminating in his election as president of the largest Greek union confederation on October 18, stressed that economic growth could result only from constructive dialogue among the various social classes. He called for the creation of a special committee to coordinate economic and social issues, as well as the introduction of a fourth criterion in the Maastricht treaty requiring member states to meet certain employment standards.

Insisting that competitiveness plays a key role in a country's struggle to develop its economy, Mourkogiannis described it as a "vaulting horse". He said Greece, given the right course of action, could soon see its economy pulling out of recession. Greece needed a new economic strategy, he said. Restoring macro-economic balance would not be sufficient to achieve high levels of productivity, and neither would the privatization of state-owned companies. To improve competitiveness, more fundamental changes would have to be introduced, some of them initiated by the business sector itself. Greek companies would have to become competitive against their international rivals. How would this be achieved? The Monitor Company had prepared a set of guidelines to assist companies operating within the Greek economic environment in their effort to compete in the international business arena. These guidelines, he said, form a "dynamic model" for action. "They are not descriptive, but a practical tool".

SECOND DAY: OPENING SESSION

THE BANK OF GREECE: POLICIES AND OBJECTIVES

Address by Bank of Greece Governor Ioannis Boutos

Opening the second day of the conference, Boutos noted that the invitation had been addressed to his predecessor and that he himself had been Governor of the Bank of Greece "not even for 24 hours." However, he said, he wanted by his presence to emphasize the sense of continuity and consistency in the central bank's monetary policy.In the future as in the past, and regardless of the commitments of the Maastricht treaty, the Bank of Greece would continue to formulate independent views aimed at the development of the economy in conditions of domestic and external stability and balance.In any case, the internationalization of world markets, the obligations undertaken in the framework of economic and monetary union and bilateral agreements on the avoidance of double taxation in the movement of capital added two new elements with decisive impact on the economic environment: the interrelationship of domestic and international markets, and the need to materialize nominal targets of the treaty on European Union to the greatest extent possible, making better use of the European resources necessary for the upgrading and modernization of Greece's social life.The Greek economy today was at a critical turning point. The 1993 indicators presented a mixed picture:falling inflation and a significant improvement of the balance of current accounts (a surplus of $670 million in January September compared to a deficit of $1,600 million in the 1992 period), and at the same time a wide divergence from goals set for the public sector deficit and continuing economic stagnation. Despite the negative elements, favorable prospects and comparative advantages could be noted: the existence of high level work, scientific and management forces, a new generation of businessmen who have learned to operate in a competitive environment,the European Union membership, the Community financing of major works, and the creation of new markets across Greece's northern borders, all of which gave birth to a sense of optimism for the future. However, converting opportunities into results and valorization of the comparative advantages required stabilization of the economy, creation of a climate of confidence and social consensus, and elimination of factors obstructing development.The public sector deficit was the most immediate of these factors, and the primary surplus foreseen in the 1994 budget was thus a step in the right direction, especially since it did not entail the inflationary pressures that would have resulted from increased indirect taxation. Nevertheless, stabilization of the public debt as a percentage of GDP required even greater fiscal adjustments. Apart from the inherent weaknesses of the economy, Greece also faced structural insufficiencies of the public administration, and in particular of the tax collection machinery, which must receive immediate priority. The height of the deficit obstructed the application of a decisive monetary policy and reduction of interest rates, without which there was a danger of renewed inflationary pressures and a further increase of the foreign debt. The Bank of Greece considered as its primary aim the reduction of inflation within the time framework for participation in the third stage of Economic and Monetary Union, and already, from January 1, 1994 the monetary financing of the public sector deficit would cease. The anti inflationary character of monetary and exchange policy was in complete accord with the government's program statement, and it was also a positive factor that no disagreement existed over the priority that must be attached to redressing fiscal imbalances in order to create the conditions for stable and long term recovery.Monetary policy, which included also the policy on exchange parities, could contribute decisively first to stabilization and then to development, provided there were sufficiently rapid structural improvements in the public and private sectors. "The Bank of Greece looks to a further strengthening of the effectiveness of monetary policy and considers that in this way it offers the greatest possible contribution to the success of the government's economic policy."As regards intereswt rate policy, it was important to create favorable expectations of a steady fall of rates in the medium term, without these expectations being disturbed by a temporary increase in short term rates as a result of market pressures.The bank would seek to convert part of the short term debt into long term debt at fixed rates, and would also pay special attention to securing a competitive operation of the money markets with a view to restricting the relatively large spread between bank deposit and loan rates. It would also press for a further strengthening of the competitiveness of the banking system.At the same time, the involvement of banks and enterprises in new forms of exchanges required reinforced supervision and the implementation of Community directives most of which had already been incorporated in the existing supervisory framework.Successful paraticipation in the ecxonomic developments of European Union was a matter of real as well as nominal convergence, where the long and difficult road ahead involved stabilization through compression of public deficits and reduction of inflation, and valorization of the Delors II package. In recent years, monetary and incomes policies had borne the brunt of the stabilization effort, with unfavorable repercussions on the development process and on the socially just distribution of the burdens, while concentration on indirect taxation had increased inflationary pressures and placed an excessive burden on real incomes. This pointed the need for expansion of the "exceptionally limited" tax net and restriction of expenditures devoid of social and development characteristics. Support of the development process could not be based only on resources and measures of the European Union but also required interventions of a structural nature by the Greek authorities in the direction of the material and technological infrastructure, work force training and retraining, the removal of disincentives for investment, selective privatization of public enterprises through competitive processes, and the improvement of the operation and effectiveness of the markets. The structural interventions look to an increase in the productivity of the factors of production and the strengthening of the institutional framework in which the economy operates. Subsidization was not the correct path, except possibly in regions hit especially hard by deindustrialization.Overall, Boutos said, the development prospects of the economy were positive: recent experience had demonstrated the existence of a powerful kernel of dynamic enterprises able to penetrate new markets, including those of the Balkans. The example of these enterprises, which have invested substantially in recent years, must be followed by others. The state must contribute stability and the conditions for economic development. Together,this would place Greece on a development course, with low inflation and reduced debt, to realise both the aim of convergence and the expectations of the Greek people for "a fair distribution of prosperity."

MODERNIZATION OF THE GREEK BANKING SYSTEM

SPEAKERS

Andreas Boumis, President of the Macedonia Thrace Bank.

Theodoros Karatzas, lawyer and former minister.

Dimitri Krontiras, Country Corporate Officer, Citibank N.A.

Panayotis Poulis, President of the Commercial Bank of Greece.

Michael Vranopoulos, former President National Bank of Greece.

Introducing the subject, Boumis outlined developments in the banking system since the 1950s, from the time when banks were considered incapable of setting interest rates or of portfolio management, to the current situation after 13 years of gradual deregulation. Today, he said, the banks had nothing of which to complain in relation to the climate in which they operate. In the meantime the market had changed greatly and the banking profession had become more complex, demanding greater experience and commitment. In the context of the single market, the volume of transactions was higher, the competition tougher, new technology had been introduced and, at the same time, the collapse of the Communist system had offered new markets to banks able to take advantage of them. Equally significant was the arrival of financial "supermarkets" and networks of financial services. Turning to the future, Boumis said numerous studies had shown the widening gap as regards profit levels between Greece and other Western countries, despite the considerable efforts that had been made. With most deregulation already achieved, modernization now had little to do with new technology. The task of the Bank of Greece now was to continue and intensify efforts to establish conditions of sound and fair competition in the market. Also, the tradition of viewing banks as tools for implementation of government financial policies was not yet dead, and indirect administrative interventions existed. Also, there was need for an effort by the government and the banks themselves to simplfy the bureaucracy, while modernization required "genuine independence. "Banks should seek fair competition, free from any type of state intervention, and grasp the opportunities opening up in the Balkans. For the first time in its history, Greece had the capability of intervening in foreign markets with comparative advantages, and to play the role of intermediary in the Balkans and elsewhere. The banks had both "the obligation and theinterest" to take firm steps in this direction.

Karatzas remarked that after the abolition of the skein of administrative regulations that had limited their activities, a new period had opened for the banking system, which was proceeding steadily along the path of modernization. However, the effort to adapt to contemporary conditions and to the rules of competition had in recent years confronted a significant obstacle: the increased borrowing requirements of the public sector in order to service its deficit, which in turn had caused distortions to the monetary and credit system by holding interest rates at high levels and, in general, retarding economic development. Significant changes could not therefore be expected before the public sector deficit had been brought under control and at least a credible prospect of stabilization created. In the meantime, however, the banking sector was not condemned to inactivity; there was much that it could do to contribute to the stabilization effort.The first aim should be the completion of the new supervisory system and the guaranteeing of the solvency and reliability of the banking sector. There were today banks that did not meet Greek and Community solvency legislation, and this required immediate action. Certain special financing institutions, more particularly the Agricultural Bank and ETBA (National Bank for Industrial Development), and to a lesser extent the National Mortgage Bank, faced serious problems and required a long term recovery program, in view of the magnitude of savings involved and the potential consequences for the banking system and the economy in general. (These and subsequent observations along the same lines by Vranopoulos were strongly protested by the government and by the three banks named.)Karatzas proposed that action be taken in relation to: incorporation of new technology, the payments system (immediate operation of an interbank payments system), a unified bank accountancy plan (implementation of Presidential Decree 384\1992), portfolio improvements (write off of uncollectable debts in conjunction with increases of share capital where necessary), cost reduction, modern administrative methods and employment policy and manpower training.It was a common ascertainment that the banking system would not operate with modern structures without a normal functioning of the non bank money and capital markets. The progress in this sector was encouraging, as witnessed by the modernization of the stock exchange, for all that much remained to be done especially to avert unjustified fluctuations.The future appeared difficult, and demanded new ethics and abilities. Nevertheless, the present situation permitted optimism, since the banking system was well able to respond to the challenges of the times.

Krontiras concentrated on the deregulation of the banking system internationally and the present situation in Greece. In Europe and the U.S., he said, there was now a trend toward reregulation and underegulation, as a reaction to a situation that had moved a long way in a short time, and also a turn back toward specialization and away from "financial supermarkets." In the current decade the main concern of the banks would be to close the gap created by the increased competition and the need to provide better and more costly services to customers at a time when the cost of money was increasing remorselessly.Turning to Greece, he observed that while deregulation had advanced much remained to be done, in terms of abolition of regulations and improvement of the institutional framework. Also there was need for a codification of currency regulations, to facilitate Greek and foreign investors. Especially in regard to labor relations, banks must able to formulate their own labor policies, freed from the present situation whereby national collective agreements are signed by the state banks and then extended to all the others.Concluding, he said it was necessary to fully deregulate and codify remaining commitments, to deregulate consumer credit, and to establish clear and stable rules of the game. "In simple words, the banks must be allowed to operate as banks, under the supervision of the central bank, and dedicate themselves to their cooperation with the private sector of the economy, for the general good of the country.

Poulis spoke of an "inexplicable economic crisis" in the Western world which he forecast would move to Greece. In the banking sector, confronting it would require protection of the profession through deregulation and technological modernization, entailing choices on the basis of meritocracy and stronger capital positions. As regards supervision, this must cover reliability, solvency, protection from speculation and insider trading, and also the institution of deposit guarantees. In addition there was need for a new form of company in Greece, since encouragement of investment required trust both in banks and enterprises. More specifically, he proposed a review of the present situation in the Greek banking sector to ascertain its particularities, problems and strengths, continuous modernization to ensure its survival in the competitive conditions of the single market, and formulation of a strategy covering market shares, relations with clients, operations outside Greece, improvement of existing and introduction of new products, cost control, and extension of activities in the Balkans and East Europe.Modernization was a matter of organization, administration and technology, and included the decision making process, accounting, control, expert systems, informatics and robotics, hiring and training. Among services and new products, he instanced development of on line systems, commercial paper, banker's acceptances, retail banking, leasing, factoring, forfaiting, venture capital, swaps, futures, options, forward agreements, consulting and greater access to the Greek and international capital markets.In the Balkans and East Europe, he said, Greek banks had comparative advantages waiting to be utilized, to help meet the demands in these countries created by conversion to a free market economy. This was the strategic challenge for Greek banks in the present decade. Vranopoulos, recalling a 1979 report on the Greek banking sector, said that if the recommendations contained in it had been implemented the situation would now be better. Instead, "deregulation is still something for the future." The Bank of Greece should take certain actions now, instead of waiting to be compelled.The 1980s had seen great distortions due to financing of the public sector at low interest rates, which had widened the gap between deposit and loan rates; also, the banks had been burdened by the privileged social insurance system im force for their staffs.The 1990s had so far seen the abolition of financing on social criteria, more computerization, significant changes in labor relations and reduction of personnel, and a slight improvement in relation to social insurance. It was not expected that much would change with the new government. "Three large credit organizations", by international measures, faced a situation where "in any other European country they would have gone bankrupt or been rescued," and the Bank of Greece should deal with them at once, for the sake of protecting their clients. Also, differences in employees' social insurance contributions were not compatible with deregulation.Voicing confidence that these and other issues would be solved in the coming years, Vranopoulos said his optimism rested on the new government's ability to adapt, as demonstrated by abandonment of doctrinal ideas on financing of the public sector deficit and social funding.

To an objection from the floor that speakers had shown too little appreciation of the extent to which deregulation had already been carried through, and a request to indicate what else should be done, Vranopoulos replied that many basic actions still remained to be taken in relation to foreign exchange, obligatory loans to the Bank of Greece and cost of services. The National Bank of Greece could sell off some of its branches, to help its financial position and also spread shares in the banking market more evenly. Boumis said there was a major problem of adjusting to new conditions; the changes had been rapid and banks had difficulties in implementing them. The "umbilical cord" between the government in power and large banks still existed, while there was also a question not just of intervention but also of lack of resistance to intervention.Poulis noted the extent to which labor relations had improved. In the 1980s, he said, the Commercial Bank "had three employees who spoke English and no one who had attended a banking seminar",while the bank's trade union had threatened to expel any members who took part in training programs. "Today there are no such problems."

THE ISRAELI EXPERIENCE

Speaking of the lessons to be learned from the Israeli experience of stabilization, restructuring and growth, Governor of the Bank of Israel Jacob A.Frenkel said that within just a few months, in 1985,inflation had been brought down from several hundred percent to the area of 18% a figure on which it had stuck until 1991, when another step had been taken that reduced it to a single digit figure. He described the reforms carried through in that period as "purely a matter of political will", of mobilizing the country for the inflation crisis. and of making the targets a popular national objective.Stabilization, he said, need not reduce the rate of growth. "When a government decides to cut spending, it confronts a wide spectrum of possible economies and the temptation to cut "things that scream." But cutting such sectors as education and communications "is the way to kill growth so do not cut the infrastructure that lays the foundations for growth." Faced by public cynicism over high inflation and by expectations immortalized by indexed wages and contracts, the government hadundertaken the difficult but necessary task of making a clean break between the past and the future, which had required a national consensus. In the same way, exchange rate policy had led to falling investment, less competitive exports and a slowdown of the economy, until a radical revision had brought in an exchange rate policy consistent with growth through exports. Over the past three years, he said, Israel had had an annual growth rate of 6 to 7% in real terms, exports had risen 14% last year and would rise by about the same percentage this year,inflation had been brought down in one year from 18 to 9%, while unemployment was almost unchanged at 10%. In this same period, a huge inflow of immigrants from the former Soviet Union had increased the population by between 16 and 17%,without worsening the employment picture. This was because maintenance of stability had been accompanied by restructuring. Also, since the Israeli economy is a very small one, it had been appreciated that competition at home required the opening of the borders to foreign competition. Noting the achievement of "credibility of commitment," Frenkel said the budget deficit was diminishing each year, and was now less than 3% 0f GDP.Warning against too much discussion on the sequence of measures,he advised:"Don't waste time arguing wherever you can make progress, do it now!" Israel had also been helped by the change in the world scenery,with the switch in emphasis from military to economic power. There was now more consensus on how to proceed and that "in the present world, good economics becomes good politics.""Ten years ago we would have been discussing how to absorb the new immigrants. There is no debate now. Experience has taught hat countries collapse when economies collapse." The important element was to obtain political support for every move. This could be secured by protecting the poor, but only through the budget. The concept of the role of government thus became more concrete: to do things that the private sector would not do on its own but that are good for society, and not to complete. Privatization could be made a popular cause, by explaining the advantages to the people; in Israel, "it succeeded because of television." Summing up, he said policy makers must never lose their credibility, and there must be no attempt to fine tune the economy through budgets, which are both inflexible and too slow in bringing results. His own past experience with the International Monetary Fund, he said, had taught him that "stability and reform start at home,"while matters deriving from external commitments were "something extra."Above all, do not correct one mistake by making another."

GREECE'S ENTRY INTO THE EUROPEAN MONETARY UNION SPEAKERS:

Jean-Francois Pons, EC Director for Economic and FinancialAffairs.
George Provopoulos, Professor of Economics, AthensUniversity.
Loukas Tsoukalis, Professor, Athens University.

Pons said that in the view of Community agencies, the prospects for European Monetary Union were good, with the Maastricht treaty finally in place and EMU heading for its second stage. The Community was emerging from a negative phase that had begun in1992, with good inflation rates in most countries and the likelihood that interest rates would continue to fall. Also, within the ERM, the situation was not far from the narrow-band differentiation that had preceded the realignment of currencies while in the sector of public finance, though the figures were still too high, there had been encouraging results from efforts by both Belgium and Italy — "there are good lessons for Greece in what the Italians especially have done." Noting the decision to set up the European Monetary Institute in Frankfurt and the freeze since the beginning of November in the composition of the ECU basket, Pons said this "gives continuity between the present ECU and what will be the European currency of the future." He referred also to the action taken to forbid central bank financing of the public sector and privileged access by the public sector to financial institutions, from January 1994, in conjunction with the monitoring of excess deficits at Union level, and said there could be no doubt of the commitment of member states to implement the Maastricht treaty. Turning to "the situation and prospects of Greece as seen from Brussels", Pons said that since May 1992, when the attention ofAthens had been drawn to the difficulties represented by 16% inflation and a 17% public sector deficit, there had been "somevery slow but insufficient improvement" on these points and rather more on liberalization and deregulation. Growth was very low but not below the rest of the Union, while unemployment was less than the Union average. The current account deficit had been assisted by the increase in transfers from the EC budget and "it would be good if there were improvements for other reasons too." Nevertheless, the latest figures on the budget and inflation were disturbing, with the deteriorating public debt situation creating dangers for the future and inflation still on 14% against a general range of between 2% and below 3%. The Maastricht criteria must be made a tool for adjustment as well as a goal for the government. Cautioning against excessive pessimism, Pons said "cycles can change and big improvements can come quickly — both Europe and Greece can rebound." He cited the example of Ireland, which over a three-year period had successfully tackled its deficit, debt and inflation problems while at the same time experiencing growth.

Provopoulos said he was less hopeful than Pons on the future of the Union, which was facing the biggest slump since the interwar period and a deep and widespread pessimism at the citizen level. He questioned whether the Maastricht goals were feasible in the time limits set, while the recession would make "real convergence" difficult in most countries, including Greece.Britain, he noted, because of the recession, had gone from surplus to what threatened to become a dangerous structural deficit: at present only Ireland and Luxembourg met the deficit criterion, compared to six countries three years ago. The public debt situation was also discouraging, with the figures for Belgium, Greece and Italy above 100% of GDP and moving in thewrong direction. The sole encouraging point was inflation but there too, as with deficits, Greece was in the worst position. It was obvious, he said, that Greece had not adhered to the convergence program, probably under the pressure of electoral cycles, while its great debt and deficit problems remained theAchilles heel of its economy. This pointed the need to formulate a new convergence program, setting clear and realistic goals and means that also included accelerated fiscal reform, and then to adhere to it strictly. The crisis in the monetary system in Europe could benefit Greece if handled properly, but a disaster would result if it were taken as an opportunity to relax.

Tsoukalis said the collapse of the Exchange Rate Mechanism was the result of many factors and difficulties innate to the system itself, among them lack of flexibility. Return to a narrow band required economic recovery in Western Europe and a reduction of German interest rates, which would take time. The monetary crisis could lead either to a delay in the realisation of the aim of economic and monetary union or to the creation of monetary union in the relatively immediate futurewith a limited number of participating countries. He did not foresee significant changes in the convergence criteria and considered that the question of taxing cross-border movement ofcapital would reach the negotiating table in the coming year.Bringing down inflation and a drastic reduction of public sector deficits were essential targets for Greece irrespective of theMaastricht treaty. Given its inflation rate and deficits, the dilemma of stabilization or development was a false one, designed for domestic political consumption. Despite the limited progressso far in applying the convergence program, the participation ofGreece in European monetary union before the end of the decade was a feasible aim. The next two years, if not the next six months, would be of decisive importance.

To a question on the source of his optimism, Pons replied that,while "I cannot speak for Greece at this moment", he felt that other governments were fully committed to Maastricht. In 1994 assessments would be made for all 12 countries, to see which were on course and which were not. He agreed that a recovery was needed, but said the time table could still be respected.

PROSPECTS FOR INVESTMENTS IN GREECE

SPEAKERS:

George Papandreou, Foreign Undersecretary.

Erik Peterson, Center for Strategic and International Studies, Washington.

Louka Katseli, Economic Advisor to the Prime Minister

Papandreou, who has a background in sociology and more than 12 years in politics, said Greece has a traditionally high contribution of Direct Foreign Investment (DFI) in the GNP in comparison with other O.E.C.D. countries.During the late '70s DFI inflows were among the three highest of the O.E.C.D. Although Portugal and Spain increased their DFI inflows, Greece with certain strategies was able to maintain its position until the late '80s. In the '90s these inflows dropped, though, Papandreou said, he is convinced that DFI will soon be revitalized. The PASOK government, he said, has already started a program of fiscal and monetary stability, with the aim of improving productivity and infrastructure with the support of EC funds. The Athens Stock Exchange is getting better and the capital market has expanded, providing positive influence to investment decisions and incentives. Papandreou suggested that Greece must consider joint ventures with the Balkans and cooperate with the U.S., Europe and Japan in order to create a climate of investment security. Greece must decentralize its authorities, fight bureaucracy and implement plans for regional infrastructure, labor, social services, environment, education, telecommunications and transportation. The procedures for Greek migrants to invest in Greece must be simplified. Greece must succeed in using its labor constructively and minimize illegitimate political favors. Social contracts and policies must be fair and must be supported by all sides. A serious environment of reliability must be established so that the potential investors will not hesitate to invest in Greece.

Peterson, who has a background in international affairs, law, and management, set out his view on the trends in international capital movements. Investment, once characterized as the "neglected twin" of trade, must now be regarded as its equal. There has been a steady increase, in international investment flows over recent years. The trend of rising capital exchanges has been a long established feature of the US.-EC economic topography. The reasons for capital movement, direction of flows, and the global economic integration are reshaping the environment for international investment and have important implications for the economies. Communication and technology have had an enormous impact on international investment. Cross-border capital flows have reached volumes and speeds that are increasingly beyond the capacity of governments to control. Traditional fiscal and monetary levers are now significantly less effective, because there are many more variables and parameters to consider. A major catalyst in this accelerated globalization of economic activity is the multinational enterprise. MNEs now account for a staggering one-third of private productive assets; to an ever greater extent, MNEs are distributing their operations internationally regardless of political constructs to seek innovation or to achieve cost savings. The question, Peterson noted, is where the money is going. A number of developing countries with liberalized investment environments, such as Argentina, Brazil, China and Egypt, are now primary targets of portfolio and foreign direct investment flows. As a percentage of world equity market capitalization, developing countries increased their share over the past ten years from 2.5% to 7%. The key reason for this rapid growth is profitability. Economic liberalization has replaced statism, trade liberalization has succeeded protectionism, and privatization has replaced nationalization.Peterson said the changes in international investment patterns have an obvious bearing on the Greek economy. In Greece attention is focused on what policies will now substitute for the austerity program implemented by the previous government. The privatization policies are advanced by the extent to which the new policies in Greece are market-oriented and disciplined.Regarding the budget, he said it is questionable whether the anticipated increases of over 21% on the revenue side can be achieved. Greece has a great potential to exploit its regional position as an export and investment platform for the Balkans and the Middle East. Turning to the current climate in the United States he said the latest problems of Washington were mainly the NAFTA debate, and the uncertainties about the historic US role in the global economic system. The recent US. domestic economic challenges have thrown fuel onto the fire. The increasingly nationalist economic policies, fanned by deteriorating economic conditions and social pressures, will propel the preeminent economic powers—and the rest of the world with them—into an era of "realeconomik." The political agendas in all three major economic powers are predominantly inward-looking and focus primarily on reviving national economic growth and employment, engaged in economic triage. The GATT is no longer the vehicle through which only tariff and non-tariff barriers are broken down. The Uruguay Round has exposed the nerves of domestic economic interests as never before.

Louka Katseli, discussing the investment environment of Greece from a strategic point of view said markets of goods and services are shifting into new technologies, having direct investments as promoters. Between '85-'90 direct investment quadrupled. European Community inflows went from $8.8 bn. in 1984 to 84 bn. in 1990. Substantial knowledge transfer complemented the whole process. As for the direction and distribution of investments, the main poles that attracted 83% of the total capital outflows and 70% of the total inflows were the U.S.A., Europe and Japan. The U.S.A. accounted for 13% between '70-'75 and 15% between '80-'85, being at the same time a catalyst and a capital magnet for investments. The U.K. attracted 36% of direct investments, France 15%, Spain 14% and the Netherlands 14%. Germany has no attraction for foreign investors. Comparing Portugal with Greece in terms of the contribution of foreign investment to total investment, said the figures are 14% and 8% respectively. Explaining the reasons for the increase of direct investment, she said macroeconomic imbalances occurred because the increase in the U.S. deficit affected its balance of payments. Also the rise in the price of the yen made Japan invest more. From the microeconomic viewpoint, the liberalization of service markets increased direct investment along with the expansion of lobbying, by high competition and by R & D costs. Finally, institutional changes motivated investment activity. Katseli said the attraction of direct investment by the developing economics lay in cheap labor, the size of local markets, quality, productivity, infrastructure, reliability and low bureaucratic cost.In conclusion, she highlighted four issues. First, if we want to attract investments we should adopt a more aggressive policy. Second, to have intecorporate orientation by close cooperation of private and public corporations. Third, to follow a strategy of strengthening our infrastructure and creating models for the "national competitiveness", "allocation of resources (capital and loans)" and modernization. Fourth, to follow a strategy aimed at playing the central role in the Balkans by promoting comparative advantages. To a question on the need for steady rules of the game and reliability, she answered that during the last decade Greece has gained experience in this respect.

EUROPEAN COMMUNITY FUNDS AND REGIONAL DEVELOPMENT IN GREECE

SPEAKERS:

Akis Tsohatzopoulos, Minister of the Interior.

George Romeos, National Economy Undersecretary.

Aristides Tsiplakos, former National Economy Undersecretary

Grigoris Giannaros, former Deputy of the Coalition of the Left and Progress.

Nikos Efthymiades, President of the Federation of Greek Industries of Northern Greece.

Panos Zeritis, President of Thrace Paper Mill.

Tsochatzopoulos, said that the closing of the large gaps between regions are a main factor for economic and social development, and questioned whether the regional policy of the E.C. is adequate to actually achieve a realistic procedure. In criticizing the period 1990-93, he said these regional inequalities became more intense, especially in comparison with the other E.C. countries. Centralization weakened the local authorities.Regarding the Regional Plan of 1994-1999, Tsochatzopoulos noted the immediate boost for the weak areas of the country in combination with the creation of standard ways to link national and regional development. Focusing on local development, he said resources must be carefully guided to the desired goals. He recommended certain initiatives, such as to solve the local economic and social problems, improve economic and social infrastructure, share technological know-how with local production systems, improve training and professional skills of local labor forces, improve the systems of implementation and monitoring of development projects, preserve the environment, decrease unemployment and increase the average income, and fight social discrimination. On local authorities, policy is to follow a decentralization strategy within 1994 and also have elected instead of appointed representatives of the state.

Romeos said the Delors II package is relatively small and therefore not the sole solution for the economic development of Greece. All efforts must be aimed at attaining the 2nd European package in order to support the Convergence program, and this can have results only if the goals for positive economic growth are clearly stated. Accordingly, infrastructural improvements and increased competitiveness of the Greek economy can follow only when these aims are incorporated into planning and policy-making. Both strategies will be directed towards an increase in the GNP and the synthesis of a competitive economic position. The proposals that will soon be presented to the European Community will focus on the financing of large projects, among them highways, airports, natural gas facilities, and telecommunications. It is important to have structural changes, which means a utilization of the private sector so that it can cooperate with the public sector. He suggested that Greece must make use of the new loan availability (Edinburgh), and of specialized consulting services in various areas (e.g. management) in order to produce the best possible results and make optimum allocation and administration of the EC funds.

Tsiplakos said economic development, must be related to time, place and target in order to start the procedure. Second, investments are not automatic mechanisms controlled by the governments but rather require a certain and appropriate environment.Examining the problems and offering recommendations on investment attractiveness and competitiveness of Greek products, he said that since the '70s Greece had lacked effective methods of doing business, and had no trained personnel or infrastructure, and so had seemed unattractive to potential investors. Compared to the other EC. countries, Greece has the following problems: the lowest GNP, no alternative transportation routes or harbors (e.g. Egnatia) that can transport merchandise around the problematic Balkans, the increasing number of illegal aliens, and the absence of land borders with the EC.There is a vital need, for preparing a long-term national strategy to make the best use of the EC funds. The PASOK governments (1981-1989) gave emphasis on the social side, ignoring the basic development plans. Greece did not in practise benefit from the first EC support program, because too many projects could not be completed, causing general ambiguity.Since 1990 a systematic effort of computerization of the monitoring process of EC programs was initiated along with setting development priorities and systems that will avoid the EC fund being used in other applications. The results were presented in a report of the Commission where the government of New Democracy was praised for the impressive steps it had made to take the country forward. Also there was a serious effort during the last two years to stimulate Regional Development. Greece submitted a plan guaranteeing that the EC funds would be directed only at carefully selected large projects, especially infrastructure works. This could be even more benefical, since it could strengthen and exploit the potential of each region.The large projects waiting for approval by the EC Commission since last September concern transportation, the environment, biological waste water treatment, etc. The new government has halted procedures that would have already been bringing EC funds into the country. The last decade was one of lost opportunities. A final national joint effort must be put into effect in order to meet development targets. All parties must support this effort to make the best use of Delors II. Tsiplakos said he is optimistic and hopes that the talented current undersecretary will be successful at a time when country must act quickly and without mistakes.

Giannaros, an economist, noted that the EC funds are not a financial aid program but a support for the necessary course to cover the distance between Greece and its European partners and make Greece able to take an equal part in European integration. The subsidies are limited and are not intended to serve consumption or to be simply used in various projects. There is a clear need for maximum absorption and optimum use of the funds in order to activate growth and the competitiveness of the economy. There are two limitations that must be overcome: lack of planning and cost-benefit analysis, and low levels of domestic savings and investments financed by internal sources. It is a fact that the EC funds, even in addition to domestic savings are not sufficient to finance the necessary investments needed to modernize the Greek economy and make it more competitive. There are two major challenges: planning and radical changes. The current government must use its resources more specifically to reexamine the large projects, increase its sensitivity and provide larger budgets for the environment, industry, education and culture.

The last two speakers represented the private sector and were both related to northern Greece. Efthymiades, gave his own definition of economic development that includes modernization of production and services, improvements in research and technology, new products and breakthroughs in marketing and management. Noting that regional development is one solution towards the economic development of Greece, he said the factors needed to support it is to improve the existing inadequate infrastructure and make good allocation of the Delors II package . There has been a plethora of reports and analyses, and the problem is that no action has been taken and none of the plans has been implemented. Greece has a narrow production base, and low GNP (with averages lower than Spain and even Portugal).Discussing northern Greece, he said the Egnatia road is a very important goal for infrastructure. The state must enact special legislation in order to increase the incentives for investments and business activity in Northern Greece in combination with the existence of the Egnatia road. He proposed relocating 50% of commercial service organizations like EOMMEX in remote major cities like Kozani and Kavala so as to increase the local interest and activity. In this way he said, the major problem of the central decision making in Athens will be partially solved for regional centers.Efthymiades stressed that inter-party cooperation and common policies and plans are now very crucial for the development of Greece.

Zeritis said the two large political parties should have a common, national plan of action, since development and growth must be continuous. The major problems of Greece's economy lay in the black economy, too large a self-employment rate, too large a public sector, low tourism, unemployment, illegal aliens, the highest inflation rate in the EC, no land borders with other EC countries, and a small percentage of merchant ships under the Greek flag. Greece has no infrastructure or organised markets. The EC has various provisions which can improve the regional infrastructure with minimum national cost. Zeritis said the rural areas have an added 10%-20% cost which can be dealt with only by subsidies. The question has become whether regional development will favor or destroy the regions, since destruction is irreversible (as witnessed by Athens) Zeritis proposed: 1) Take into serious consideration the aforementioned problems, 2) maintain the necessary incentives for the survival of the regions, 3) create the necessary infrastructure, 4) create regional markets and 5) give emphasis to the Greek human factor and the existing labor potential. Specifically on Thrace, Zeritis' proposals were a) to continue with the 12% subsidy on labor, b) decrease even to zero the income tax and c) decrease V.A.T. by 30%, as also for the islands, in order to improve the cost of living in Thrace and make its products competitive.