

ECONOMIC PROSPECTS AND PLANNING IN GREECE: AN AMERICAN'S VIEW*

Let me start with a disclaimer: this is but one American's view of economic planning and prospects in Greece. I am expert neither on Greece nor on economic planning, but I was lucky enough to spend a year in that splendid country, among its alternately fascinating and exasperating people. During the year I was loosely attached to KEPE (the Center of Economic Planning and Research). This organization was officially incorporated into the Greek bureaucracy in 1964 and was then charged by the Minister of Coordination with producing a plan for the economic development of Greece for 1966-1970. I observed but had no part in its official labors, from which there resulted in December 1965 a 398 page *Draft of the Economic Development Plan for Greece, 1966-1970*.

I went to Greece with two disabilities. One I was aware of, but it proved relatively unimportant and partly remediable. This was ignorance of the Greek languages (and I use the plural with some bitterness). The second disability, which I only gradually and distressingly recognized, was my total lack of comprehension of the Greek character, the way of mind, if you like. Some day perhaps I will understand why the Greek, whose time horizon slides effortlessly backward over 2,500 years and to whom the end of the Turkish occupation is as yesterday, finds it impossible to seriously contemplate a future horizon of more than a year. Some day, too, I will understand that it is possible for every Greek to *know* that he is substantially more clever and more deserving than the average Greek. I mention these things not in jest, but because somewhere in these epigrams lie the essence of the dilemmas that beset Greek planning and economic development. My purpose this morning is to try and pose them.

This paper has three parts: I. an extended discussion of certain aspects of the Greek economy and society—the *status quo ante* from which future

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development must take place; II. a brief discussion of the roles a planner might play in facilitating development; and III. a brief critique of the Greek planning effort.

I

We start with the fact that Greek development over the past decade is one of the success stories of modern times. National income, total and per capita, has increased in real terms at about 6% per year — a rate that promises a quadrupling of real income in 24 years, and an 18fold increase in 50 years. Additionally, standards of health, nutrition, housing and education have visibly improved. A recent study by Professors Adelman and Morris examines 73 developing countries and suggests that Greece is one of five that far outstrip the rest in recent performance and in future prospects. (The others: Israel, South Africa, Taiwan and Venezuela). The change is visible to the naked eye as well as through statistical inquiry — outsiders who return after even a two year absence are astounded at the changes. All of this has occurred with a minimum of formal planning.

Against this success one finds a profound pessimism among Greeks: planners, politicians and citizens alike. Part of this is due to mere impatience. Six percent is not much when you start from a low base. The Greek has much contact with the wealthier world: principally from tourists, German and Scandinavian as much as American; and from the reports about western Europe from the great number of Greek emigrants who work in the factories of West Germany. These things lead Greeks to look not for a victory within a generation, but to demand a miracle now. Since miracles don't happen every day, there is pessimism.

A second source of pessimism is the fear that the sources of unplanned and uncharted growth have run their course; that bottlenecks are now at hand, and that unless something drastic is done, a new period of stagnation will occur. A third source of pessimism is fear: fear of inflation, of political turmoil and perhaps even of civil war. Given the history of Greece this can hardly be called unreasoning fear, but it does present some formidable barriers to economic development. Finally there is a real, if vague, concern about the form (as distinct from the rate) of development. Greece is a proud country, and the rising tide of tourists and the flow of emigrants, however much they contribute to national income or economic growth, does not please the Greek. He does not relish the occupation of waiter or guide for himself, and he expects better for his son.

Dissatisfaction with the present, and awareness that change is possible give impetus to the demand for planning and for government to provide the catapult that will propel Greece into economic equality with the developed countries of Europe. What are the strengths and weaknesses of Greece as an underdeveloped country?

Greece is triply blessed in that it has none of the three most common "problems" that limit development in much of the world. (1) The Greek population is stable and thus increases in real income are translated directly into increases in living standards. In contrast, Venezuela, the richest and most promising of the developing countries of Latin America, has a population that grows at 3.5% a year and absorbs the first 3.5% of annual growth with no increase in living standards. (2) Private savings in Greece now run close to 20% of gross domestic product, and are increasing. This compares favorably with the most developed nations and is in sharp contrast with most underdeveloped countries, where the figure is often below 2%. Greece thus avoids what is called the vicious circle of poverty, wherein a shortage of private savings leads to a shortage of funds for investment, which in turn prevent the growth in incomes that make saving possible. (3) Greece has at least one major and expanding export industry — the tourist trade — that is all but calamity-proof, and that therefore provides it with a sure and growing source of foreign exchange with which to acquire needed foreign goods.

Greece has other advantages as well: reasonably well developed banking system a healthy shipping industry, a highly alert and literate populace, a glorious climate, and a proud and priceless heritage; one could go on and on.

These are notable strengths, which explain in large part the extraordinary growth to date. Let me mention some sources of potential weakness, without thereby judging whether or not they represent formidable barriers to further economic development. I am not concerned with why Greece is relatively poor, a condition readily understood in light of its turbulent recent history, but whether it is potentially limited in its future development.

An obvious problem is the poor soil and subsoil resources, partly the result of natural endowment and partly that of centuries of misuse and neglect. Not even a miracle can make Greece the bread-basket of Europe, though selected crops are grown with advantage. No rich store of minerals awaits discovery or exploration. While Athens is blessed with the best fresh water in the world, much of Greece has a severe water problem. The absence of nutrients, though it makes the surrounding seas beautiful and clear, also renders them one of the world's least productive fisheries. Ironically, progress in chemistry has developed substitute products that have rendered obsolete the

sponge fisheries. One might add that fragmented land tenure, part of the heritage of the dowry system, provides additional impediments to efficient agriculture.

These are natural and institutional disadvantages that must be recognized and compensated for if they cannot be changed. These disabilities will be of no greater force in the next decade than in the past one.

Another set of potential barriers are attitudinal, which makes them more difficult to cope with, in discussion or in policy formulation. These seem to me of growing importance as development moves from the phase of taking up the slack of an underemployed economy to that of moving forward in productive capacity. Let me illustrate.

Consider first the paradox that there is a marked scarcity of funds for private investment, despite an ample supply of private savings. (The cost of capital to businessmen not eligible for special subsidized loans is very high — 15-20% when safe collateral is available). A large part of savings are held as liquid assets: in pockets, in mattresses, in gold, and in bank demand deposits for short periods between flights into and out of gold. Cash, not checks, are overwhelmingly used to settle accounts. Greek bankers feel obliged to maintain reserves of 50% or more against their deposits. By contrast, American and British monetary authorities require banks to have reserves of about 20%, amounts that bankers regard as excessive in purely banking terms. Greek banks pay interest on demand deposits, but fears are not allayed either by this, or by the commitment of the government to prevent a devaluation, or by the able administration of the central bank. Deposits ebb and flow with every whisper. It is a commonplace for apparently poor people, in line before you at the bank, to deposit or withdraw thousands of dollars. (Fortunately robbery, as distinct from burglary, is not a Greek crime). Substantial additional private savings go into real estate and apartments. This partly reflects a new form of the dowry system, but it is essentially a form of speculation in a land and building boom reminiscent of the Florida land boom of the 1920's. Everyone knows it cannot last forever — danger signs abound. But everyone is sure they can get in and get out in time: all you have to do is to be cleverer than the average.

But fear and a preference for the quick and spectacular speculative coup are only part of the story. Even the funds banks do control above their reserve requirements are not easily borrowed by the business entrepreneur. The banks prefer to deal with a small number of large enterprises, where risks are small. Even then they prefer loans backed by government guarantees. Further, banks are heavily regulated. If one is not of the establishment, capital is scarce.

Moreover, there is no well established capital market and a firm seeking to sell securities is so hamstrung by regulations that it turns instead to the government for a subsidized loan, or does without. Not all of the fault is on the supply side. Many small, inefficient, firms prefer to stay that way rather than risk loss of complete family control by taking in outside money from banks or from individuals. All in all, the river of private savings provides but a trickle of funds directly into productive investment.

A second, and more general, difficulty is an almost complete lack of faith by both the people and government in market mechanisms. If your wages are too low, strike against the government for consideration of your claims or see your MP for a post in the civil service. If profits are low or negative, seek a government subsidy, or contract, or price control, or restriction of your competitors. Even the most efficient of governments would be hard pressed to replace as many of the resource allocating functions of a market system as the Greek government attempts. And, if I may be permitted an understatement, the Greek government is not the most efficient of all governments.

You might put it this way:

It is commonly recognized that the administrative system in Greece is complex and rigid. This is apparent in the slowness of the process of taking and implementing decisions, even in cases that require urgent action. Furthermore, the predominant mentality in the Greek Civil Service is intensely bureaucratic and marked by lack of interest in the tasks assigned to it. Excessive adherence to forms and cumbersome procedures in public business, and the tendency to avoid responsibility by referring a host of matters to councils and committees, overlooking the implications for the national economy of this loss of valuable time, are usual during the taking and implementing of decisions. A major weakness, finally, of the Greek Administration is the avoidance of responsibility, apparent either in the excessive concentration of power at the top of the administrative hierarchy or in its excessive dispersion among a multitude of administration organs. This renders the manner in which public business is carried out extremely complicated and slow, which in turn encourages the tendency to avoid normal procedures, in order to ensure quicker treatment of particular problems.

I would have been reluctant to say that. It is a quote from the Greek Economic Development Plan (p. 155). Since most business is regulated to

the point where it is in effect public business, the bottlenecks are severe. Quite apart from any substantive decisions, the mere existence of long and uneven delays affects the pattern and rate of development. Its effect on growth is surely adverse.

These examples suggest several potential sources of bottlenecks to future economic development: fear of economic collapse, preference for quick gains over the gradual return of productive investment, conservatism within the banking system, preference for small tightly controlled (and not very efficient) family controlled enterprise, a tendency to appeal to government rather than adapt to the market, and the presence of a large, powerful, inefficient and restrictive bureaucracy.

One thing not in the list above, perhaps the most important of all, is the most puzzling to an outsider. It is what I will call a positive preference for a personalistic and bureaucratic decision-making process as distinct from a decentralized and impersonal one. Why does the Greek prefer to have wages, prices, profits set by fiat rather than the market? Why does he prefer rationing by identified decision makers rather than by impersonal competition?

Consider a special but perhaps revealing example.

Suppose it is agreed that a limited number of taxicabs should be allowed in Athens. One way of allocating licenses would be on a first come, first served basis, to applicants meeting stated qualifications. Another would be to auction licenses to the highest bidders meeting the specified standards. A third would be for every license (and every transfer of a license) to be made by a designated ministry. Who gains and who loses by the third (personalistic) procedure?

Clearly the winning applicants gain, and the losing applicants lose. But if all applicants regard their chances as very good, because they are persuasive, because they know the right people, because they muster the political patronage that will impress the administration, then all will prefer the personalistic. The administrator may well be content if by granting the licenses he can enhance his and his family's welfare — by receiving a fee (legal or otherwise), by storing up a backlog of personal favors, or developing a political following that he can offer to some political leader. Moreover, he has a time-consuming and important job in the civil service, that pays him above average wages and that he is confident can be used as a stepping stone to a yet more important job. Is this a caricature? I think not. The Greek political system rests so heavily on pockets of personal patronage and power that

the careers of most incumbents would be shattered if the system were changed. Everyone publicly deploras the system, but believes privately that it benefits him personally.

II

What is the role of planning? The underlying assumption of planning is that it is both possible and desirable to change either the direction or the rate of progress of the economy by policy action. The planner's main role is to identify the choices.

To give focus to discussion of the Greek Economic Development plan, it is helpful to spell out the functions an "ideal" planner would perform.

1. *Crystallize the "Vision"*

Any economy that looks not to the next five or ten years but to the next generation has certain major degrees of choice. It can drastically change the amount and nature of the education or training of its population, it can change the occupational and industrial emphasis of the economy and it can go a long way toward creating the kind of society it wants.

In the short run the economy and the society are prisoners of the present and recent past, and rapid growth relies on doing more of what you are best at doing. But a nation's "comparative advantages," fixed in the short run, can be changed in the longer run. Make no mistake, these are important choices. Greece today has its greatest comparative advantages in importing tourists and exporting laborers. If, as I believe, Greeks want to avoid the role of playground and incubator of Europe they must take hard, and expensive steps now. A close and realistic evaluation of where an economy might go, and of the benefits, costs and risks is the primary role of the planner; primary both in the sense of most important and first required. The planner's job is to pose the choices, not to make them.

2. *Derive Targets of Development*

Choice of the "vision" provides important clues regarding the directions of desired development. It does not describe where an economy can and should be in five years if it is to achieve its major objectives in 35 years. There are many paths between here and there, and they differ both in the level of

the economy that will emerge and in the nature of the journey. The trade-off is often between sacrifice now and added benefits later. The path that meets the “structural” constraints of the vision, and gives the maximum level of income at the envisaged date is called the “turnpike.” (There are other turnpikes to other destinations). There is point in arguing that the short run target should have a rebuttable presumption of being on this turnpike. Every departure from it costs something. The cost may be justifiable in terms of an easier or more equitable journey, but it should be explicitly computed.

3. *Identification of the Need for Policy Action*

The relevant comparison for the planner is between what is forecast if no new policies are adopted, and what is feasible if policies are adopted. Notice that it is not the comparison between what exists now and the target levels, for some development and many changes will occur in any case. Neglect of this basic distinction will lead to confusion of the dog with its leash and lead to blame or credit of the leash, or the leashmaker, for the misdeeds or triumphs of the dog. More important it may conceal what are the important policy areas. To reach the target, some sector may require rapid growth. Only that portion of the growth that is not forecast as happening in any case will require policy action. It is important to notice that it is *large shifts*, not large absolute *changes* that command attention.

Characteristically the agenda for policy action involves both a *growth* component—policies designed to accelerate the rate of growth—and a substitution component—aimed at moving toward the desired structure of the economy. These may in part conflict. The trade-offs need to be made explicit.

4. *Identification of Alternative Feasible Policy Paths*

The important notion here, once a target is identified, is that there is always more than one means available, and the choice among them may be highly significant in terms of side effects.

I would end the list here, but many would add:

5. *Choice of the Best Policy Set*

It is my view that this ultimate choice is political and that the planner

jeopardizes planning and subverts democratic choice by presenting a unique policy set that purports to be the only feasible means to a given set of ends.

III

Planning in Greece appears to have adopted a short-cut procedure, involving Step 2 (choice of a five year target for development) and Step 5 (recommending a policy set). But short cuts involve hazards.

The Greek plan is overwhelmingly growth oriented, with little attention to long run choices. It picks a turnpike but asks not where the turnpike goes. Because manufacturing and tourism show the greatest past growth, they are pushed hardest in the Plan. Yet vastly expanded tourism may buy prosperity at high cost to the nature of Greek society. And development of manufacturing represents a major gamble for the not-so-distant future when Greece attains full membership in the Common Market. (A distinguished Canadian student of the Greek economy, Professor S. G. Triantis, takes a very gloomy view of the prospects of success of this gamble).

My objection to these choices is not that they are made, but that the alternatives are not discussed and evaluated. How much would it cost Greece to gradually moderate the flow of tourists? To develop agricultural processing industries instead of heavy manufacturing? Does the emphasis on growth along lines of present comparative advantage reflect a real choice of the Greek people or merely the path of least resistance?

A second hazard of the short cut is that the distinction between no-plan growth and planned growth is suppressed. The Plan identifies *all* change with needed policy action. For an example, although tourism may be expected to grow at a rate of 18 or 19% per year in any case, the Plan proposes an enormous policy arsenal because the target requires an average annual increase of "at least 20%."

A third hazard of the short cut is that policy *alternatives* are not presented or discussed. Instead a single policy set is presented as if it is both necessary and sufficient to achieve all forecast change. In fact, I shall assert (but not document this controversial view) that the policy set substantially increases the administrative role in the economy.

Suppose I am correct in these critiques of the planning process. Are they explicable in terms of bad or corrupt planners? Or is there something in the system that compels able conscientious planners to proceed this way? I believe the latter explanation holds true.

Greek planners today are in and of the government and must be particu-

larly responsive to whoever is the Minister of Coordination. The fact that the Plan was ordered by Andreas Papandreou and delivered to Mr. Mitsotakis and will be implemented (it at all) by a government not yet chosen, doesn't make the planner's life an easy one. Because the political situation is unsettled there are political imperatives to: (a) hold out great promises of what the *government* can do to improve the Greek lot; (b) avoid posing hard choices and emphasizing the sacrifices required to achieve desired ends; (c) create an aura of absolute necessity around the particular policies the government wishes to enact; (d) find policies that maximize the political support of the government; and (e) maintain and widen the patronage of the members of the government and their party.

These imperatives lead directly to the creation of a vague and fuzzy vision, that promises the best of all worlds, with hard choices and sacrifices suppressed. It emphasizes not relatively more of this versus relatively less of that, but promises on all fronts in order to maximize popular support.

These imperatives also lead to comparing target levels with present levels and treating all growth as the result of planning. Indeed, they lead to excessive pessimism about the present and excessive optimism about the future. The promise looks glittering and natural growth will make the actual performance pretty good in any case. These imperatives lead to recommending many policies, where few may be required. They lead to adding to existing subsidies and special incentives as a more palatable form of equalization than the removal of existing and unfortunate special concessions. They lead to making all policy proposals seem equally required and equally urgent, and they lead to steady increases in the role of government in the conduct of the economy.

These, imperatives to repeat, represent the pressures on the planners. Very little save "professional integrity" would lead planners to resist. Planners too are bureaucrats (albeit also well-trained professionals) who seek their rewards in higher administrative posts, in coveted appointments to the sinecures of university positions, and (in some cases) in political careers of their own. Unlike their American and British counterparts, they have no homes to go to when their government service is done, no tradition of job security, no independent professional reputations to build or rely upon.

No one is immune to such pressures. The Greek planner, is additionally a Greek, which means that he is at least 50% a politician and is unlikely to undervalue his own judgment and preferences.

Allowing for some degree of hyperbole, I believe that I have drawn a sketch, not a caricature. I do not mean to suggest that planning in Greece

today is without benefit. It poses many questions and promises some success. Rather I am suggesting that it is in danger of creating a large smokescreen that obscures how much is being done that would not in any case occur, and obscures which choices are *not* being made, particularly about the kind of society Greece is to become in a generation or two. There is some danger that an already heavily regulated economy is becoming more regulated, not because this is the price of progress, but because it is the preference of the establishment.

Since I am persuaded that there is real steam left in the Greek economy, it may not matter very much whether planning is in fact providing a small sail or a large propeller. If, however, bureaucracy and a personalistic society do impose real long-run constraints, it may matter a great deal. I see no attack occurring upon the principal political and cultural attitudes that may constrain future growth, nor do I see any group in the society that is motivated to launch such an attack.

Let me close on a note of admitted ignorance; it may well be that these political and cultural attitudes are the essence of what Greeks cherish most. In that case, however much these attitudes impede development, their cost is worth bearing. This possibility has one comforting property: it fits the facts.

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