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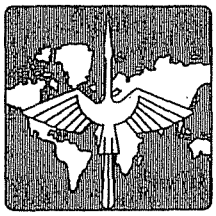
The Hague - Netherlands



INFLATION IN GREECE: 1967 - 1978

a Thesis presented by

Theodore G. Artémis
(Greece)

in partial fulfilment of the requirements for obtaining the Degree of

MASTER OF DEVELOPMENT STUDIES

Members of the Thesis Committee:

Mr. O. Braun
Prof. Ch. Cooper
Mr. K. Jansen
Mr. P. Wright

The Hague, May 1981

ACKNOWLEDGEMENTS

My acknowledgements and deepest gratitude go to the late Professor Oscar Braun, who so unexpectedly left us, to the very great regret of me personally, and I am sure to all others who have come to know him, as a man and as a scientist.

During his supervision of my thesis his patience and understanding have proved invaluable to me and my work. Together with the above, his constructive criticism and advice made possible the completion of the present study.

I feel it is my duty to express my thanks also to Dr George Irvin, who in his capacity as a lecturer and tutor to me contributed significantly to my better understanding and knowledge of economics.

Finally I would like to thank the ladies of the Student Office, and Mr Grader, as well as the people at the Library, all of which have willingly, in various ways, facilitated my stay in Holland and study at the ISS.

Theodore G. Artemis

PREFACE

It is commonly agreed, that the three major problems that have confronted many of the advanced and developing western nations since the early seventies have been, Inflation, Unemployment, the Energy crisis and the general economic recession. In each individual country, the character and level of its social and economic organization determined to some extent the degree or magnitude each problem would take. On the other hand, in order to mitigate the ill effects of the 'problems', the governing body in each country (representing or not public opinion) formulates a certain policy and sees to the implementation of the 'dictated' measures after a hierarchical ranking of the 'problems' has been determined.

In Greece, acknowledged by most post war governments (for economic and social reasons) and considered by the majority of the population, of major importance and priority thus was the issue of inflation. This has been reflected in the policies pursued by the majority of the governments in the years following the periods of hyper-inflation, 1941-45, 1945-53, (a possible exception to the rule as we shall see has been the late government under the party of 'new Democracy', 1974-81).

During the period of the sixties and up to 1972, Greece enjoyed a rather high rate of growth or real G.D.P. alongside a very stable price level. On the average, during the years 1962-72 the annual rate of inflation did not exceed 2.3%, a rate well under that experienced by the rest members countries of the O.E.C.D. A prosperous era for Greece one may say, and a period in which the public's confidence in the national currency (a prerequisite) had been fully restored.

With the turn of the decade however, came the end of the prosperous era for Greece, investments began to decline sharply, real G.D.P. fell by some 2% in 1974 while inflation rose substantially: the rates being 16.7% in 1973, 24% in 1974, while for the period 1974-78 17% average annual rate (estimates for the years 1979-80 raise the rate to between 25 and 32%). The phenomenon was not of course unique, the extent and magnitude and the persistence however was exceptional. Only one or two other countries members of the O.E.C.D. experienced similar trends. The recession and the period of declining investments was well protracted.

How was it possible, that during the prosperous era mentioned earlier, real G.D.P. growth rates in the region 8% yearly were achieved, alongside a 2% annual rate of inflation, while now after 1973, with real G.D.P. falling or not rising, investments declining etc., inflation to rise that high and persist? The often repeated claim from government circles, since 1974, that the domestic price level was predominantly affected by the prices of imports, was not very convincing, especially as the cif prices of imports did not rise as fast as the domestic prices; in addition, the small 'openness' of Greece - the relatively small significance of its foreign trade sector - suggested that the sort of impact, upon the domestic economy from the rising import prices, as claimed by the government was quite improbable. One would expect rather, countries such as Germany or Finland to 'suffer' most from the boom in primary product prices, the energy crisis etc.

A preliminary investigation and research in the matter, suggested and rendered strong support to the possibility that the basic factors underlying the opposing trends and characteristics of the two decades in

question (stability and growth versus 'staglation'), primarily were to be found in the different economic policies pursued in each period.

The object therefore of our enquiry in the present study became (is) the identification of those most important factors - dependent or not of government policies - that were responsible for the surge of inflation during the seventies (and responsible for the monetary stability etc., the opposite 'trend' before the seventies).

The period to be examined, 1967-78, was chosen deliberately because, aside from the opposing trends the economy presents after 1973 - for the years 1974-78 - vis a vis the period 1967-72, the later period after 1973 coincides with changes in government rule, the downfall of the military regime of 1967 in 1974 and the succession of a liberal-democratic government with very different and 'liberal' price and incomes policy, the strengthening of unionism, not to mention the energy crisis following 1973.

Now the structure of this study was broken up into four parts. In part I, we investigate what took place during the period 1967-72, under military rule. In part II, we examine factors that significantly had affected the price level in the year 1973 alone, and which factors were not 'present' in the previous years. Part III examines and investigates the 'trend' for the years 1974-78. Of course in each period, our investigation took a certain path-direction: a direction in which we had good reason to suspect, existed the 'answer' to our inquiry. More details concerning the direction of investigation and our hypothesies are given in the introduction of each part or chapter of this study and therefore need not be repeated here again. Finally in part IV, we attempt with the information gathered throughout

the study, a synopsis, a composite presentation of the inflationary trends and their origins in Greece for the years from 1967 to 1978.

The study conducted, attempted to view the problem of inflation from many perspectives and cover as many aspects of the issue as possible. We tried to provide a more comprehensive 'picture' of the process at work, identify the origins of inflation and trace some of its repercussions upon the economy. Lack of trustworthy data, literature and research on other economic issues did not permit us to extend our discussion on certain important and relevant issues we wish to have been able to treat in more detail; for instance, on the income distribution, tax avoidance and evasion, the tertiary sector, the 'para-economy' and other. Yet, despite all this we are confident that the present study covering a period of economic and social-historical significance for Greece, has fulfilled its initial aim.

We hope, that this piece of research will be of use to fellow Greek colleagues and aid further research on the subject in question which has not been given the proper attention it deserved in recent years nor 'treatment' both in practice and on 'paper'.

T.A.

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CHAPTER I

THE PERIOD 1967-1972

Introduction

The period 1967-72 constitutes the second period of rapid economic development of postwar Greece. The first being that of 1960-66. The whole period 1960-72 is characterized not only by the high rates of growth of GDP of the economy but further of monetary stability. Most structural changes had occurred during this period and the public sector's participation had played a key role in the development process.

The 1968-72 economic development plan itself was quite ambitious but did not fail to realize its forecast. Real GDP[1] rose roughly in line with what had been forecast, though somewhat to the lower side of the target, by an annual rate of growth of 7.52% against the target of 7.5% - 8.5% set, while GNP at 1970 market prices at a rate of 7.8% per annum. Sectoral growth rates however, were not the expected ones. The primary sector's GDP rose at an annual rate of 2.95% against the expected 5.2%, while that of the secondary and tertiary were more or less in line with the forecast of the Greek economic development plan. The industrial sector grew at an annual rate of 11.27% while services at an annual rate of 7.13%, thus bringing the former closer to the target while deviating slightly that of services.[2]

Credit allocation[3] favoured the secondary and tertiary sectors against the primary ones whose credit while representing the 20% of total credit in 1966, in year 1972 it represented only 13% of total credit. In absolute numbers it doubled, that of manufacturing

tripled while that of housing grew more than 6 times during the period under investigation. Given the fact that most sectors outside agriculture could finance a great deal of their investment requirements from their own sources, (with one possible exception the trading sector which however received finance from the industrial sector) it was inevitable that gross fixed asset formation in agriculture as a percentage of total gross fixed asset formation would be low. From table V we see that the primary sector absorbed the 10.81% of total gross fixed asset formation for the period 1967-1972 against 54.19% of the secondary and 34.98% of the tertiary. This in part explains the high growth rates of the other sectors compared to that of the primary which of course is in a way the natural outcome of the rapid industrialization, but still, also the very fact acknowledged even by the government[4] that structural weaknesses were still evident in Greek agriculture by 1969.

Insofar as the consumer price index is concerned from table VIII we can see that for the period mentioned it deviated only slightly from the expected average of 2%. However it can be observed that after 1969 the index shows a marked upward trend reaching a peak of 4.2% in 1972. This seemed to trouble the authorities and in 1971 law 918/71 came into effect which expanded the right of the government to control-regulate the prices of goods and services. Under this law, no price increase by producers, retailers etc. was possible prior to the government's approval.

However early in 1973, following similar measures taken in 1972, the government announced new measures to curb the rising inflationary tendencies.[5] These were:

(a) Exempt from law 918/71 various categories of final and intermediate goods;

(b) Reduce import duties on 'basic' goods which directly or indirectly influence the price index;

(c) Forbid export of goods whose availability is insufficient to cover domestic demand.

All the above suggest that in the preceeding years the inflationary tendencies, masked under the system of regulated prices, resulted from shortages, and that this policy was not any longer implementable in 1973 possibly as inflationary pressures arising from abroad - imported inflation - were becoming stronger.[6] Now whether these tendencies resulted from excess demand, inelastic supply, an expenditure switch caused by the high protectionism[7] or a combination of all the above remains to be seen.

One may well ask why have we excluded the possibility of cost push inflation. Well, originally we gathered that with the military government's wage rate policy which allowed wages and salaries in all sectors (outside agriculture) to grow only in accordance with improvements in productivity - method of average productivity - it was impossible for unit labour costs to increase beyond productivity growth and induce cost push inflation. As for imported inflation and its effects upon costs again, the five year plan provided a 'solution' via reduced or abolished import duties and other indirect taxes to facilitate the effort promoting industrial growth.

Together with our earlier reasoning, namely that inflationary tendencies resulted from shortages, we ended up with the preliminary conclusion which was to form the basis of our hypothesis, namely that inflation must be of the demand pull type. The next question to be posed related to the causes of inflation: inelastic supply?, excessive demand?, or what and why? The very fact that consumer expenditure had been declining year after year during the 1967-72 period as a percent of GNP while the consumer price index indicated an upward trend in the same order led us to exclude the possibility of an excessive demand being the reason.

On the other hand again a possible inelasticity of supply, alone, seemed an insufficient nor feasible factor inducing the aforementioned 'shortages': in view especially of the relative decline of consumer expenditure mentioned earlier. If supply again was inelastic, how did the economy achieve such high growth rates of real GDP? One possible theoretical case enabling an explanation is the following: namely that although demand itself was not excessive, a change in its composition, created excess demand in certain markets, enough however to cause a general rise in the price level. This change in the composition of demand may have been induced by a change in the consumption habits of consumers, the so-called 'demonstration' effect and other.

Now the rise of the general level of prices comes about even if there are markets suffering from deficient demand, because of downward wage and price rigidities which do not counteract the upward pressures induced by the markets characterized by excess demand. This

demand pull theory which we more thoroughly take up in chapter III is given to us by C. Schultz.[8] It is this possibility - the change in the composition of demands - which we are to investigate and base our hypothesis concerning the factors which have affected the price level for the period 1967-1972.

Now the excess demand situation which hypothetically characterizes some commodity markets, presupposes the existance of a certain inelasticity of supply. This inelasticity, we aim to indicate, and which forms the second part of our hypothesis, is partly attributed to the mischannelling of resources and in particular the inbalanced growth of the service sector. The growth of the tertiary sector however has had an additional repercussion which, we tend to indicate, is not totally unrelated to the change in the composition of demand. In other words we have good reason to believe that the aforementioned change was 'initiated' by housholds or income earners deriving income from the tertiary sector. In more detail this topic will be discussed in chapter III.

Now with real GDP growing at an annual average rate of 7.52%, GNP at current prices at a rate of 11.4% annually, a 2.3% annual growth rate of the price level, for the period 1967-1972, can hardly be termed 'inflation'.[9] This low rate of inflation was partly achieved due to direct price controls and other measures which we intend to indicate. Whatever the rate of inflation is or would be in the absence of various government measures is however immaterial. What we are after mostly is identifying its roots, the factors which aggrevated inflation and those which masked or damped it. In doing so we shall investigate also other

possibilities which we more or less have ruled out, namely cost-push and imported inflation. By 'ruling out' we merely mean that we do not consider them the primary factors responsible.

CHAPTER II

COST-PUSH INFLATION

1. The Primary Sector

(a) Domestically induced inflation

Subsidizing agricultural costs has been and still is an integral part of the government's agricultural policy. Our primary interest in this section is to investigate whether the various increases in the prices of products of primary origin which were mostly regulated by the government were realized after permission was granted by the government, justified - as was usually the criterion - by increase in costs. In short, whether profit margins were becoming, due to increasing costs low, so that the government in an effort not to 'discourage' production and for reasons of 'public sentiment' was 'forced' to allow price increases.

The prices of a series of inputs supplied by the government and various other governmental institutions have been held constant over the years, while those of other inputs which farmers bought from the trading sector were again in part subsidized. However not by the full amount by which price increases occurred. For instance[10] the prices of fertilizers, various medicines, petrol, to mention a few remained constant over the years while those of other varied, such as electric energy which was supplied every year at a lower price while that of gasoline slightly increased. The table which follows indicates the prices of inputs paid by the farmers over the years, before and after subsidy. However, it should be noted that the index of prices paid by farmers exclusive of subsidies incorporates the prices of various inputs which were

provided by the government or the Agricultural Bank of Greece at a constant level over the years. This means that the first index incorporates already a certain subsidy. Thus the second general price index actually shows the extent of government subsidies to cover for increases in the prices of inputs purchased by farmers in the free market. (Those not supplied by the government).

TABLE 1

General index of prices paid by farmers
(1966=100)

	1967	1968	1969	1970	1971	1972	1972/67 % change
1. Excluding subsidies	97.9	100.8	103.4	105.5	106.7	130.2	33
2. Including subsidies	97.9	100.7	102.9	104.9	106.1	109	11

Source: Agricultural price indices (1966=100). Athens, National Statistical Service of Greece, 1975, pp. 18-20.

As mentioned earlier, index 1 includes already a certain subsidy, thus by taking the difference between the two indices as an indicator of the extent by which subsidies covered part off the increase in costs would be an underestimation. It should be noted further, that the relative low subsidy shown in 1967, 1968 was possibly due to the fact that all agricultural loans were written of by the government. In the absence of a general index completely excluding subsidies it is rather difficult to assess the pressure which possibly rising costs exerted on government price policy forma-

tion. However, given the above information in conjunction with the information provided by the following table we might reach some logical conclusion.

TABLE 2

General index of prices received by farmers
(1966=100)

	1967	1968	1969	1970	1971	1972	1972/67 % change
1. Market prices	100.2	102.6	106.1	106.5	112.6	121.1	21
2. Prices received by farmers after income allowance or subsidy	101.8	104.4	107	107.4	113.3	123.2	21
3. 1/2% change	-2	-2	-1	-1	-1	-2	
or 2/1 change	2	2	1	1	1	2	

Source: Agricultural price indices (1966=100). Athens, National Statistical Service of Greece, 1975, pp. 15-17, table 2.

From table 1 we see from 1967 until 1972, input costs excluding subsidy rose by 33% or more[11] while those after subsidy rose by 11%. From table 2 we see that market prices of agri-products, administered or not, rose by 21% and so did prices received by farmers after subsidy. From the above we may conclude, that a great part of the increasing costs was 'absorbed' by the government, that in the absence of such a policy, given the extent by which market prices were 'subsidized' (regulated and kept at low levels through partial compensating direct income allowances granted to farmers

for that purpose) and in the absence of direct final price controls, market prices would have risen due to higher costs, much more than these did. To maintain a relatively stable growth of market prices the government subsidized more than 2/3 of the rise in input costs and dumped final prices by one or two per cent of possible price increases (see table 9). This was made possible through direct income grants to farmers to compensate for their loss of income accruing from the relatively small increases in final market prices allowed by the authorities.[12] In essence the government was also subsidizing the consumer.

We can thus conclude that rising costs were a reality but through various measures the burden was distributed between the producers, the government who subsidized costs and damped final prices by granting income allowances to farmers, and by consumers especially in the later years, 1970, 1971, 1972 which in more detail we shall analyze in the next section.

(b) Imported inflation as a source of cost-push inflation in the primary sector

So much the production of feedstuffs as also domestic herd breeding and meat production have always been insufficient to meet domestic demand, Greece has traditionally relied upon imports of livestock, feedstuffs and meat in an effort to increase and improve herd breeding and domestic animal husbandry, meat production and availability of meat. However, as the producers prices, which were fixed by the government were low and did not compensate producers for holding back animals for slaughtering before second or third generation was reached, increased slaughtering occurred and thus

the expected expansion of herd breeding and domestic animal husbandry failed to take place. Given now the fact that to a great extent domestic animal husbandry has relied upon imports, it therefore may well be possible that the rising prices of various agricultural and livestock imports after 1970 have been a source of cost-push inflation or better a source of rising costs in this branch of the primary sector.

TABLE 3

Wholesale prices of final products of foreign origin (1961=100)

	1966	1967	1968	1969	1970	1971	1972
Agriculture/ Livestock	137	131.3	127.1	131.6	151.3	160.6	180.6
change %		-4.2	-3.2	3.5	15	6.2	12.5

Source: O.E.C.D. Economic survey, Greece. Paris, OECD, 1977. Table F, p.46.

Indeed from the above table we see that a tremendous increase took place in the prices of these imports in the years 1970-72. There is no doubt that price increases in the region of 12.5-15% definitely must have increased costs. In fact as we are informed by the OECD[13] agricultural report on Greece and mentioned earlier, rising costs in this branch of the primary sector were an ageing problem, and given that the military government's maximum fixed price quotations did not compensate for increasing costs, as a consequence herd breeding was discouraged and declined, and increases in slaughtering occurred. Given the above it is logical to conclude that rising import prices could only have

worsened the situation. Indeed in view of both - rising import prices and discouraged herd breeding - the government could no longer keep prices at the existing levels and announced a series of new measures to encourage herd breeding, one of which was the substantial increase in maximum prices received by producers. It seems from the table below that this time the burden was passed on to the consumers largely, something which the government was trying to avoid a few years back.

TABLE 4

Indices of prices received by farmers, excluding income allowances (1966=100)

	1967	1968	1969	1970	1971	1972
1. General index	100.2	102.6	106.1	106.5	112.6	121.2
2. For meat	99.9	99.4	103.9	116.4	122.5	136.1
3. For meat including income allowances	99.9	99.4	103.9	116.4	122.5	136.1

Source: Agricultural price indices (1966=100). Athens, National Statistical Service of Greece, 1975.

From table 4 we see that no income allowances were granted for these producers, and that the new maximum prices set were indeed substantial if compared to the general index, bearing in mind the high weighting coefficient for meat of 142,1 in the general index 1.000,000. (It is almost one seventh). Thus we may safely conclude the following:

- Up to the year 1970 due to cost subsidies and direct income grants or allowances to farmers, cost-inflation was not passed on to the consumers. Per unit costs did rise but they were not reflected on the consumer price index. This is made evident in the following table:

TABLE 5

Index of consumer prices (1974=100)

	1967	1968	1969	1970	1971	1972
Consumer prices	60.0	60.2	61.7	63.5	65.4	68.2
of which: Food	55.4	55.4	57.3	52.1	62.1	64.6

Source: O.E.C.D. Economic survey, Greece. Paris, OECD, 1977. Table F, p.46.

- However after 1970 cost inflation was passed on to the consumers and did become price inflation. To the extent by which imports contributed to the above experience we are not or cannot be sure.

- It seems that most of the increase in food prices after 1970 resulted primarily due to the increases in the market prices of meat. Thus we may again safely conclude that cost inflation was reflected after 1970 on the consumer price index. (Especially given the relatively high weighting coefficient of food in the general consumer price index).

TABLE 6

Composition of the consumer price index
(revised base, 1974=100)

Food	335,5
Alcoholic drinks/tobacco	42,3
Clothing/footwear	119,4
Housing	132,7
Durable consumer goods	78,7
Health & personal care	48,5
Education/recreation	81,9
Transport/Communication	124,9
Other goods & services	16,1

Source: Statistical yearbook of Greece: 1977. Athens, National Statistical Service of Greece, 1978.

2. The Industrial Sector

In this section we shall investigate whether in the leading sector of the economy, primarily that of manufacturing, per unit costs or better wage and salary increases grew faster than productivity and thus were the cause of relative price increases in manufactures. The following table shows the evolution of the per employee productivity index in the industrial sector and the per worker real wage-salary index. Unfortunately, lack of primary data necessitated the use of secondary data which cover only the years 1964-70. However, we think the following table is of use as it indicates the 'trend' in the industrial sector.

TABLE 7

Productivity and real wage indices

Years	Productivity index	Real wage index	Difference
1964	100.00	100.00	0.00
1965	110.40	106.40	4.00
1966	120.10	114.00	6.10
1967	126.90	125.40	1.50
1968	141.80	134.00	7.80
1969	160.20	144.00	16.20
1970	174.80	148.00	26.60

Source: Delivanis-Negreponti, M. 'The actual causes of inflation in our country' in 'Economikos tahydromos', issue of 13/12/1973, p.9 (in Greek).

From table 7 it is evident that the increase in productivity more than surpassed increases in real wages year after year. The author of the article from whom we borrowed the above table mentioned in the same article that, the fact that productivity grew annually faster than real wages not only could not have been the cause of inflation but on the contrary may have had depressing effects. In fact an econometric study conducted by G. Economou[14] revealed that the wage rate policy followed during the military regime (Method of average productivity),[15] resulted not so much to higher incomes, but profits or the stabilization of prices, a fact which seems to verify again the above drawn conclusions (namely that insofar as the 'leading' industries are concerned increasing labour unit costs were not a problem).

Insofar as other inputs are concerned, other than labour, the same study (Economou, G. Empirical analysis of the factors determining ... etc., p.200) revealed that they did not result in increasing unit costs. This we are inclined to accept, for as a matter of government policy we had mentioned that machinery and other raw material inputs which were imported would be offered free of duties and other indirect taxes.[16] The study conducted by G. Economou concluded that the prices of imports did indeed not induce cost inflation. The inflationary tendencies he (for industrial products) attributes to excess demand rather than rising costs.[17]

The other sectors: a note

In chapter 14, page 112 of the Economic Development Plan of Greece it is mentioned that although the government via certain measures expects the monopoly structure and inefficiencies of the sectors engaged in the trading and distribution of goods and services, to be eliminated to a great extent, in sectors were structural inefficiencies will persist and where prices of various goods seem to be established at levels much above what may be considered 'natural', the government will expand its authority to regulate profit margins, prices and activity levels. From the above it can only be apparent that at least in the primary sector possible inefficiencies in this branch of economic activity, could only have led to a profit squeeze. In fact law 918/1971 covering a wide range of goods and services at the wholesale and retail level, seems to verify that prices of certain goods had indeed reached an undesirable level from the government's

viewpoint. However, the coming to being of law 918/1971 does not tell us anything about the real causes of price increases, whether caused by inefficiencies at the trading levels or demand permitting a 'natural' development. But given that price controls in these sectors trading and providing goods of primary origin existed from the very beginning, we may conclude that possible inefficiencies resulted in a profit squeeze. As for those trading other goods and services, the profit squeeze possibly occurred after 1971 with the passing of law 918. This issue, however, will be analyzed more thoroughly in our next section.

Conclusion

In some branches of the primary sector, and in particular that of herd breeding, inefficiencies were present and so were rising costs. Moreso after 1970 when import prices of livestock had risen. Prices, however, were kept at fairly low levels through subsidies and direct price controls by the authorities. After 1970 in order to avoid a further profit squeeze to cattle and herd breeders resulting from rising import prices, the authorities allowed market prices to rise substantially. The same applies for other agricultural products with the difference that through subsidies the extent by which prices rose was less. Thus we may conclude that the burden arising from increasing input costs, rising import prices and inefficiencies in the wider primary sector was distributed between producers, the government which subsidized costs and granted income allowances, and consumers especially in the later years after 1970.

The price of manufactures on the other hand seems not to have been influenced by rising costs at all.

Price increases seem to have been demand induced primarily. As for those service sectors catering in the distribution and trading of primary products as mentioned, any possible inefficiencies must have led to a profit squeeze under the regime of regulated prices. After 1971 when control expanded to include manufactures, the same applies for wholesale and retail trade in manufactures.

CHAPTER III

DEMAND-PULL INFLATION

In the previous chapter we have investigated whether possible inefficiencies occurring in sectors which we had identified as having such problems, could have induced inflationary pressures. Further, we have indicated that even in the above mentioned sectors via direct price controls and other measures, possibly only a part of the inflationary pressures were reflected upon the consumer price index. On the other hand, we had also concluded that cost-push inflation was not the cause of price increases of manufactured consumer goods.

The coming to being of law 918/1971 on the other hand, which expanded the government's power to control final prices of various goods and services, verifies the fact that inflationary pressures in the rest of sectors of the economy were becoming stronger. Having reached the conclusion that these tendencies in the major manufacturing sector were not cost induced, the only possible explanation left is that either these tendencies were caused by inefficiencies at the retail level, or the natural outcome of an excess demand over supply.

Without declining to accept the possibility of inefficiencies existing in certain producing and distributing sectors of the economy, it is rather difficult to accept that in the absence of an inelastic and/or excessive demand, price increases could have taken place. Of course, much depends upon the market structure of the trading sector which seems however in Greece to be rather competitively organized.

There exists one wholesale enterprise per 1200 inhabitants compared to one per 110.000 in France and one per 50.000 in Belgium.[18] Some consider the above as an inflationary,[19] possibly viewing it from the efficiency side. However, since most prices are set by the government we cannot see why or how the high ratio of enterprises to the population in Greece becomes inflationary. We gather that with the present system of regulated prices, efficient firms would earn an above average profit and vice versa for the inefficient, nothing beyond that.[20]

The very fact that the government enforced price controls from the very beginning for products of primary origin, expanding later the control to various manufactures and services indicates the government's belief that for a series of consumer goods demand would have been such that in the absence of price controls, in the allowance of free market forces to determine price, prices would have possibly reached levels considered undesirable.

Taking into account the additional anti-inflationary measures of 1973,[21] amongst which was the prohibition of various exports and 'liberalization' of various imports, we can only conclude that a number of shortages were acknowledged and that local availability of certain goods did not cover the demand.

We commence now our investigation by trying to identify which goods were in 'short supply' and why so or if not whether and why demand was excessive.

The changing composition of demands

By changing composition of demands we refer to a situation where a change in the consumption pattern or habits of consumers takes place. This change may have resulted due to higher levels of income and wealth, the so-called 'demonstration' effect, or an expenditure switch etc. Now, the change in the consumption pattern and consequently of demand in certain markets may lead to rising prices if supply does not respond or expand fast enough to meet demand. Now the inflationary pressures induced from the markets characterized by excess demand, may be sufficient to bring about a rise in the general level even if there exist markets characterized by deficient demand. This is so because of downward price and wage rigidities which do not allow deficient demand to counter-balance the inflationary tendencies arising from the excess demand markets.[22] To us, the significance of this theory of inflation which we intend to investigate is that it allows for demand-pull inflation without necessitating the need of an overall excessive demand to exist.

In Greece we have good reason to believe that a change in the composition of demands did take place and has induced inflationary pressures in the fashion described above. The very fact that consumer's expenditure as a percent of GNP had been declining from 1967 till 1973,[23] tends to support the proposition that inflation arising from the demand side was most likely induced by a change in the consumption pattern and not by an overall excessive demand.

As expected by the authorities the first change to occur was in the composition of food consumption and expenditure.[24] It was expected that despite the

decreasing percentage of expenditure on food in total, private domestic consumption expenditure per head consumption and demand for food of animal protein (meat, fish, etc.) would rise substantially and thus would expenditure as an aggregate as well as in relative terms. Given now the insufficient domestic supply of the above and the restricted amounts of imports dictated by balance of payments problems, prices were artificially set low via direct administration in an effort to curb possible inflationary pressures arising from excess demand. The low prices received by producers as we have seen, in turn led to increased animal slaughtering and to the decline of domestic animal husbandry. This in turn, increased the import requirements of the country as regards meat, livestock etc., which however imports never sufficed to cover domestic demand. The rising import prices of livestock and meat after 1970 left no choice to the government but to readjust upwards producers prices substantially as their cost had increased so much that reduced profit margins to the extent which would discourage completely domestic animal husbandry.

Now that demand was somewhat inelastic to price increases for food can be seen from table IX from where it is evident that though the rate of change of expenditure on food was declining, in 1971 and 1972 it rose remarkably, indicating possibly, consumers willingness not to reduce their purchases in view of higher prices. Of course in the absence of trade balance problems further imports of meat and livestock could have eased somewhat the situation by filling the gap between domestic demand and supply. However, this seems not to have

been feasible for an additional in our opinion reason. Assuming constant import prices over the years, substantial in quantity imports of meat and livestock able to meet demand, through price formation and given the existing costs and efficiency of domestic animal husbandry, would have led to further suppressed agricultural incomes and would have discouraged in the long run domestic animal husbandry, something the government was trying to avoid as we have seen.

Excess demand in this case exerted inflationary pressures in a rather indirect manner: by 'dictating' the need for increased animal slaughtering, which in turn harmed domestic animal husbandry and thus increased the country's import needs. Higher import prices directly and indirectly through their influence upon costs also, now influenced price formation. So much for the primary sector.[25]

The change in the consumption pattern is made more obvious from the information which table X-a, b provides us. There we see that in real terms expenditure on durable goods, semi-durable and services, as a percent of total private domestic consumption expenditure, has been rising over the years, while that on non-durable goods declining. Having some indication of the change which has taken place in the consumption pattern in Greece, we shall now try to identify in which sectors/markets (other than the primary) possibly an excess demand situation existed and if so, why?

From the consumer price index[26] we observe that from the classified categories of goods and services, price increases mostly took place in the categories of:

(a) Clothing and footwear,
(b) Durable goods - household supplies,
(c) Transport - communications.

Housing indicated a declining trend with the exception of year 1972 while the category alcoholic beverages - tobacco remained virtually unchanged.

In order to 'determine' whether some markets were characterized by excess demand, we decided as a rough indicator to consider the GDP and export growth in these industries. Information concerning GDP growth of individual industries and their export performance could help determine whether given (and besides) the changing consumption pattern, shortages or excess demand leading to price increases came about also due to below average GDP growth and/or huge exports which diminished local availability of goods, and vice versa for those markets or industries where prices remained stable. Our findings do seem to indicate a certain one might call correlation between GDP and export performance and prices.

In the clothing - footwear category where prices had risen substantially, we found that GDP growth for the industries concerned was much slower than of manufacturing as a whole, while exports for the period 1967-72 experienced a tremendous growth[27] (footwear 1500%, clothing 400%).

In the beverages - tobacco industry on the other hand, whose products did not increase in price, GDP growth was much higher than in the clothing - footwear industry, while export growth negative![28] The above findings lead us to suspect that indeed besides a possible change in the composition of demands, shortages due to low GDP growth in conjunction with huge exports

in the clothing - footwear industry are responsible for the rise in prices. On the contrary relatively high GDP growth in the beverages - tobacco industry in conjunction with diminishing exports, increased local availability of these goods enough possibly so that shortages were not observed.[29]

As for the other classified categories, some of which are not 'exportable' while others such as transport machinery which are not produced in Greece, we have this to say: for housing the relative price stability may be explained by the relatively high fixed capital formation which took place in the dwellings 'industry'. The rate of growth of fixed capital formation in dwellings was much higher than that of total private fixed capital formation during 1967-72 as is evident from the following table.

TABLE 8

Fixed capital formation in dwellings
annual average changes, %

1970 prices

Fixed capital formation	1967	1968	1969	1970	1971	1972	Average growth rate, 1967-72
1. Dwellings industry	-11.0	39.0	19.4	-15.0	19.8	26.7	13.15%
2. Total economy	-6.3	27.8	16.5	-0.7	8.6	16.3	10.37%

Source: National accounts of Greece, 1958-1975. Athens. Ministry of Coordination, National Accounts Service, 1976.

For the housing sector thus, our opinion is that both adequate supply of dwellings and non-speculative demand for such purchases due to the general monetary stability and profitability of other assets were factors which contributed to the stable price trend in this sector. As for the indicated price increases in the transport - communications classification, we doubt very much whether these originated from the public services sector - public transport, telecommunications, electricity etc. for these are semi-state enterprises controlled by the government. Even if price increases were dictated, it is likely that these through subsidies were not realized: if the government subsidized agriculture to keep the price level fairly stable, the more so it would in the case of these public enterprises. What is more likely to have occurred is that price increases originated from other expenditure items which fall under the classification transport - communications, namely private transport means, fuel, spare parts etc. Table 9 shows the evolution of the wholesale price index of transport equipment and petroleum derivatives which indicates an upward trend in prices for the years 1970-72. Both the above are not produced in Greece but imported: given again the balance of payments constraint, the above imports mainly for private consumption are considered 'non-essential' and thus are subject to heavy import duties and other indirect taxes which aim simultaneously at restricting imports[30] as well as raising government revenues.

TABLE 9

Wholesale price index (1961=100)

	1967	1968	1969	1970	1971	1972
a) Petroleum derivatives	95.4	95.8	100.6	104.2	167.2	150.9
b) Transport equipment	101.0	101.4	102.2	107.8	114.0	128.4

Source: O.E.C.D. Economic surveys, Greece. Paris, OECD, 1977, page 46.

However, as the above index is inclusive of these taxes we cannot really know whether or how much of the price increases are attributed to higher import prices or indirect and other taxes.

Looking into the last classified category, that of durable goods-household supplies, it seems that despite the high relative GDP growth of two industries, the products of which fall under the above category (see table XII, C, D), supply was not sufficient to meet demand: at least in some industries, such as those of electrical appliances, for such products in 1971 became subject to law 918.[31] However, the imposition of price controls was not in our opinion solely directed at suppressing inflationary pressures.

Although we do not possess evidence, that price controls were imposed with an expectation by the authorities that by restricting profit margins in these industries expansion of output would follow, in an effort to 'restore' aggregate profits by the industrialists, we believe this was an additional aim; for it is most probable that 'inelastic' domestic supply resulted in previous years, prior to the imposition of price controls, due to higher profit margins made possible by the gap between the prices of imported

competitive commodities (artificially high priced through levies etc.) and locally produced ones.

By artificially setting low prices of domestically produced goods the following were made possible or expected to follow:

(a) Consumers to prefer the low priced home produced goods against imported ones;

(b) As a consequence of (a) domestic production to expand further;

(c) Again as a consequence of (a) imports of 'competitive commodities to be reduced or at least not to increase;

(d) Prices to be kept at acceptable or desired levels.

However, if the above structural changes were at all to be realized, these would do so in future years.

From 1967 and until 1971 it seems that the most important factors contributing to the buoyant demand for certain categories of goods were on one hand, the rapid growth of national income and wealth, on the other, the qualitative change in the consumption pattern which however was a derivative of the former. Inelastic supply in some sectors, the export 'drive' mentioned earlier, and the 'restricted' imports which reduced local availability of certain goods, along or in conjunction with the factors mentioned above, constitute the complex of factors which are responsible for the rising prices up to 1971.

In the section which follows we shall attempt to explain why inelasticity of supply characterized or occurred in most producing sectors of the economy (a structural problem), and further try to determine the origins of demand or of the purchasing power which brought about the change in the consumption pattern. Unfortunately, accurate or trustworthy data concerning the income distribution are unobtainable.

The growth of services

At the beginning of this chapter we mentioned that we considered the growth of services as a factor which has induced inflationary pressures. While being not solely a characteristic of the period under investigation we think this issue deserves our attention and elaboration for reasons shortly to be revealed.

If we accept that 'in any commodity-producing society' services are maintained out of income derived from commodity production[32] then consequently we may speak of a transfer, or better of a redistribution of income taking place from the commodity producing sector to the services sector. The point we wish to emphasize is this: that there exists a sector employing persons who are not directly related to the production process, that is, they are not commodity producers and while being maintained by income generated or derived by others - commodity producers - these persons are commodity consumers. Now how does the above relate to the issue of inflation?

The problem in our opinion arises if the growth of the tertiary sector is disproportionate to that of the secondary and primary sectors, at least in a non developed or developing economy. The tertiary

sector becomes important and necessary if and when it promotes and complements the growth and expansion of the other two sectors,[33] namely the secondary and primary ones. (By promoting, distributing and in part by consuming the output of the other sectors). Even other services such as those rendered under a welfare state, which are not directly related to the production process are realized only after a country has reached a certain socio-economic level which not only justifies them but further can 'afford' them.

In Greece the growth of the tertiary sector not only has it not complemented that of the other sectors, it even preceeded it.[34] The relative high percent contribution of services to GDP is evident from table II-b: there we see that the share of tertiary sector is well above 50% of total GDP. Employment in this sector also is rather high. From the table below we see that it amounts to one third of the total labour force, less than the primary sector but well above the secondary.

TABLE 10

Total employment in 1971
(in thousands)

I.	Primary sector	1,250	
II.	Secondary sector total	865	
	of which:		
	Mining	21	
	Manufacturing	563	Total employment
	Gas - Electricity	26	I + II + III = 3,140
	Construction & Civil works	255	
III.	Tertiary sector total	1,025	
	of which:		
	Transport - Storage - Communication	210	
	Commerce - Restaurants - Hotels	455	
	Other	360	

Source: O.E.C.D. Economic surveys Greece. Paris, OECD, 1977.

It has been mentioned[35] that in the civil service and tertiary sector found 'refuge' all those seeking employment outside agriculture, which the secondary sector could not absorb. (The 'easy' solution).

Given the number of persons employed in the tertiary sector, its high % share in GDP, and the fact it is not a commodity producing sector, it is not unreasonable to assume the following:

(a) The disproportionate growth of the tertiary sector took place at the expense of other sectors as it deprived them of resources which were chanelled in this sector.[36]

(b) Employment in this non-commodity sector meant increasing demand for various goods to the extent characterizing demand as excessive.

In support of our second proposition consider the data provided by tables XIII and XIV. From table XIII we see that household income derived from (1) property and entrepreneurship, and from (2) wages and salaries outside agriculture, has grown much faster than national income, while income derived from category (3) agriculture by far less. Now using the above information as a rough indicator of where from possibly commodity demand and in particular commodities of high income elasticity originated: we would suspect from income earners of sources (1) and (2). However, from table XIV we see that per capita consumption grew faster than real wages in the industrial sector, while from table 7,[37] that wages and salaries in the industrial sector grew slower than productivity in the same sector. Both the above lead us to suspect that wage-salary income derived from the industrial sector was not and could not have been the source from where excess commodity demand originated. Thus we are inclined to conclude that excess demand which characterized some markets as well as the change in the consumption pattern originated from households which derived income from property and entrepreneurship, wages and salaries in the tertiary sector.

Under the 'entrepreneurship' classification are listed doctors, lawyers, plumbers, electricians and others engaged in commercial activities, most of which are self-employed. The income of self-employed is very difficult to determine under the existing Greek tax system with all its inefficiencies and thus tax evasion is rather high here.[38] This lends further support to our ealier proposition that 'dependent' labour[39] has not brought about the change in the consumption pattern, if one considers that income derived from entrepreneurship has grown even more than suggested by the National accounts statistics.

PART TWO: 1973

CHAPTER IV

INFLATION IN THE YEAR 1973

In Part I of this thesis we investigated a number of possible sources from where inflationary pressures could have originated and concluded that these were caused by endogenous[40] rather than exogenous factors, and further that inflation was suppressed via direct price controls. Without any doubt the 16% change indicated in the consumer price index in 1973 in part is attributed to the 'lifting' of price controls in mid 1973. On the other hand we should bear in mind that in the absence of the additional government measures, namely the ease of import restrictions, the decrease in import duties as well as the restriction of certain exports, prices would have risen possibly even more. Price controls in our opinion, previously were 'effective' and implementable because inflationary pressures were endogenous rather than exogenous. The abolition of price controls (following the above reasoning), as well as the other government measures of mid 1973[41] suggest that:

(a) Exogenous factors influencing the price level were becoming stronger in 1973;

(b) More acute shortages were acknowledged which endangered monetary stability. (Thus, the prohibition of certain commodity exports).

Our primary interest in this section is to investigate whether and if so why exogenous factors now exerted an increased inflationary pressure and further why

shortages in 1973 were more acute than in previous years. Given that in previous sections we already have identified those most important institutional factors able to induce inflationary pressures from the demand side,[42] we decided to confine ourselves in analysing for year 1973, factors complementary to the above (of part I) which in our opinion now induced inflationary pressures, a consequence of which was the introduction of the new government measures of mid 1973.

Exogenous factors - imported inflation

The period since the beginning of 1972 was charcterized by the rapid expansion of world trade which was brought about by the vigorous economic growth internationally. One of the consequences of international growth was the rise in the prices of certain basic commodities and raw materials. Greece, while still considered a primary producing country,[43] is a net importer of basic commodities (foodstuffs) as well as of raw materials.[44] Thus, the spectacular rise in the prices of the above two categories not only increased the trade deficit[45] of the country, but further directly and indirectly induced inflationary pressures. Directly in so far as the prices of imported final goods are concerned, and indirectly by way of increasing industrial unit costs.[46] The extent by which prices had risen, not only of basic commodities, but further of petroleum derivatives is given by the table below:

TABLE 11

Wholesale price index of products of foreign origin, 1972 - 1973 (1961=100)

Products of foreign origin, of which:	1972	1973	% change
Agriculture/livestock	180.6	232.5	29,0
Foodstuffs	217.0	262.9	21,0
Petroleum derivatives	150.9	213.0	41,0
Metals	126.2	169.2	34,0

Source: O.E.C.D. Annual survey Greece, 1977.

With the prices of imported basic commodities and raw materials rising it can easily be understood why price controls were 'lifted'[47] and other anti-inflationary measures instead were adopted in mid 1973. Firstly, industrial production would have been hampered if price controls were in effect, since profit margins were being squeezed as a consequence of rising costs. Secondly, a possible differential price 'treatment' between locally produced and imported consumer goods of primary origin (at the expense of local producers) would have led possibly to black market situations and producers dissatisfaction which in turn might have led to undesirable economic and political events.

The impact however upon the domestic economy, of rising import prices would have been less if as a matter of government policy, the local currency (drachmae) had not been left to depreciate against currencies of countries with which Greece is in trade. In particular, the drachma (which was linked to the US dollar until October 20, 1973) after a series of devaluations which the US dollar had undergone since December 1971 and

which were followed by revaluations and parity changes of most European currencies, retained its old parity to the US dollar. As a consequence, the drachma was devalued many times against all those currencies which had altered their parity to the dollar by revaluing (upward) by varying degrees their currencies. What was probably expected to be gained through devaluation was a competitive edge of Greek products in foreign markets as well as in the home market[48] especially since it so happened that the above-mentioned countries which revalued their currencies were the major trading partners of Greece.[49] In the early months of 1973 however, further devaluations of the US dollar and consequently of the drachma only increased the negative impact upon the economy which rising import prices had brought about. The increased inflationary pressures caused through devaluation were realized by the authorities (albeit rather late) and in October 1973 a 10% revaluation of the drachma against all currencies was announced and its disengagement from the US dollar: all this in effort to combat 'imported' inflation and to induce stock liquidization.[50]

More acute shortages

Amongst the other anti-inflationary measures introduced in mid 1973 was the prohibition of certain commodity exports. The rationale behind this drastic measure was to increase domestic availability of certain commodities which seemed to be in short supply and thus in so doing, to lessen inflationary pressures, which were to be felt primarily after the abolition of price controls. The introduction of this measure gives support to some of our findings in previous sections, namely that inflationary pressures partly

were induced by low GDP growth rate of some sectors or branches of sectors and the tremendous rise in various commodity exports which resulted in 'shortages' in a period where for reasons analyzed elsewhere demand was over-buoyant if not excessive. We suspect that more acute 'shortages' (thus the prohibition of various exports) were acknowledged in primary commodity markets, primarily because of the negative GDP growth in 1973 of the primary sector.[51]

An additional factor which might have intensified the problem may have been a rise in primary exports due to the increased export drive induced from the rising prices on the world commodity markets (prior to the abolition of price controls). Unfurtunately, the following table which indicates the export volume index by category of good, indicates annual volume changes only and therefore the figures shown for 1973 are after the prohibition of exports and thus make it difficult in proving our point. However, one can observe from table 12 that the only categories of goods which their volume exports have decreased in 1973, happen to be of primary origin (categories 0, 1, 4), in fact the ones one would expect to indicate the opposite performance. We are of the opinion[52] thus, that the prohibition of certain exports concerned primarily primary commodities and not manufactures (of non-primary origin)[53] as the former category's GDP growth in 1973 was negative while that of the latter the highest since 1967.[54]

TABLE 12

Quantum index of exports 1970=100

1970	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
1971	113,4	95,1	106,2	83,6	113,7	106,4	90,4	132,6	136,2
1972	137,1	117,3	94,4	153,9	223,7	131,8	133,3	212,1	229,4
1973	119,4	83,1	115,5	1319,2	213,7	136,6	206,2	255,5	394,8
	0	1	2	3	4	5	6	7	8

Categories:

0 = food-live animals
1 = beverages and tobacco
2 = crude materials, inedible except fuels
3 = mineral fuels - lubricants
4 = animal-vegetable oils and fats
5 = chemicals
6 = manufactured commodities classified by raw material
7 = machinery and transport equipment
8 = miscellaneous manufactured articles

Source: Statistical yearbook of Greece; 1977. Athens, National Statistical Service of Greece, 1978.

Concluding Remarks

As we have seen, inflationary pressures were partly induced by rising import prices, devaluation and the negative GDP growth of the primary sector. Due to the above, price controls were no longer 'implementable' and were replaced by other measures, aiming at suppressing endogenous as well as exogenous inflationary pressures, namely:

(a) The prohibition of certain exports,
(b) The reduction of duties on imports,
(c) The revaluation of the drachma.

Though undoubtably the new measures to some extent had a dampening effect upon the price level, it was not sufficient to counter the upward trend in prices which followed the abolition of price controls, in our opinion for the following reasons. These measures aimed at 'solving' the cost and supply side of the problem by increasing domestic availability of goods (reductions of exports, easing on import restrictions) and by reducing production costs (cheaper imported inputs via less taxation and by overvaluing the drachma). The demand side however was overlooked. The lifting of price controls which led to the tremendous rise in the prices of products of primary origin raised agricultural income by 44%,[55] as much as it has risen throughout the whole period 1967-72. Though socially acceptable given the suppressed agricultural incomes policy in the past five years,[56] one cannot overlook the problems arising from this income transfer to the countryside, namely the stimulated effective demand and its inflationary impact. Some have gone even further to add that the resulting higher agricultural incomes

had the additional negative effect: the discouragement of farmers from intensifying agricultural production,[57] thus the negative GDP growth in 1973 of the primary sector; this proposition is highly debatable and we do not wish to comment upon it as it is further beyond the scope of the present study. As for our first proposition that higher agri-incomes increased inflationary pressures by stimulating an already buoyant demand for goods and services, we think holds if one reasons in terms of marginal propensities to save. Besides it would only be fair to assume that farmers now directed most of their profits towards immediate consumption purchases and not savings after many years of economic 'suppression' and 'deprivation'. More on this in the chapters to follow.

TABLE 13

Agricultural income (Current prices, Million drs.)

			% change	
1967	1972	1973	1972/67	1973/72
41188	59332	84657	+ 44 %	+ 43 %

Source: National accounts of Greece; 1958-1975.
Athens, Ministry of Coordination
National Accounts Service, 1979.

PART THREE: 1974-1978

CHAPTER V

THE PERIOD 1974-1978

Introduction

The years which followed 1973 saw the maintenance and persistence of a high rate of inflation alongside a 'moderate' growth rate of real G.D.P. Real G.D.P. fell by some 2% in 1974 while the average growth rate for the period 1974-1978 did not exceed 3.46% per annum, which corresponds to less than half of that which prevailed throughout the period 1967-1973.[58] Sectoral growth rates of this period (1974-1978) compare even less favorably to past experience.[59] Industry's G.D.P. growth averaged a mere 3.12% (1974-1978) compared to 11.4% of the 1967-1973 period, while that of manufacturing, of the primary and service sectors, 4.12% against 12.4%, 1.98% against 2.39% and 4.64% against 7.37% respectively. What is most disappointing is the fact that the sectors which most promote growth (industry-manufacturing) compared to the past, now contributed less to the growth of G.D.P. The consumer price index on the other hand increased on a yearly basis by an average of 16% reaching a peak of 27% in 1974. The average inflation rate of this period, should be noted, is well above the average acknowledged by O.E.C.D. member countries (10.5%)[60] for the same period, and far beyond that which Greece endured during the 1967-1972 period.

An expansionary fiscal and monetary policy has been followed by the Democratic Government which succeeded the Military Regime in early 1974, with the aim of stimulating domestic demand and with the expectation that vis a vis the former, the economy would be

led away from its 1974 recession. Aiming at inducing the expansion of productive capacity, output, and in general, maintaining a high growth rate of the economy (possibly to ensure and 'speed up' the entry of Greece to the E.E.C.), a policy stimulating effective demand was pursued throughout the period 1974-1978.

Unfortunately, as we have noted earlier, the expansion of the productive (growth promoting) sectors of the economy can only be regarded as disappointing, while the real G.D.P. growth of the economy as a whole, as moderate. Investments, productive capacity and productivity, as we shall soon indicate, increased at decreasing rates while the country's terms of trade deteriorated badly.[61] As a consequence productive effort slackened and a progressive inadequacy of supply of goods and services resulted. The inelasticity of supply in conjunction with the fiscal and monetary policy which has been followed (stimulating aggregate demand) are the basic reasons and factors which have aided, maintained or accommodated inflation in this period. What in fact we have just suggested is that aggregate demand has grown beyond the limits of the country's productive capacity.

Stimulating aggregate demand[62]

Basic principles of macroeconomic theory suggest that, where the total of private consumption and investment expenditure is inadequate to induce the full utilization of the economy's productive capacity an expansion of aggregate demand through Government fiscal and monetary measures will tend via the multiplier process to induce the expansion of output. In the short run and until the full employment equilibrium state of the economy is achieved, an enlarged aggregate demand will

tend to induce the expansion of output.[63] However, as soon as the productive limits of the economy are exhausted, the failure of supply to meet demand will tend to bid up factor and product prices. In the long run, further expansion of output and the elimination of inflation might be possible only if productive capacity expands which will enable output to increase. However, if the above favorable-optimistic procedure described is to take place in the long run, certain conditions during the short run period must be met. Namely that:

(a) Inflation in the short run does not increase the average propensity to consume,

(b) The redistribution of income in favor of profits[64] takes place,

(c) The propensity to save out of profits be larger than that of dependent incomes.

If the above preconditions are met it is expected that the average propensity to save will increase, which will enable new investments and productive capacity to expand, while higher profits will induce the undertaking of these investments.

A conscious Government policy thus, of stimulating aggregate demand in order to achieve high growth rates of the economy, even at the risk of short run inflation, should only be followed if there exists good reason to believe that the various preconditions (outlined above) needed so that productive capacity expands, are met or can be met again through Government intervention.

In addition to the above great care must be taken in choosing the appropriate method of enlarging aggregate demand. That is, whether to do so by enlarging Government current expenditure; by investing in infrastructure which aids the expansion of private productive capacity; or by participating directly into productive investments in which case the Government directly increases the productive capacity of the country, by reducing personal taxes so that average propensity to consume increases or by reducing taxes on profits so that the investment component of aggregate demand increases.[65]

A last point which deserves our attention, relevant to the problem of increasing productive capacity and combating inflation, refers to the way by which Government deficits[66] will be financed: namely whether from external sources or domestic and if from domestic sources whether from private savings or from the Central Bank? In case the Government borrows from the private sector this is equivalent to a transfer of resources from the private to the public sector and the question to be posed is whether these funds would have been more efficiently-productively utilized by the private sector. In case the Government borrows from the Central Bank this is equivalent to an increase in the money supply and liquidity which in conjunction with an expansionary fiscal policy may lead to an 'overheating' of the economy and perpetuate inflation.

The purpose of the preceeding analysis was to illustrate:

(a) The limitations of success (under such a policy) to ensure high growth rates without the risk of inflationary pressures;

(b) Certain of the most important conditions which must be met if investments, and through them productive capacity, productivity and output, are to grow;

(c) That the level, composition and way of financing Government expenditure relates directly and indirectly, both to the problem of expanding productive capacity and to the problem of inflation:

(d) That combating inflation through the supply side requires that productive capacity expands;

(e) Familiarize the reader with certain issues relating to the problem of inflation within the theoretical context of the preceeding analysis-presentation since the composite problem of inflation and our investigation hereafter will be attempted within such a theoretical framework.

As noted earlier in our introduction, the period 1974-1978 compared to that of 1967-1972 indicates distinctly opposite characteristics: low real G.D.P. growth accompanied by persisting high inflationary pressures. Further while during the years 1967-1973 the contribution of secondary production to G.D.P. increased, from 28% to 35%, the reverse occurred for the 1974-1978 period.[67] As for the sectoral growth rates of the two periods a comparison has been given in the first page of our introduction, which suggest relative inelasticity of supply of goods compared to services for the later period. This inelasticity, we have proposed earlier and will attempt to prove, in

conjunction with the expansionary fiscal and monetary policy followed are the principal causes of the persistent high inflationary pressures during the 1974-1978 period: the former because of its supply effects, the latter primarily due to its demand effects.

By contrasting data most of the times of the two periods, 1967-1973 - 1974-1978, we shall investigate, what happened to productive capacity, savings, profits, consumption, money-supply and liquidity, and whether the various conditions outlined elsewhere as requisites for growth and combating inflation were met. Further we shall attempt to explain in the light of evidence as well as logic, the movement of certain economic aggregates, variables and provide a composite presentation of the inflationary phenomenon assessing in the end the role of the Government and institutions or persons in the whole process.

CHAPTER VI

INVESTMENTS, PRODUCTIVE CAPACITY, PRODUCTIVITY AND PROFITS

As can be seen from table XVIII, recovery in investment activity since the recession of 1974 has been moderate. Despite a gradual slow increase in gross fixed asset formation throught the 1974-1978 period, in absolute numbers, in year 1978 it still had failed to reach the peak of Drs. 100,093 million in 1973, totalling a mere Drs. 91100 million (on the basis of constant prices). In relative terms gross fixed asset formation as a percentage of gross expenditure of the economy, represented the 22.67% for the period 1967-1972, the 22.86% for the period 1967-1973 while only the 18.8% for the years 1974-1978. What is even more disappointing is the fact that the mild 'recovery' in investments is primarily attributed to the recovery of investments in dwellings while investments in machinery and equipment which expand and increase productive capacity and productivity not only failed to recover since 1974 but on the contrary declined year after year since.[68] The recovery of investments in dwellings while contrary developments took place in the manufacturing sector was realized while credit facilities for the former have been tight since 1974 and relatively easy for the latter. In particular, from table IV it is evident that credit to the housing industry declined as a percentage of total credit while that extended to manufacturing and mining increased during 1974-1978. It seems that some way credit extended to manufacturing was used for speculative purposes and was directed for dwelling purchases. If this has been the case and industrial credits and/or profits have financed such purchases

as second best alternatives, then one may assume that prevailing conditions in manufacturing are not acceptable while future prospects gloomy, especially if one considers that until recent years housing had an I.C.O.R. of 15.18 against 3.14 of manufacturing.[69] This topic however will immediately be taken up and examined more thoroughly.

1. Private investments in manufacturing

The low G.D.P. growth of manufacturing in this period is primarily due to the slackening of productive effort. From the following table it is evident that in recent years increases in productivity have been very low.

TABLE 14

Years	Productivity index:[70] 1970 = 100			average annual rate
1970	100		1970	
1971	103,5			
1972	115,2			6.43%
1973	125,7		1973	
1974	121,9		1974	
1975	126,3	6%		
1976	131,5			1.9%
1977	127,6			
1978	133,1		1978	

Source: KIRIAZIS, D. 'Declining growth rate of labour productivity in manufacturing in recent years', in 'Economicos Tahydromos' issue of 17/4/1980, p. 25 (in Greek).

Productivity on the average increased by 1.9% annually for the period 1974-1978, 6.43% for the period 1970-1973 and around 9% for the peirod 1967-1970.[71] One factor which contributed is the low growth in productivity has been the official policy and regulations since 1974 which discourage lay-offs and overtime work and which, combined with the substantial increase in overtime pay, have favoured the extention to two shifts instead of one.[72] Also due to the reduction in per-employee working hours, established since 1975.[73] A second factor, probably even more important, is the declining trend in gross investments in manufacturing and more so the fact that these constituted primarily of replacement investments which do not expand productive capacity nor constitute 'new' technology through which productivity would increase. In particular according to data[74] obtained from a recent study conducted by the O.E.C.D. gross investments in manufacturing declined from 14.914 mill. drs. in 1974 to 12.551 mill. drs. in 1978 and while 51% of gross investment was replacement investment in 1974, in 1978 replacement investment constituted the 80% of gross investment in that year. As a consequence, net capital stock increased by decreasing rates since. For comparison purposes we mention that additions to net capital stock in 1972 were in the region of 13.1% and only 2.9% in 1978. Before we proceed in examining the reasons for which manufacturing investments have declined in recent years, we wish to remind the reader of how a decline in productivity may cause inflationary pressures through the goods side. Such a case is possible if the slackening of productive effort has not been accompanied by a reduction of purchasing power: in the case where the decline in productivity is due to shorter hours worked

or due to a decline in the output per man-hour the reduced availability of goods has not at all been matched by a corresponding reduction in purchasing power and thus prices are more apt to be driven high rather than in the case where reduced productive effort due to lock-outs, strikes or unemployment has been accompanied by some reduction in purchasing power.[75] In Greece, a similar to the above situation outlined seems to have prevailed in recent years either because of the time lag involved before people are laid-off at times of recession in the economy[76] or because the rate of growth of real wages and salaries in manufacturing has surpassed productivity growth.

Productivity and profits in manufacturing

The basic reason for which investments in manufacturing have been sluggish since 1974 and have primarily constituted replacement investments, is that aggregate profits as well as profit margins have been reduced substantially. From the table which follows we can see that aggregate net profits in the major industrial sector in the years following 1974 have been declining despite the fact that sales in value terms have been rising since. On the basis of current prices profits have declined between 1973 and 1978 by some 44%, from 11 billion drs. in 1973 to 6,2 billion in 1978, while on the basis of constant prices (1974=100) profits between the same period declined by 72%, from 14 billion drs. to 3,9 billion drs. According to the Confederation of Greek Industries the average profit rate (after depreciation) fell from about 15% in the period 1972-1974 to 6% between 1975 and 1977, the rate being 5% in 1977.[77] This average profit rate seems to be very low so as to encourage new investments especially when the interest

TABLE 15

Profits, sales and employment in the major industrial sector

(Sales and profits in billion drs., employment in thousands).

	1973	2974	1975	1976	1977	1978
Sales	144.4	196.1	238.2	294.2	365.2	443.7
Personnel	238.2	254.6	129.4	286.3	306.6	317.1
Net profits: current prices	11.0	11.2	5.8	7.8	6.8	6.2
Net profits: 1974 prices	14.0	11.2	5.2	6.1	4.8	3.9

Source: 'NAFTEMPORIKI', issue of 28/2/1980 and 'EXPRESS', issue of 17/2/1980 (economic/financial newspapers, Greek).

on time deposits is much higher (also a tax-free income source) and the cost of borrowed capital high.[78] The low profitability in the industrial sector in conjunction with the high cost of borrowed capital have in recent years reduced the incentive to invest in this sector and this in part explains why investments have been sluggish and constituted primarily of replacement investments since 1974.[79]

Reduced profit margins seem to have resulted from the fast recovery of wages and salaries in recent years, after the succession to power of the Democratic Government in 1974. As can be recalled the wage rate policy pursued by the Military Regime during 1967-1973 allowed for wage and salary increases only in accordance to improvements in productivity. This enabled firms to

TABLE 16

Evolution of labour renumeration

years	average real salary index 1970=100	change %		average real wage index 1970=100	change %	
1972-73	112,2	12,2		108,1	8,1	
1974	108,7	- 3,5		108,8	0,6	
1975	115,5	6,2		116,5	7,0	
1976	125,2	8,4	26%	129,5	11,1	40%
1977	133,7	6,8		137,1	5,9	
1978	141,5	5,8		151,4	10,4	

Source: KIRIAZIS, D. 'Declining growth rate of labour productivity in manufacturing in recent years', in 'Economics tahydromos', issue of 17/4/1980, p.25 (in Greek).

'capitalize' upon labour as most of the productivity gains then resulted to increased profits and only a small fraction was directed towards increased real wages.[80] After 1974 this wage rate policy was abandoned. With the labour unions having regained their power and with the Government in favor of an incomes policy aiming at reducing wage differentials and income disparities for welfare reasons, real wages and salaries 'managed' to grow in excess of productivity growth. This is clear from the data of tables 14 and 16. There we see that while productivity between 1973 and 1978 grew by some 6%, real wages had increased by 40% while real salaries by 26%. Profits and profit margins have not been reduced however only because wage and salary increases were in excess of productivity growth: the wage bill had increased also because of the big rise in employment which was the result of the official

policy and regulations since 1974 which discouraged lay-offs and overtime work and had also reduced average mans hours worked in manufacturing from 45 hours a week to 42 hours. The above policies made it necessary to use two shifts instead of one and to employ more in order to produce the same output, so as to reduce unemployment. This rise to employment however was made both on the expense of productivity and profits.

2. Public sector investments

We have considered it necessary to examine the evolution of public sector investments firstly because these at least until recent years represented a substantial part of the country's gross fixed investment and secondly because sectors or branches of sectors such as agriculture and fishing, transport and communication, electricity-gas-water etc. have relied heavily upon these investments for their development and growth.

The first general observation to be made concerning public sector investments is that these in recent years have declined both, in volume, as a percent of G.N.P. and of total gross fixed investment. From table VI we can see that, on the basis of constant prices, gross fixed asset formation of the public sector amounted in 1978 to only Drs. 20670 million compared to Drs. 28855 million in year 1972 and Drs. 27906 million in the year 1973. Fixed investments by the public sector, as a per cent of G.N.P. (at current market prices), have declined from 8,3% in 1972 to 5,1% in 1978, reaching a very low level of 4,9% in 1977.[81] As a percent of the country's total gross fixed investments, these have declined from 31,3% in the year 1971, to 22,6% in 1978, indicating thus the fact that in relative terms private investments

have been less sluggish than public investments.[82] For comparison purposes we mention that for the period 1964-1968 public gross fixed investments represented the 27% of total G.F.I. in that period, the 29% in the period 1969-1973 and only the 25% in the period 1974-1978.[83]

The second important observation to be made concerning public investments is that these have declined primarily in those sectors or branches where previously government participation had been increasing and which have traditionally relied upon public investments heavily for their 'development' and growth. In particular we refer to those branches or sectors like (a) agriculture, fishing, forestry, herd-breeding, (b) electricity-gas-waterworks, (c) transportation and communications. Because of the nature of the investments required to promote the growth and development of the above mentioned branches or sectors of economic activity and because of the high initial overhead costs involved (as in the case of major land improvement projects, dams, hydro-electric plants and other), at least in the early stages of economic development of a country, about the only domestic agent able and willing to finance large scale projects in infrastructure is the public sector. In Greece, as can be seen from table VII after 1967 and until 1972-1973 the major contributor to the high gross fixed asset formation in the sectors mentioned had become the state, whereas after 1973 when the opposite occurs, the public sector seems to have been the major agent responsible for the low gross fixed asset formation during the 1974-1978 period. Of course private investments in the sectors concerned have also declined since 1974, but by far less than public investments. In terms of annual growth rates and on the basis of

constant prices, public gross investments increased during 1969-1973 by an annual rate of 11,7% and declined during the 1974-1978 period by an annual rate of 5,7%: further, public gross investments in infrastructure increased annually by 10,6% during 1969-1973 and declined by 8,6% annually during 1974-1978, indicating thus not only a decline in volume but also a change in the distribution of public gross investments not in favor of infrastructure investment in the later period.[84] In fact, during 1969-1973 investment in infrastructure absorbed the 82,4% of public gross investments while in the later period, 1974-1978, the percentage becomes 75,3%.[85]

Now, the decline in public sector investments has not been the result of a cut-down on public expenditure which on the contrary, as a percent of G.N.P. has increased from 28,4% in 1973 to 35,2% in 1978: this decline merely reflects the fact that 'priority' was given to current consumption expenditure, transfers and subsidies against investments. This is evident from table XXI where we see that while public expenditure after 1973 rises as a percent of G.N.P., fixed investments decline from 7,5% of G.N.P. in 1973 to 5,1% of G.N.P. in 1978, while expenditure on goods and services rises from 11,8% of G.N.P. to 16,4%, and transfers and subsidies from 9,1% of G.N.P. to 13,7% for the years mentioned. The rise in subsidies and transfers, and of current expenditure which mainly is due to the rise in civil servants wage-salary bill,[86] has been the outcome of the welfare policy pursued during 1974-1978. This 'consumption' oriented distribution of public expenditure, aside from its inflationary effects which we shall anlayze later on, has been the principal cause of the sluggish investments in the primary and other

branches or sectors mentioned earlier, and must have contributed to the weaker productivity growth which all sectors (outside manufacturing) incurred in recent years.[87]

Conclusion

In this chapter we had set forth to examine and explain why in a period of rising prices, output expansion had been moderate and thus insufficient to mitigate possible inflationary pressures originating from the demand side.

We have seen that one basic factor for which productive effort had been sluggish in recent years has been the low level of investments and in particular of those which increase productive capacity and productivity, and their mal-distribution. Now in those spheres of economic activity where private initiative had been dominant, as in the case of manufacturing, the decline in investments, and consequently of productivity, resulted because of the low profit margins and aggregate profits which were realized in this industry. As we have seen profit margins had substantially been reduced primarily due to the increased wage bill brought about by the rise in employment and the excessive salary and wage increases which had taken place. These we have noted earlier were made possible due to the government legislation and policy and trade union pressures. This low profitability of 'productive' activities explains in part why, as suggested earlier, some credit extended to manufacturing was finally directed towards the financing of speculative activities such as real estate and dwelling purchases or construction, and the fact that the only 'industry' to 'flourish' in recent years was the dwellings industry. In the other sectors or

branches of economic activity, low productivity and output growth, we have suggested, to have been the result of the decline in public investments and the maldistribution of public funds. This 'consumption' oriented distribution of public funds, not in favor of productive investments, which took place for 'welfare' if not for political reasons alone, not only did not help combat inflation from the supply side but further as we shall indicate in the next chapter, was one of the many factors which induced inflationary pressures arising from the demand side.

In conclusion, the lack of 'new' and 'productive' investments in recent years, both private and public, has been the most important factor responsible for the diminishing growth of output, productive capacity and productivity which as we have seen in the previous chapter are some of the requisites to combat inflation through the supply side. Now the low level or lack of private productive investments resulted because another condition was not met in recent years: namely a redistribution of income in favor of profits which would enable and induce the undertaking of the above-mentioned investments. In a capitalist economy inflation may increase profits by reducing the real purchasing power of other kinds of income, and can only do this if some of the other parties involved are unable to protect themselves against its effects.[88] In Greece, as we have seen, because of Government legislation and labour union power 'the other parties involved' managed not only not to reduce their real purchasing power but further to increase it at the expense of profits.

Now the low level of public investments simply reflects the manner and Government preference in allocating expenditures. The 'consumption' oriented distribu-

tion of public funds, on one hand may have been the result of an intentional conscious fiscal policy aiming at stimulating aggregate demand via increased consumption expenditure and in particular of wages and salaries, transfers and subsidies, on the other hand might have been totally accidental or 'forced' in the sense that in order to 'remain' in power and be popular the present Government 'gave in' to the demands of various pressure groups, for a better welfare policy or for wage and salary increases. Whatever the case may be the fact remains that the way by which public funds have been allocated not only did not help combat inflationary pressures, on the contrary, these accommodated inflation. More on this in the chapter to follow.

CHAPTER VII

CONSUMPTION, SAVINGS, AGGREGATE DEMAND, MONEY AND LIQUIDITY

As can be recalled from chapter V, long-run considerations concerning the problem of combating inflationary pressures through the supply side, related to the problem of expanding productive capacity and increasing productivity and output growth. The above mentioned issues have been examined in the preceeding chapter and the conclusion reached was that the necessary conditions (long-run) to combat or minimize inflationary pressures through the supply side were not met or were non-existent during the 1974-1978 period.

In the present chapter we shall investigate some of the short-run conditions which earlier we have referred to as requisites in order to combat inflation, particularly from the demand side, and examine whether these were met or not, and if not why so. Among other we have mentioned the necessity that inflation in the short-run does not increase the average propensity to consume, that a redistribution of income in favor of profits takes place which would enable and induce productive investments, while fiscal and monetary policies should be preferrably geared so as to stimulate productive investments (the investment component of aggregate demand), control overall liquidity and not distort resource allocation. Unfortunately neither of the above was fulfilled.

Consumption, savings and aggregate demand

The first condition not fulfilled in recent years concerns the propensity to consume. As can be seen from table XXVII, on the basis of constant prices, total savings of the economy declined gradually but substantially from 23,1% of G.N;P. in 1973 to 18% in year 1978, reaching a very low level of 17% in 1977. The apparent low level of savings has been the result of the increased private as well as public expenditure, and in particular, consumption expenditure. Now, there are several factors which contributed to, and induced, the rise in consumption and decline of the savings ratio.

First of all, the negative real interest rate which depositors have been 'enjoying' since 1973 seems to have led to a switch in preferences from financial assets to alternative forms of 'investment' such as housing or durable good purchases, such as cars etc.[89] This probably switch, had been reinforced by the lack of 'proper' alternative forms of savings investments[90] such as a well structured capital market in Greece which is virtually non-existent. Negative real interest rates in recent years have ranged from -1,9% to -16,8% on long-term deposits and from -3,9% to -18,3% on savings deposits.[91]

Another factor, not less important to the previous, contributing to the low level of savings must have been the very low level of profits which in recent years the industrial sectors have realized. Profitability in this sector, as can be recalled, had been substantially reduced primarily because of labour union power and government legislation which allowed 'labour' to maintain and increase its real income and purchasing power at the expense of profits.

Finally we would like to mention a series of other factors, some structural, some induced by government policy, which have led to an increase in the propensity to consume as well as consumption, and which factors help explain where from inflationary pressures originate in Greece. We begin by mentioning again the government's income policy which aimed at redistributing income in favor of low income groups, not only for welfare purposes alone, but because it was expected that via this redistribution, consumption would rise, as low income earners have an above average propensity to consume 'home' goods,[92] and in doing so the balance of payments situation of the country would improve. Thus, aside from the various concessions given to dependent labour which we have seen in the previous chapter, the government doubled the level of untaxed agricultural income from Drs. 250.000 per year to half a million drs. and further increased transfers and subsidies. Out of 800.000 farmers only 1.646 paid taxes in 1978 amounting to the sum of only Drs. 6,5 million, while tax reliefs, exemptions and allowances to the rest of the households amounted to 41% of reported income in the tax returns, which also represent only 27% of actual total household income.[93] As it is evident tax exemptions are high while tax rates low in Greece. The incomes policy concerning dependent income earners had not been less expansionary. Despite the high tax reliefs just mentioned, substantial real salary and wage pay increases had taken place in the public and most of the private sector of the economy at a time when the opposite was called for. From the following table 17 we can see that general government average yearly pay increases ranged between 18-30% while those of total economy between 19 and 23%. The government,

TABLE 17

Wages and salaries 1974 1978

Percentage changes from previous year

	1974	1975	1976	1977	1978[1]
1) Total economy average earnings[2]	21,5	21	23	19	21
2) General government average pay[3]	30	20,5	22,5	18	26

1. provisional,
2. rough estimates for non-agricultural sector,
3. budget expenditure on wages and salaries and other pay divided by the number of people working in the Public Service.

Source: O.E.C.D. Annual survey Greece, 1979.

by leading the pace in the satisfaction of salary and wage increases of its employees, must certainly be partly responsible of a wage drift to the rest of the economy which has been one of the reasons behind the low profits realized primarily in the industrial sector.

Now with the redistribution of income in favor of profits not taking place and with various 'low' income groups (with a high propensity to consume) managing for one reason or another to maintain and increase their purchasing power, either at the 'expense' of profits or government revenue (as we shall see) it is not surprising that savings have been low, consumption high and inflationary pressures very persisting. From table XIX we can see that while consumers expenditure as a percent of G.N.P. after 1968 and until 1973 had been declining, it started to rise after 1974, averaging

for the period 1974-1978 68,2% of G.N.P. against 67% for the 1967-1973 period.

We spoke earlier of income groups managing to maintain and increase their purchasing power at the expense of government revenue. We meant to refer to those income groups which do so, primarily through tax evasion, which together with the substantial tax exemptions, the narrow tax base and the low rate of taxation are responsible for the very weak direct tax pressure in Greece as well as for the low tax elasticity with respect to G.D.P., in comparison to other O.E.C.D. member countries.[94] For comparison purposes we mention that total taxes in Greece have an elasticity with respect to G.D.P. of 1.13 against 1.22 of O.E.C.D. Europe[95] while total tax revenue as a percent of G.N.P. amounts to 22.4% for Greece against 34.5% of G.N.P. of O.E.C.D. Europe.[96] The escape of otherwise taxable income from taxation, either due to inefficiencies in the tax system employed or due to the nature of the structure of employment which makes very difficult the controlling and tapping of incomes and profits, especially from self employment which accounts for about 65% of the non-agricultural labour force,[97] being large as it is, means that more disposable income is available to be spent by consumers and further that the resulting loss of revenue may, as has been the case, lead the government to find refuge in deficit spending to cover its budget or other expenditures. In fact, the progressive inadequacy of the public sector to cover its expenditures through tax revenue explains in part the rising public debt and deficits which must have undeniably aggregated inflationary pressures.[98] The higher than indicated in the national accounts disposable income of households also undoubtedly has influenced

the level of consumption savings and prices. A characteristic description of the present situation in Greece, concerning the issues discussed above, is given in a recent survey by Financial Times which reads as follows: 'The wide-spread practice of second jobs is only part of the plethora of activities which cause the unofficial economy to be equivalent to no less than a further 25 per cent of G.N.P. The extent of speculation in goods and land addes to the pressure on prices. Most of the earnings from these activities, like the important agricultural sector, are untaxed. It is this which explains why even today, when non-agricultural sectors are in general showing a decline in output, conspicuous consumption in boutiques and night clubs remains high. Tax avoidance and tax evasion mean ...'[99]

A second way, direct, through which prices are influenced results from the ability, certain categories of self employed have, to pass over to consumers any burden or loss of income due to the worsening of the terms of trade or inflation, in the form of price increases. This is made possible due to market imperfections such as imperfect competition, 'closed' professions, lack of proper information on behalf of the consumer as regards prices, etc. all of which are characteristics of the market situation for a series of services rendered by self employed, a result of which is also the much above average rate of return enjoyed in comparison to labour remuneration in the industrial and other sectors (of equivalent training).[100] The above mentioned consumers in turn, like all other households suffering a loss in their real income due to inflation, will try to restore their purchasing power and thus, the struggle between various income groups over the distribution of income perpetuates an inflationary spiral where wages

chase prices, prices wages and so on and so forth.

Having seen and examined the most important probable factors which induced the rise in private consumption expenditure (and dissaving) we shall now make a small reference again to public sector consumption expenditure and its rising deficits which earlier we mentioned to have beyond any doubt influenced the level of aggregate demand, prices etc. and which sector is largely responsible for the low savings ratio of the econony.

The first thing to note is that the participation of the public sector in total consumption has risen from 15,4% average for the period 1969-1973 to 18,7% for the years 1974-1978, with a peak of 19,7% in 1978.[101] Further, current expenditure on goods and services as a percent of G.N.P. has risen from 11,8% in 1973 to 16,4% of G.N.P. in 1978 while subsidies, transfers etc. have risen from 9,1% of G.N.P. in 1973 to 13,7% in 1978.[102] The 'consumption' oriented distribution of public funds we earlier had menitoned on one hand to have been the result of an intentional concious fiscal policy, aiming at stimulating aggregate demand via increased consumption, also serving political purposes and indicating the government preference in allocating expenditures. However, a result of the increasing public sector expenditure (current) was that savings declined from 16,9% of total revenue in 1973 to 0,1% in 1978, the latter representing and able to finance only 0,7% of public investments for the year mentioned.[103] The resulting deficits of the public sector to cover its total expenditures rose steadily through the years to amount or correspond to 6,5% of G.D.P. (at market prices) in 1975, 7,25% in 1976, 7,25% in 1977 and around 6% of G.D.P. in 1978.[104] The reduced deficit in respect

to G.D.P. in 1978 was made possible through budget expenditure cuts of about Drs. 8 billion, consisting of Drs. 5½ billion investment cuts and Drs. 2½ billion ordinary expenditure cuts.[105] So much the height of these deficits, but also the fact that these have primarily financed or covered substantial increases in current expenditure against investments, in our opinion leaves no doubt as for their inflationary impact. What is even more important than the growth rate or height of public deficits, as regards inflation, is the way by which these have been financed.

Money, credit and liquidity

As can be recalled, we had earlier mentioned that in the case where government deficits are financed by the Central Bank, this would actually mean an increase in monetary circulation or the money supply in which case inflationary pressures are aggrevated.[106] Further, some are of the opinion that when the total deficit of the public sector grows at a high rate and when this tendency is not counteracted by an equivalent surplus creating tendency in the private sector, then monetary expansion becomes inevitable and so is the reinforcement of inflationary pressures.[107] Whether monetary expansion exerts an upward pressure on prices either, in a direct manner and because it exceeded the growth rate of real national income (Chicago School), indirectly through its influence upon interest rates and these upon the level of expenditure (Keynesian School), or again indirectly as it influences first demand, demand the conflict over the distribution of income and the latter, the price level,[108] the fact remains that most economists accept that monetary policy does influence expenditure, and demand prices and wages albeit not in

the simple fashion usually outlined. The inclusion therefore of certain issues relevant to the evolution of monetary aggregates becomes inevitable in the thesis.

We begin by noting that a great part of the large public sector deficits have been financed by the Bank of Greece, while the rest, through the issuing of interest bearing notes (treasury bills) which are bought by the commercial banks obligatory, and through external borrowing.[109] (Until 1972, the public sector borrowed from the public by issuing bonds, something which seems however not to have been feasible since). According to the O.E.C.D., public sector borrowing was the main expansionary factor behind the growth of M1 (money supply narrowly defined), as can be seen from the table which follows, while both the growth of M1

TABLE 18

Monetary indicators

(Change during period, billion Drs.)

	1973	1974	1975	1976	1977	1978
1. Factors affecting money supply						
Private sector	17.0	10.2	-3.7	14.0	13.0	8.0
Public sector borrowing .	22.5	24.6	38.2	40.0	51.6	68.2
2. Memorandum items (percentage changes)						
M1	22.5	19.7	15.6	24.1	16.9	22.2
M3	14.6	21.1	26.4	27.0	22.6	25.9
G.N.P. (nominal)	28.5	17.0	18.8	22.8	17.4	18.8
3. Commercial banks liquidity ratio	12.4	16.9	13.1	14.7	8.4	9.1

Source: OECD Annual survey Greece, Aug. 1979, and table.

but also of bank credit have exceeded the targets set by the government which were consistent with target rates of inflation and projected G.D.P. growth.[110] Easy monetary policy together with deficit financing by the Bank of Greece, the O.E.C.D. concludes, risks raising the overall liquidity in the economy to excessively high levels and heightens inflationary expectations.[111] The table which follows indicates the evolution of overall liquidity in the economy, which has in fact reached very high levels in the last four years. Here overall liquidity is measured as the ratio of all liquid availables of the economy (M3, or total money and quasi money)[112] to G.N.P. at current market prices. As changes in the overall liquidity are considered far

TABLE 19

The ratio of liquid availables to G.N.P.

	M3/G.N.P.
1974	58%
1975	61%
1976	63%
1977	66%
1978	69%

more important than changes in the money supply alone (M1) insofar as the former's impact and contribution to the formation of aggregate demand is concerned,[113] given the evolution exhibited in the above table we are inclined to accept that overall liquidity in the last few years has indeed influenced expenditure as well as inflationary pressures.

Concluding remarks

In the present chapter we examined the evolution of certain variables which relate to the problem of inflation, especially through their direct or indirect influence upon the level of expenditure and aggregate demand. We have found private and public consumption expenditure to have risen substantially since 1973, the savings ratio reduced to very low levels, while the money-supply and liquidity to have grown at high levels and in excess of what would have been compatible with GDP growth. The low savings ratio we attributed to such factors as the prolonged period of inflation, the negative real interest rates, the government's incomes policy favouring groups of low savings propensity, low industrial profits and public sector's dissaving. The prolonged period of inflation and the negative real interest rate have induced consumers to switch their preferences from financial assets to durable good purchases affecting thus consumption expenditure and the level of aggregate demand. The same inducement towards consumption has been brought about by the above mentioned government's incomes policy. As for the rise in public consumption expenditure, this indicates the government's preference in allocating funds and in part has been the result of its social and welfare policy.

Now the growth of the money supply and of liquidity had come about as a result of the easy if not expansionary monetary policy pursued. On one hand the large public sector deficits were financed (partly) by the Bank of Greece, while increasing credit was extended to the private sector. With the Commercial Bank's liquidity ratio at very low levels[114] a major part of credit extended, was again financed by the Bank of Greece, i.e.

the commercial banks overdrew their account with the Bank of Greece:[115] inducing again a further rise in liquidity.

In conclusion, the following four broadly defined factors seem to have influenced demand and contributed to the rise in consumption, dissaving and the price level:

(a) The expansionary fiscal and monetary policy;

(b) Bank of Greece financed budget deficits and credit to the private sector;

(c) Negative real interest rates, consumer expectations, low industrial profits, lack of 'investment' opportunities;

(d) The redistribution of income in favour of groups with a low propensity to save.

PART FOUR : 1967-1978

CHAPTER VIII

THE COMPOSITE PRESENTATION OF THE INFLATIONARY TRENDS AND THEIR ORIGINS IN GREECE: 1967-1978

An interpretation

In this last chapter of the thesis, as suggested by its title, we shall attempt to provide a more composite picture of the inflationary process at work since the year 1967. In doing so we shall try to link in our best possible manner all relevant issues to inflation discussed thoroughly in previous chapters, albeit sometimes independently of each other. We begin by providing a short outline of the social, political and economic climate prevailing just before the military coup of April 1967.

We find ourselves back in the mid sixties, some five years after the first postwar period of rapid economic growth and of monetary stability. During the past five years (1960-65) we have the return of the public confidence in the currency, after the hyperinflation experienced during and after the end of World War II. We have the heavy participation of the state in infrastructure investments on a national scale: highways, energy, irrigation works, dams, ports, airports etc., limited but in relative terms worthy of mentioning export industrial effort and growth, expansion of import substitute industries, the increasing importance of the secondary sector, in particular manufacturing, all setting the pace for a long run vigorous economic growth and industrialization. Despite all this, by the end of 1965 unemployment figures rested high, wages were low and we see the first signs of social unrest. The two year period 1965-67, before the takeover by the

colonels was characterized by political instability and uncertainty, a marked slowdown of investment and business activities. Public discontent because of inadequate social conditions prevailing such as inadequate social insurance, medical care and education, low wages and high unemployment-underemployment and poor living conditions in the rural areas. What seemed to have been the early promising beginnings of an era of vigorous economic growth and development for Greece was now endangered and future prospects were gloomy. Even the price level which showed a gradual very small increase during the 1960-65 period now was indicating a marked upward trend.

It is this exactly social disorganization which the colonels took advantage of and that 'permitted' their rise to power: the pretext or excuse being the country's protection from an 'imminent' danger of a possible leftist takeover. Whatever the political aims of the 1967 regime might have been, according to many prominent sociologists amonst which Prof. N.P. Mouzelis (of L.S.E.) the regime aimed primarily and was mostly after the elimination of most obstacles, social or other, hindering the early and future efforts to rapidly industrialize and develop the country. (According to Prof. N.P. Mouzelis the pattern or character of economic accumulation under the military regime was quite the same to that which preceeded it).[116]

In our opinion amongst the aforementioned obstacles to be eliminated or dealt with were the following:

1. Labour unions and their power, (a) to resort to strikes and thus desrupt the production process, (b) to manage and satisfy wage and salary demands at the cost of industrialists profits, inflation, of raising

production costs, handicapping thus the accumulation process and bringing a decline at the incentive of industrial investments.

2. An incompatible distribution of income disrupting the development process. Here amongst others, we refer to the need to suppress agri-incomes on one hand in order to draw agri-labour hands back to the city to be used in the industries, increase urban supply of labour manpower so that wages be kept low, competiveness abroad high, industrial profits high.

3. Institutional factors such as bureaucracy and legislation which had the nature by property to stall decision-making and further, in the case of the parliament, the incorporation of social or political considerations affecting the formulation and persuit of economic development plans, investment incentives and so on and so forth. A typical example of such a case relates to the issue of foreign investments: no matter whether or not, or how beneficial these might be for the country, to some viewing it from a political angle, these are highly undesirable and unwelcome.

4. The price level-inflation:
Now inflation became a threat for a number of reasons. It threatened government rule as it brought social unrest and dissatisfaction which immediately reflected upon the government's image. It threatened the country's industrial and agricultural export efforts and performance. It would as happened in the past shake the whole banking system through the loss of

confidence by the public in the national currency. It could create a climate of uncertainty affecting future industrial investments, the influx of foreign capital etc. It could lead to a switch in the consumer preferences away from home produced goods, imposing thus further strain on the external balance of payments and also creating problems to local (infant) industries as the domestic market for home goods diminished. It would certainly alter the distribution of income in such a way possibly which would not enhance the proper allocation of resources and the development process: an example of such a case could be the reversing of income differentials between rural and urban centers affecting the flow of agri-labour to the city - or the influence upon labour renumeration demans which came in conflict with low costs high profits, competiveness etc. These and many more other reasons made inflation a threat and called for measures which would either 'mask' it, dampen it, or ease it. Especially in view of the fact that the high rates of growth of GDP set for the next five year period 1967-72, (8% annually) were bound to create or aggrevate existing inflationary tendencies.

Roughly speaking the main obstacles mentioned above were dealt with mostly via legislative measures. Labour union activities were restricted and the right to strike virtually abolished, while wage rates in the industrial sector were allowed only to grow in accordance with the growth of the industry's average productivity. Actually labour remuneration grew in accordance with the industry's average productivity which meant that highly efficient firms capitalized upon labour more than less efficient ones, and in the long term low productivity less efficient firms were drawn to bankruptcy. This

enabled the costs to be kept low, profits high in the case of high productivity firms and further result to a transfer of resources from the lower to the higher productivity firms. This being a more efficient allocation pattern of resources chasing out all uneconomical units from the market. It helped inflation rates to be kept low too. The ability or necessity to draw labour hands from the rural areas to man the industrial sector was achieved mostly via the income and price policies followed. These primarily aimed at suppressing agri-incomes on one hand in order to force or induce labour migration from the rural to the urban centers, on the other constituting at the same time a desired pattern of accumulation. Suppressed agri-incomes were achieved via direct price administration and control by the state of agri-produce which prices were kept at artificially low levels in comparison to world prices or domestic industrial products or in relation to costs. The only income category to have grown between 1967 and 1972 by less than national income, % wise, was agrarian income: agriculture employing more than a third of total labour force! The control and low price setting of agri-produce by the state had a dual if not multiple purpose. Firstly to maintain the income differential between rural and urban centers which would induce the aforementioned labour migration to the city. Secondly, cheap food meant that real industrial wage growth could be achieved with minimal increases in money form of labour remuneration. This was an indirect income transfer and subsidy from agriculture to the city and the industrial sector! The resulting slow growth of industrial wages and salaries (nominal) kept industrial costs low and in relative terms final prices too. Together with the artificially set low prices of agri-produce, a

stable price level was able to be maintained. In order, however, not to create social dissatisfaction in the rural areas but also to help combat cost induced inflationary tendencies caused by various structural weaknesses and inefficiencies in the agricultural sector, agri-costs were subsidized by the state and direct income grants provided in an effort to minimize or reduce the income loss resulting from the aforementioned low prices received by producers.

The burden of accumulation was borne mostly by the agricultural sector and to a lesser extent by industrial labour. The income distribution pattern established, allowed not only heavy accumulation but further the control of demand forces such that again inflation be kept within tolerable limits: since it favoured income groups with a high propensity to save.

Recapitulating, consider the following factors or policies during 1967-72 which had a dampening effect upon the price level:

1. The subsidizing of agri-costs to cover up structural inefficiencies and weaknesses.

2. The direct income grants received by agri-producers which 'allowed' the damping by the authorities of final consumer prices.

3. The wage-rate policy pursued in the industrial sector which kept labour costs low.

4. The probable abolition of indirect and import taxes on imported industrial equipment and machinery which helped increase productive capacity and productivity while reducing overhead and unit costs.

5. The incomes policy which allowed a certain control over demand forces - the distribution of income.

6. The price policy followed which damped or masked inflationary tendencies.

7. The complex of policies and measures which resulted to an increasing portion of the country's available resources being directed towards capital formation as against consumption. (Credit policy, commercial policy, incomes policy, interest rate policy etc).

Last but not least, one should add the heavy involvement of the state in infrastructure investments, the investment oriented distribution of public funds and the very fact that budget expenditure was mostly financed through taxation and by the issuing of government bonds. The involvement in infra-structure increased productive capacity, productivity and thus output potential and founded the basis (social overhead capital) which would enhance domestic and foreign investment. This, we may regard as anti-inflationary as it increased output or output potential. Now, the invesmtent as against consumption oriented distribution of public funds during 1967-72 is preferable as regards inflation because in the long run increases directly output or output potential, while consumption expenditure not necessarily so, while increasing demand pressures in the goods market (consumer goods). The finance of government expenditure via taxation and through the issuing of government bonds which were purchased by the public helped keep overall liquidity in the economy down and had a less expansionary impact upon the economy than if deficits or other spending was financed via the Bank of Greece or through the issuing of 'new' money. This itself helped keep inflationary tendencies low.

We have so far indicated factors and analyzed the scope of a series of measures which have helped either control or mask inflationary pressures. Having done that let us now proceed to discuss the most important inflationary forces at work and their probable origins which we have identified in previous chapters for the period 1967-72.

Some forces which manifested themselves at an early stage and induced the rise of agri-products prices were 'dealt' with from the very beginning via direct control of prices whereas others which induced the rise of industrial product prices manifested themselves in later years, after 1970, but again dealt with in a similar fashion under law 918 of 1971 which expanded the jurisdiction of the authorities to control prices over a wider range of goods including manufactures.

Those inflationary forces tending to bid up agri-product prices we have identified mostly to have been cost induced. Structural weaknesses and inefficiencies were present in the agri-sector, especially in animal husbandry. The dependancy upon imports of livestock, feedstuffs, meat, etc. aggrevated the problem after 1970 when world prices of primary products rose remarkably. The aforementioned rise exerted further pressures upon domestic costs and thus further reduced producers profit margins. This forced the government to readjust upwards substantially producers prices, something which indeed was reflected on the consumer price index. The inability of our agri-sector's supply to meet domestic demand, and thus heavily depend upon imports, was due on one hand to the great rise in demand for certain goods, like meat for instance, on the other a certain inelasticity of supply. This inelasticity of supply and the slow growth of real GDP in agriculture we attributed among other reasons to the low credit and resource channelling

it received as compared to that of the secondary and tertiary sector. The rise in demand for meat was brought about by a change in the consumption habits of certain consumers, induced by the higher levels of income and wealth: (better nutrition, demand for goods of high income elasticity). Thus indirectly, 'mischanneling' of resources and the rise in demand are 'responsible' for the progressive dependancy upon imports which raised further at least after 1970 agricultural costs. A last factor inducing indirectly import dependancy, at least as concerns livestock, meat etc., relates to the price policy persued for herd breeding, cattle, animal husbandry in general. As can be recalled from chapter II the military governments' maximum fixed price quotations did not compensate for increasing costs for the sector concerned, and as a consequence increased slaughtering occurred before second or third generation of cattle or herds could be reached, thus discouraging and destroying domestic animal husbandry: thus increasing the import dependancy of the country for meat, livestock etc. Recapitulating the causative reasons leading to the rise in agri-product prices we consider as primary (a) cost-push inflation domestically induced but aggrevated in later years through imported inflation, (b) as secondary, the inelasticity of supply of agri-produce, the rapid growth of demand for certain goods which indirectly in the fashion described above have induced greater import dependancy which influenced domestic price formation.

For the major industrial sector, as can be recalled from chapter II, we have reached the conclusion that increasing costs, or cost-push inflation was not responsible for the relative price increases of manufactures. Labour costs were kept low due to the wage rate policy

persued while productivity increased rapidly and progressively beyond real wage growth. The import prices of inputs, machinery and raw materials again did not cause a rise in costs as the empirical study conducted by G. Economou[117] revealed. This we were inclined to accept for as a matter of policy (commercial, investment policy) raw material inputs imported as well as machinery would be offered free of indirect and import taxes to the industry.

The coming to being of law 918 of 1971, expanding over a wider product range to include manufactures the authority of the state to control prices, together with the late 1972 and mid 1973 additional anti-inflationary measures amongst which were the prohibition of certain exports and the liberization of certain imports, led us to suspect that excess demand was mostly responsible for the acknowledged price increases. This proposition seemed even more probable after we had ruled out the possibility of monopoly practices or market imperfection being the reason.[118] At the same proposition, namely that excess demand was the reason which bid up the price of manufactures had also culminated G. Economou in his study which we mentioned earlier. The fact however that consumers expenditure had been declining as a % of GNP, year after year between 1967-72, suggested the possibility that overall demand was not excessive. This 'inability' of overall demand being excessive became even more probable when taking into consideration the suppressed incomes policy pursued for agriculture and industrial labour. For this reason we had decided to investigate the demand pull theory given to us by C. Schultz[119] which allows for demand pull inflation even with deficient or 'balanced' overall demand.

Demand-pull inflation here is caused by a sudden change in the consumption pattern which is induced by either higher levels of income and wealth, the 'demonstration' effect or an expenditure switch. The change now in the consumption pattern and consequently of demand in certain markets may lead to an increase in prices if supply fails to expand fast enough to meet demand in the markets where demand has risen. We thus have excess demand characterizing certain markets without the necessity of an overall excessive demand doing so. Further, the resulting price increases induced from the markets characterized by excess demand may be sufficient to induce a general rise in the price level even if there exist markets suffering from deficient demand. This is so because of the downward price and wage rigidities which do not allow deficient demand in certain markets through price formation to counterbalance the upward pressures on prices induced from the 'excess demand' markets.

We first investigated whether a change in the consumption pattern had occurred, which goods had risen in price most and whether it was these which 'conformed' to the indicated change of the consumption pattern. Then we continued to identify the reason for which demand was excessive in the markets concerned and finally the origins of the demand. We found that a change in the consumption pattern had indeed occurred favouring goods of high income elasticity where most price increases had been located. (Durable goods - household supplies, clothing - footwear, transport - communication). In general terms the composition of consumer expenditure had altered in preference of durable - semidurable goods and services as against non-durable. Amonst the non-durable goods category: sub-category food, the change

had occurred in favour of meat and other animal protein nutritional produce where indeed prices had substantially risen.

In addition we found that in certain industries whose goods prices had risen most during the 1967-72 period, exports had increased enormously, in some cases between 400% - 1500%. In the same industries we found GDP growth to be less than average. On the contrary, in other industries which achieved an above average GDP growth and experienced diminishing instead of increasing exports, prices had remained stable. Considering the above non-coincidental, we expressed the opinion that the change in the consumption pattern led to excess demand on certain markets, partly due to a certain in-elasticity of supply but further due to the tremendous export growth which further reduced local supply or availability of certain goods for which demand was increasing. An additional factor which however we cannot prove but which we strongly believe had further reduced 'local availability' of goods, generally speaking, must have been high protectionism which did not allow sub-stantial imports to fill any gaps between domestic supply and demand. High protectionism in addition causes an expenditure switch: demand for imports reverts to demand for 'local' goods which adds further pressure on prices.[120]

Identifying the factors which induced the change in the consumption pattern as well as the origins of demand for the high income elasticity goods which the new consumption pattern demanded, became a great puzzle, and this for the following reasons. To a certain extent, a qualitative change in the consumption pattern may be induced by higher levels of income and wealth. But, and here comes the puzzle, the incomes policy pursued did not favour the large agri-sector nor industrial labour,

income groups with a high propensity to consume! The income of industrial labour in particular (which in relative terms was better off than that of the agri-population) grew less than productivity in the industrial sector, and by far less than per capita consumption, something which ruled out any probability of industrial labour being able to 'generate' or induce the aforementioned rise in demand and change in the consumption pattern. The capitalist class on the other hand, given their nature, would rather see their profits or property reinvested rather than 'spend'. Besides as they are a small in number class, they could not 'consume' or demand the bulk of commodities for which we are now discussing.

The last and only possible income group left, able to have induced the aforementioned change in the consumption pattern and which possessed the necessary purchasing power to influence demand, was that engaged in the tertiary sector. This seems very probable for the following reasons. First, employment in the tertiary sector[121] accounts for 33% of total active population which means that it is quite a large income group able, other things being equal, to affect the composition of demand. Second, only a very small portion of those engaged in the tertiary sector are employees so that their income, wages or salaries be controlled adequately by the state. Some 65% or more are self-employed, doctors, lawyers, shop-keepers, restaurant owners, electricians, taxi drivers etc., etc. whose incomes depend upon their turn-over and thus cannot be controlled in the same fashion as wages or salaries. As it appears from the national income statistics, only the income derived from property and entrepreneurship has increased substantially faster than national income and within this exactly income group are included all self-employed and free professionals (known

to exist!). Tax evasion here is highly concentrated because of our inefficient tax system which means that real income of the large self-employed class has grown even more than suggested by the national statistics.

The growth of the tertiary sector has come about as a result of our industrial inability to absorb surplus labour which had left the under-employed agri-sector and because of the bureaucratic organization of the state. This started since the late 1950s. By mid 1960s the tertiary sector represented a good 50% of our country's GDP. During the 1967-72 period it absorbed some 35% of total gross fixed asset formation, far beyond what agriculture absorbed, a sector still with many structural problems. The progressive increase of the resources which were channelled to this sector has deprived the productive sectors of the opportunity to become more efficient and this in part explains why certain supply inelasticities occurred in the productive sectors (commodity producing).

To revert on the subject of the change in the consumption pattern, our opinion is that this has been initiated by those engaged in the tertiary sector, and manifested itself mostly after the mid 1960s, when not only their number was large enough to have induced this change but further their incomes had risen to such an extent at which consumption of essential goods had been 'saturated' while demand for 'non-essentials' increasing.

Recapitulating consider the following factors to have induced or aggrevated inflationary pressures during the 1967-72:

1. Rising costs in the primary sector;

2. Aggrevating the above, the rise of primary import prices after 1970;

3. Rising demand for certain commodities induced by the change in the consumption pattern;

4. Huge exports, restricted imports, restricting local availability of commodities;

5. A certain inelasticity of supply indirectly and partially induced by imbalanced resource allocation.

The surge of inflation in 1973, when the consumer price index increased by some 16% came after the abolition of price controls that permitted those inflationary pressures - cost or demand induced - we had identified already to exist, to manifest themselves freely and a new price level be established as dictated by the free interplay of demand forces. The rise however of the consumer price index would have been greater had not the government after mid 1973 introduced new anti-inflationary measures such as the prohibition of exports, reduction of import duties and revaluation of the drachmae. There are three basic factors for which the abolition of price controls was now called upon as well as the adoption of the aforementioned anti-inflationary measures, and which factors come to complement or aggrevate the existing inflationary pressures. These are: (a) the spectacular rise in prices of imported primary products; (b) the gradual devaluation of the drachmae vis-a-vis the currencies of its major trading partners; (c) the negative GPD growth of the primary sector.

The spectacular rise in primary product prices directly influenced the price level and indirectly as it induced now industrial costs to rise as well as the costs of the primary sector. The dependency of Greece upon raw materials and other primary products need not be analyzed again here. The direct and indirect burden induced by higher import prices was aggrevated as a result of the drachmaes devaluation vis-a-vis all currencies with which Greece was in trade. This, as can be recalled, came about because the local currency was directly linked to the US dollar under a fixed parity and continued to do so after the consecutive devaluations the US dollar had undergone from December 1971 till mid 1973. The rising costs in mostly all sectors constituted price controls non-implementable as profit margins had been squeezed beyond limits. So these were abolished. In view however, of the fact that the existing exchange rate still directly multiplied the inflationary impact of rising import prices the government decided to revalue by 10% the drachmae and reduce import duties. This would allow imports to become somewhat 'cheaper' as well as increase in quantity. The former effect help dampen imported inflationary pressures, the latter help 'ease' demand induced inflationary pressures which would be manifested after the abolition of price controls.

Now the persisting high inflationary pressures which continued after 1973 have been the outcome mainly of conflicting government policies which, on one hand, while systematically inducing the stimulation and enlargement of aggregate demand via which it was expected that the economy would be led away from its 1974 recession, on the other hand restricted or even extinguished the possibilities or conditions under which via an enlarged

aggregate demand, the recession would be over, investments, productive capacity, productivity and output would grow or expand! Having said that, let us now in more detail see what exactly occurred after 1973.
In 1974 the economy entered its recession state, real GDP fell by some 2% while recorded inflation had increased to 27%. The recession of course was not a local but an international phenomenon and so was the surge of inflation. However, the problem in Greece was quite aggravated and this so possibly for the following reasons:

1. The second military coup of November 1973;

2. The mobilization of the population to engage in a probable war with Turkey over the Cyprus issue;

3. The downfall of the last military government and the formation of a liberal-democratic one just before mid-1974.

The change in government rule twice within less than 7 months as well as the war probability must have created a climate of uncertainty with adverse effects upon investments and possible production too. In addition the drafting by the army of quite a part of the active labour force further disrupted the production process and induced a decline in output, at least for a period of four to six months. With output declining and with demand being over-buoyant if not for anything else, because of the forthcoming war and 'shortages', it is not surprising that prices had increased by so much.
It is quite possible that certain wholesalers or retailers took advantage of the prevailing psychological climate and state of the population and 'hoarded' stocks so that

prices would rise even more. I remember one case, sugar, where prices had risen sky high and the government finally had to intervene to induce stock liquidization. A last factor in addition which possible further restricted or limited local availability of goods may have been the temporary 'freeze' of imports, as cargo-vessels were unwilling to dock at our ports during the critical 'war' period. So much for 1974.

Now the maintenance and persistance of high inflation rates during the remainder years we have suggested primarily to have been induced by conflicting government policies. To become more specific: the new liberal government which came to power in mid 1974 began to pursue an expansionary fiscal and monetary policy stimulating aggregate demand and this so with the expectation that vis-a-vis the former, full capacity utilization would be induced, investment levels restored and output grow at satisfactory levels. If the productive forces were to respond to the 'stimulated' demand, the economy would be led away from its recession state and demand induced inflationary pressures would be eased as output expanded fast.

As we have seen, however, in chapters V and VI, investments failed to recover, GDP growth was moderate and mostly attributed to the expansion of services, while inflation rates remained high. Why was this so? To begin with, the distribution of public expenditure was 'consumption' oriented and did not favour investments. Despite the fact that public expenditure had risen from 28% in 1973 to 35% of GNP in 1978, in absolute as well as in relative terms, investment expenditure had declined if compared to pre 1974 levels. The participation of the public sector in total gross fixed investments had declined from an average of 29.1% for the 1969-73 period

to 25% for the 1974-78 period. Aside from this, there has been a change in the distribution of public gross fixed investment, in the later period, not in favour of infrastructure investments. This had a significant negative impact upon certain sectors of activity which traditionally have exclusively relied upon public sector investments for their development and growth. (Because of the nature and height of investments - social overhead capital required to promote the development of these specific sectors). In particular we refer to (a) agriculture, fishing, forestry, land improvement; (b) energy, water, etc.; (c) transportation-communication, where in total public sector gross investments (on the basis of constant prices) declined by 8.6% annually during the 1974-78 period. In our opinion thus beyond any doubt the non-recovery of investments in the sectors mentioned and the slow growth of output are attributed to the low and diminishing portion of investments these had received by the state. Here we see the first contradictory element of government policy: namely a cut-down of the investment budget at a time, when not only the opposite was called for, but further the government was trying to find ways of inducing a rise in the level of investment.

Thus, it seems, if investment levels were at all to be 'restored', this task would have to be undertaken solely by the private sector. However, as mentioned earlier, in certain spheres of activity such as agriculture, energy, transport etc., this was an impossibility. It therefore remained to be seen whether or not the expansionary policies pursued would at least induce the rise in investment levels and capacity utilization and output in the remainder of the economy, namely the industrial sector. Before we do so however, let us

review some of the basic elements which comprised the expansionary policy 'package' during the years 1974-78: consider the following,

1. The rise in transfers and subsidies from 9.1% of GNP in 1973 to 13.7% of GNP in 1978 (current prices).

2. The rise in current expenditure on goods and services from 11.8% in 1973 to 16.4% of GNP in 1978.

3. The rise in total public expenditure from 28.11% in 1973 to 35.2% of GNP in 1978 (current prices).

4. Budget deficits in the region of 7% of GDP.

5. Budget deficits financed by the Bank of Greece.

6. Raising the overall liquidity in the economy, i.e. M3/GNP from 58% in 1974 to 69% in 1978.

7. Raising the level of untaxable income, increasing tax reliefs especially for the lower income groups which have a higher propensity to consume local goods. For farmers in particular the level of untaxed income doubled from Drs. 250.000 to 500.000 per year (equivalent to Dfl. 24.000 approximately).[122]

8. The redistributive incomes policy, elements of which amongst others were the narrowing of wage differentials and other income disparities both for social welfare purposes but also to increase as was expected demand or consumption of local goods.

Basically as follows from the level and distribution of public expenditure, its incomes policy and other, the government aimed primarily at stimulating the consumption component of aggregate demand. It was expected it seems that the rise in demand for consumer goods would induce full capacity utilization leading to an expansion of output and an increase in profits which in turn would induce a rise in investment levels, leading again to an increase and utilization of productive capacity, and as the cycle repeated itself, the economy would be led away from its recession, sustain high rates of growth and manage possibly as output expanded fast to 'ease' demand induced inflationary pressures.

This however did not occur and as we have seen in chapter VI investment levels in manufacturing by 1978 were still below thier 1973 peak level (and declining) and comprised mostly of replacement investment. Additions to net capital stock decreased as we have seen, year after year since 1974, while real GDP growth rate averaged a mere 4% annually for the 1974-78 period against the 12.4% experienced during the 1967-73 period. Why so?

The most important factor for which reason investments have been declining since 1974, and constituted of 'replacement' investments primarily, has been reduced profitability. Despite the fact that demand was growing, prices rising, sales tripled in value terms during 1974-78, in the major industrial sector, aggregate profits on the basis of constant prices had been reduced by some 72%, from 14 billion Drs. in 1973 to 3.9 billion in 1978. Profit margins or the average profit rate (after depreciation) fell from about 15% during 1972-74 to 6% between 1975-77, the rate being 5% in 1977. With aggregate profits low, an average rate of return lower than the

interest rate on time deposits (also a tax-free income source), the cost of borrowed capital high, it is quite understandable why investments continued to decline.

Now, the low profitability in the manufacturing sector seems to have resulted from the fast recovery of wages and salaries after 1974, when labour union power was restored and the previous wage rate policy abandoned. With the new incomes and wage rate policy aiming at reducing wage differentials and income disparties for welfare reasons mostly, and labour union power restored, real wages and salaries have managed to grow now in excess of productivity growth. More specifically, during the years 1973-78 productivity growth was only 6%, while real wage growth 40%, and real salary growth 26%! In addition, the new employment policy which discouraged lay-offs and overtime work, and which further reduced working hours in manufacturing by 3 hours a week, imposed further strain upon costs as it made it necessary to use two shifts instead of one, thus more people in order to produce the same output or maintaining redundant labour, something which increased the wage bill even more. All the above were made at the expense of profits and producivity at the same time. This exactly low profitability in the industrial sector explains in part why:

(a) Despite the high I.C.O.R. of housing, credit extended to the industry and industrial profits, as suggested earlier, have financed dwelling purchases and construction instead of expanding industrial capital and investments. Due to high speculation on land and housing it seems that profits are enormous.

(b) Why the only recovery in investments since 1974 was realized in the dwellings sector, even during a period when credit facilities for this sector had been tight.

Here one can see the second contradictory element of government policy, namely the pursuit of an incomes and employment policy which neither helped productivity growth nor industrial profits which as expected would induce the undertaking of additional investment and the expansion of output. Not only investment levels had failed to recover but further resource allocation became distorted, favouring speculative and unproductive investments.

Regarding the slow growth of output this has been induced by the negligible net investments and the low rate of return experienced in manufacturing. The former as these did not allow productive capacity to expand and productivity to improve, the latter because possibly, it made uneconomical the further or full utilization of capacity[123] (and the undertaking of new investments).

To revert to the subject of inflation for the economy as a whole, the problem or the inflationary process in our opinion appears to have taken place as follows:

The economy enters its recession state in 1974, productivity and output begin to decline. However, no corresponding reduction in purchasing power accompanies the decline in output and productivity. This induces prices to rise. Inflation however fails to redistribute income in favour of profits, namely because labour power managed not only to maintain but increase its real purchasing power. The growth of wages and salaries in the industrial sector we have seen to have grown beyond

productivity growth and the rate of inflation. This, together with other factors induced by government policy, increased further the wage-bill and reduced substantially profitability in the industrial sector. The low profits and rate of return reduced again the incentive to invest and as additions to net capital stock diminished, so did productivity growth, making even more unprofitable the further utilization of capacity and output expansion. The limited capabilities of output growth in the remainder sectors resulted primarily from the substantial decline of public investments which must have contributed to the weaker productivity these sectors incurred.

Meanwhile the productive sectors of the economy found themselves unwilling or unable to expand output, demand for goods and services was growing fast as a result of the expansionary policies pursued and due to the 'consumption' drive induced by:

(a) the redistribution of income in favour of the lower income groups;

(b) the negative real interest rate prevailing;

(c) the prolonged period of inflation.

Excessive demand oncemore, but also speculation on land, housing etc., added increasing pressures on prices, but again as before for the same reasons, inflation did not increase profits, and as the cycle repeated itself the economy remained in a stag-flating state year after year.

With this last simplified presentation of the inflationary process at work during the years 1974-78 (as we see it to have occurred), our discussion concerning

the inflationary trends and their origins in Greece for the period 1967-78 is completed. This brings us to the end of this chapter and of the present thesis.

APPENDICES

APPENDIX I

SUMMARY OF THE 1968-72[124] MACRO AND MEDIUM TERM TARGETS OF THE ECONOMIC DEVELOPMENT PLAN OF GREECE

1. General

(a) Attainment of an annual growth rate between 7.5% and 8.5%. (GDP).

(b) Maintenance and strengthening of monetary stability. Here it is aimed that an annual rate of increase of the price level is not to exceed 2% compared with the 4% experienced in recent years[125] (1965-66).

(c) Achievement of a substantial increase of productivity in most branches or sectors of the economy, leading thus to a decrease of real production costs and increase in competitiveness. It is mentioned[126] here that via S.O.C. investment[127] it will be made possible for external economies to take place while by adopting a wage rate policy in accordance with productivity - method of average productivity - resources will be 'transferred' from sectors of low productivity towards sectors of high productivity. (Here all sectors outside agricultural are concerned). For further improvement in productivity facilities[128] will be granted to foreign capital which has the capacity and technology that local entrepreneurship is lacking.

(d) Structural changes to take place in production, investment and balance of payment. Here the restructuring of investment priorities is mentioned to aid the most efficient sectors of the economy

and the ones which will enable the creation of forward and backward linkages.

(e) Rational and functional distribution of investment in S.O.C. under a well planned regional development programme.

(f) Improve the market structure, the structure of the labour market, capital market, tax system, administration etc.

(g) Redistribute income in a functional[129] way so that an undermining of the basic targets of the programme does not take place (i.e. investment incentives and industrialization).

(h) Revise the already in existence system of price controls at all levels - production and distribution - and substitution by direct income grants and other subsidies (cost) to farmers of the old system of price supports etc.

2. Particulars

(a) While the financing of the plan from domestic and external sources is expected to be sufficient, a functional distribution of the available resources is expected to take place under laws 147/1967 and 148/1967. These laws governing the incentives scheme aim at diverting available means (mostly) towards the industrial sector.

(b) To facilitate the rapid industrialization which is the basic target of the plan it is mentioned[130] that import duties on new machinery and equipment, raw materials and primary inputs which are considered necessary for local industries and of which domestic supply does not exist, might be abolished.

(c) Industrial production and in particular manufacturing output is expected to increase at an annual rate of 11-12% and as it will be directed - composition of its output - towards import substitution[131] it will aid somewhat the trade balance for it is expected that the above mentioned growth rate will be sufficient to fill the gap between demand and local supply.

(d) Given the high import requirements for capital goods etc. during the period, for balance of payment reasons, an export oriented effort[132] side by side with the import substitution one shall take place.

(e) The private sector is expected to play the key role during this period in industrializing the country while government activity it is mentioned[133] will be restricted to such spheres where the private sector is unable or unwilling to participate in. The government is referring here to all those socio-economic infrastructural requirement such as energy, transport, education etc (S.O.C. as defined elsewhere).

(f) The annual rate of growth of GDP between 7.5% and 8.5% is expected to be realized if the primary sector expands at a rate of 5.2% annually, the

secondary and in particular industry by 11.4% annually and services or the tertiary sector around 7.4% yearly.

(g) Given the fact that savings in recent years as a percentage of GDP have reached a level which can be considered high and the fact that redistribution of income which shall take place is expected to reduce the propensity to save, it is expected that the financing of the programme, from domestic sources will not be sufficient. Thus 15% of public sector's borrowing is expected to be financed from abroad while external borrowing of the private sector will cover 29% of its total requirements. Nevertheless, external debt or the external funds are expected to be reduced as a percentage of GDP, from 3.3% to 2.7% in 1972.

(h) The trade deficit is expected to rise at a much slower rate, from 15% on an annual basis for the period 1960-66, to 10% for the next 5 years. This is due to the increased export earnings and reduced import requirements through import substitution. Net invisibles are expected to rise at the rates of the previous years, around 15% annually thus the deficit on the current account will decrease at an annual rate of 2.1% compared to an increasing annual rate of 15.3% for the 1960-66 period. Nevertheless export of capital will substantially increase in the second period (1967-72) at a rate annually of 9.3% compared to 1.9% annually for the 1960-66 period.

Finally to conclude the picture, an annual growth rate of 2.3% of foreign capital inflow in any 'form'[134] is required compared to 11.2% of 1960-66 to cover the deficit on the balance of payments.

APPENDIX II : TABLES I - XXXII

TABLE I

The evolution and growth rates of Gross Domestic and National Product

Year	At 1970 prices Million drs. G.D.P. (f.c.)	% change	G.N.P. (m.p.)	% change	At current prices G.N.P. (c.m.p.)	% change
1966	197011		228040		203886	
1967	206176	4.7	240790	5.6	220412	8.2
1968	217895	5.7	257230	6.8	239550	8.7
1969	238201	9.3	282170	9.7	271492	13.4
1970	258000	8.3	304420	7.9	304420	12.2
1971	278551	8.0	327720	7.7	338177	11.1
1972	303973	9.1	356886	8.9	387303	14.5
1973	329269	8.3	383916	7.6	497236	28.5
1974	323255	-1.9	369325	-3.8	582073	17.0
1975	339833	4.5	390000	5.6	691365	18.8
1976	359749	5.8	414841	6.4	848379	22.8
1977	370583	3.0	430725	3.8	995871	17.4
1978	392250	5.9	456200	5.9	1182300	18.8

Source: National accounts of Greece 1958-1975, 1978 provisional.

Average annual growth rates		
Period	% G.D.P.	% G.N.P.
1967-72	7,52	7,77
1967-73	7,63	7,74
1973-78	4,27	4,25
1974,78	3,46	3,58
1967-78	5,89	5,44

G.D.P.: at factor cost and 1970 prices

G.N.P.: at market, and 1970 prices

TABLE II

(a) Gross domestic product by sector

YEARS	PRIMARY	INDUSTRY	SERVICES	GDP
1966	43687	53871	99453	197011
1967	44311	56834	105031	206176
1968	40484	65439	111972	217895
1969	43085	74939	120177	238201
1970	47058	80976	129966	258000
1971	48662	90802	139087	278551
1972	51543	101956	150474	303973
1973	51204	114367	163698	329269
1974	53672	101708	167927	323307
1975	56733	107572	175528	339833
1976	55971	117600	186178	359749
1977	52100	123174	195309	370583
1978*	55500	131350	205400	392250
1970 prices: million drs		G.D.P. = Factor cost		

Note: Primary includes, Agriculture, Forestry, Fishing etc.
Industry includes, Mining, Manufacturing, Electricity-Gas-Water Works and Construction.
Services include, Transport and Communications, Whole-Sale and Retail Trade, Public Administration and Defence, Health and Education, Dwellings, Tourism and other.

(b) Composition of G.D.P. by sector

	PRIMARY	INDUSTRY	SERVICES	TOTAL
1966	.22	.27	.51	100%
1967	.21	.28	.51	100%
1972	.17	.33	.50	100%
1973	.16	.35	.49	100%
1974	.16,7	.31,5	.51,8	100%
1978	.14	.33	.53	100%

TABLE III

Sectoral G.D.P. growth rates 1967/78

Years \ Sectors	Primary %	Industry %	Services %
1967	1.4	5.5 (8.7)*	5.6
1968	-8.6	15.1 (11.6)	6.6
1969	6.4	14.5 (14.6)	7.3
1970	9.2	8.1 (15.6)	8.1
1971	3.4	12.1 (10.8)	7.0
1972	5.9	12.3 (7.9)	8.2
1973	-1.0	12.2 (17.6)	8.8
1974	5.0	-11.0 (-2.8)	2.6
1975	6.0	5.8 (5.4)	4.6
1976	-1.0	9.3 (10.0)	6.0
1977	-6.7	4.8 (1.5)	5.0
1978	6.6	6.7 (6.5)	5.0

Annual average growth rates of G.D.P.			
	Period 1967/73	Period 1967/72	Period 1974/78
Primary	2.39%	2.95%	1.98%
Industry	11.4 %	11.27%	3.12%
Manufacturing	12.4 %	11.53%	4.12%
Services	7.37%	7.13%	4.64%

*Figures appearing in brackets refer to manufacturing.

Source: National accounts of Greece 1958-75, 1978 provisional, and table II.

TABLE IV

Total credit by sector (million drs.)

	Total	Agricult.	Manufact. mining	Trade	Housing	Other	Public enter-prises	Public entities	Government Purchasing Agencies
1966	68717	13814	24220	9625	4213	4771	4200	3042	4831
1967	79434	15248	29090	10279	6012	6863	4834	3694	3414
1968	91823	13489	33781	11185	9742	7842	5906	5050	4827
1969	111004	15025	40117	13276	14040	9966	7379	6136	5065
1970	134390	17744	48827	14890	17581	14235	9334	6999	4780
1971	162816	21422	59999	16601	21702	18780	11538	7955	4821
1972	199149	26383	72808	18699	27454	26313	13891	9677	3924
1973	237725	33718	84676	22432	31831	29943	19354	11807	3964
1974	286284	44523	104520	24534	33111	36541	25003	11708	6344
1975	353793	56674	135372	31198	37008	42571	30619	12708	7644
1976	442317	66537	170749	41908	43462	56681	38606	14283	10092
1977	547990	90160	214148	55057	53923	62536	43721	15584	12861
1978	664717	110193	268732	66094	67800	71211	53233	18182	9273
		1	2	3	4	5	6	7	8

Source: O.E.C.D. Annual Survey, Greece, 1977, 1979.

& In Total

	Total	1	2	3	4	5	6	7	8
1966	100	20	35.2	14	6.2	6.9	6.2	4.4	7
1967	100	19.2	36.7	12.9	7.6	8.6	6.0	4.7	4.3
1968	100	14.6	36.8	12.2	10.6	8.6	6.4	5.5	5.3
1969	100	13.5	36.2	11.9	12.6	8.9	6.7	5.6	4.6
1970	100	13.2	36.4	11.0	13.0	10.6	6.9	5.2	3.6
1971	100	13.1	36.9	10.0	13.4	11.5	7.0	4.9	3.0
1972	100	13.2	36.6	9.3	13.8	13.3	6.9	4.9	2.0
1973	100	14.2	35.6	9.4	13.4	12.5	8.1	5.0	1.7
1974	100	15.6	36.5	8.6	11.6	12.8	8.7	4.1	2.2
1975	100	16.0	38.3	8.8	10.5	12.0	8.7	3.6	2.2
1976	100	15.0	38.6	9.5	9.8	12.8	8.7	3.2	2.3
1977	100	16.5	39.1	10.0	9.8	11.4	8.0	2.8	2.3
1978	100	16.6	40.4	9.9	10.2	10.7	8.0	2.8	1.3

Source: Derived from above Table IV.

TABLE V

Gross fixed asset formation by sector

1970 prices
Million drs.

% Distribution of Gross fixed asset formation by sector

Years	Primary	Secondary	Tertiary	Total	Total	Primary		Secondary		Tertiary	
1963	5131	18834	12031	35996	100,0	14,25		52,32		33,43	
1964	5688	23679	14078	43445	100,0	13,09	12,62	54,50		32,41	
1965	6035	27853	15115	49003	100,0	12,32		56,84		30,84	
1966	5591	26843	18133	50567	100,0	11,06		53,08		35,86	
1967	6209	26069	17492	49770	100,0	12,47		52,38		35,15	
1968	7079	32993	20325	60397	100,0	11,72	10,81	54,63		33,65	
1969	7443	39684	24526	71653	100,0	10,38		55,38		34,23	35,0
1970	7523	36346	26794	70663	100,0	10,65		51,43		37,92	
1971	8052	44146	28360	80558	100,0	9,99		54,80		35,21	
1972	8949	52667	31361	92977	100,0	9,63		56,54		33,73	
1973	9685	55754	34654	100093	100,0	9,68		55,70		34,62	
1974	7015	40426	27059	74500	100,0	9,42		54,26		36,32	
1975	7825	41317	25518	74660	100,0	10,48		55,34		34,18	
1976	7740	43078	28932	79750	100,0	9,80	9.44	54,0	54,7	36,20	35.9
1977	8420	46227	31953	86600	100,0	9,80		53,5		36,7	
1978	7171	51205	32724	91100	100,0	7,7		56,3		36,0	

Source: N. Accounts 1958-75, 1978 (provisional)

Note: Secondary sector includes dwellings.

TABLE VI

Gross domestic fixed asset formation
Million Drs., 1970 prices

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977[1]	1978[2]
Gross fixed asset formation	49770	60397	71653	70663	80558	92977	100093	74500	74660	79750	86600	91100
Dwellings	13956	19445	23212	19740	23641	29964	30576	15869	20476	21909	26450	30595
Other buildings	6554	9068	9729	9579	10504	12472	13951	12381	10170	11258	12228	12300
Other construction & works	12804	14097	15722	16169	19424	21139	20426	15076	16010	16078	15835	15600
Transport equipment	4772	5036	6634	6548	7083	7021	10236	7418	7050	9346	11397	12791
Machinery & other equipment	11684	12751	16356	18627	19906	22381	24904	23756	20954	21159	20690	19814
Agriculture, animal breeding, fishing	6209	7079	7443	7523	8052	8949	9685	7015	7825	7740	8420	7171
Mining & quarrying	719	803	1219	1471	1827	1478	1985	1462	1670	1859	1534	1569
Manufacturing	6053	7245	8426	10044	11198	13238	14457	14914	13132	13288	12538	12551
Electricity, gas etc.	5341	5500	6827	5091	7480	7987	8736	8181	6039	6021	5705	6490
Transportation, storage & communication	10167	11547	14181	14677	17348	18529	20570	15142	14050	15853	17143	18317
Dwellings	13956	19445	23212	19740	23641	29964	30576	15869	20476	21909	26450	30595
Public admin-istration	469	367	628	828	803	781	675	580	563	642	584	564
Other serivce industries	6856	8411	9717	11289	10209	12051	13409	11337	10905	12438	14226	13843
Private	34315	43863	51091	50737	55112	64122	72187	52211	53702	58380	67400	70430
Public	15455	16534	20562	19926	25446	28855	27906	22289	20958	21370	19200	20670

Note: Data exclude investments in ships operating overseas.
1) Provisional data.
2) Estimates
Source: OECD Annual survey Greece. August 1979, June 1977.

TABLE VII

Gross fixed asset formation by sector and type of purchaser[1)]

In million Drs., at constant 1970 prices	1967			1968			1969		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Agriculture, animal breeding, fishing, forestry	2 037	4 172	6 209	2 218	4 861	7 079	2 872	4 571	7 443
Mining & quarrying ...	105	614	719	188	615	803	568	651	1 219
Manufacturing	84	5 969	6 053	73	7 172	7 245	37	8 389	8 426
Electricity, gas, waterworks etc	5 164	177	5 341	5 389	111	5 500	6 715	112	6 827
Transportation, communication	6 150	4 017	10 167	6 757	4 790	11 547	7 571	6 610	14 181
Dwellings	341	13 615	13 956	336	19 104	19 445	373	22 839	23 212
Public administration	469	—	469	367	—	367	628	—	628
Other service industries	1 105	5 751	6 856	1 206	7 205	8 411	1 798	7 919	9 717
TOTAL	15 455	34 315	49 770	16 534	43 863	60 397	20 562	51 091	71 653

1) Excluding ships operating overseas.

TABLE VII (CONTINUED)

In million Drs., at constant 1970 prices	1970			1971			1972		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Agriculture, animal breeding, fishing, forestry	3 468	4 055	7 523	3 548	4 504	8 052	4 133	4 816	8 949
Mining & quarrying ...	404	1 067	1 471	86	1 741	1 827	400	1 078	1 478
Manufacturing	28	10 016	10 044	129	11 069	11 198	63	13 175	13 238
Electricity, gas, waterworks etc.....	4 994	97	5 091	7 279	201	7 480	7 815	172	7 987
Transportation, communication	8 147	6 530	14 677	10 222	7 126	17 348	11 611	6 918	18 529
Dwellings	297	19 443	19 740	698	22 943	23 641	674	29 290	29 964
Public administration	528	—	828	803	—	803	781	—	781
Other service industries	1 760	9 529	11 289	2 681	7 528	10 209	3 378	8 673	12 051
TOTAL	19 926	50 737	70 663	25 446	55 112	80 558	28 558	64 122	92 977

TABLE VII (CONTINUED)

In million Drs., at constant 1970 prices	1973			1974			1975		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Agriculture, animal breeding, fishing, forestry	3 994	5 691	9 685	2 812	4 362	7 174	2 801	5 024	7 825
Mining & quarrying	750	1 235	1 985	177	1 285	1 462	543	1 127	1 670
Manufacturing	91	14 366	14 457	6	14 849	14 855	99	13 033	13 132
Electricity, gas, waterworks, etc.....	8 431	305	8 736	7 966	200	8 166	5 816	223	6 039
Transportation, communication	10 444	10 126	20 570	8 478	6 790	15 268	7 573	6 477	14 050
Dwellings	348	30 228	30 576	190	15 674	15 869	294	20 182	20 476
Public administration	675	—	675	458	--	458	563	--	563
Other service industries	3 137	10 236	13 409	2 077	9 111	11 188	3 269	7 636	10 905
TOTAL	27 906	72 187	100 093	22 164	52 276	74 440	20 958	53 702	74 660

Table VII (CONTINUED)

In million Drs., at constant 1970 prices	1976			1977*			1978**	1978**	
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Agriculture, animal breeding, fishing, forestry	2 802	4 938	7 740	2 764	5 656	8 420	2 459	4 712	7 171
Mining & quarrying	521	1 339	1 860	634	900	1 534	809	760	1 569
Manufacturing	475	12 813	13 288	203	12 335	12 538	985	11 566	12 551
Electricity, gas, waterworks, etc. ...	5 741	280	6 021	5 282	423	5 705	6 135	355	6 490
Transportation, communication	7 494	8 359	15 853	6 222	10 921	17 143	5 919	12 398	18 317
Dwellings	312	21 597	21 909	270	26 180	26 450	275	30 320	30 595
Public administration	641	—	641	584	—	584	564	—	564
Other service industries	3 384	9 054	12 438	3 241	10 985	14 226	3 524	10 319	13 843
TOTAL	21 370	58 380	79 750	19 200	67 400	86 600	20 670	70 430	91 100

* Provisional

** Estimates

TABLE VIII

Consumer price index (1966-1978)

Consumer prices (1974=100)	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
Food	55.0	55.4	55.4	57.3	59.1	62.1	64.6	78.3	100.0	111.8	127.3	146.1	165.8
% change		(0.7)	—	(3.4)	(3.1)	(5.0)	(4.0)	(21.2)	(27.8)	(11.8	(13.8)	(13.9)	(14.3)
Alcoholic beverages & tobacco	79.0	83.9	84.0	84.1	84.1	84.1	84.4	87.8	100.0	117.4	127.4	134.8	145.8
% change		(6.2)	—	—	—	—	—	(4.0)	(13.9)	(17.4)	(8.6)	(5.8)	(8.1)
Clothing & footwear	64.2	66.6	66.6	67.0	68.3	69.1	71.9	82.0	100.0	111.2	126.2	142.3	162.4
% change		(3.8)	—	(0.7)	(1.9)	(1.2)	(4.0)	(14.0)	(21.9)	(11.2)	(13.5)	(12.8)	(14.2)
Housing	66.8	68.3	70.4	71.7	72.0	72.5	73.6	78.5	100.0	111.7	124.0	138.6	154.4
% change		(2.3)	(3.0)	(1.9)	(0.4)	(0.6)	(1.6)	(6.7)	(27.0)	(11.7)	(11.0)	(11.8)	(11.4)
Durable goods, household supplies	63.6	64.2	63.7	64.0	65.5	67.4	69.7	78.9	100.0	106.7	118.0	129.9	141.0
% change		(0.1)	(-0.2)	(0.4)	(2.4)	(2.9)	(3.4)	(13.4)	(26.7)	(6.7)	(10.6)	(10.0)	(8.6)
Transport, communication	53.0	53.9	53.4	57.1	59.4	60.9	66.1	72.8	100.0	119.6	133.4	143.4	152.4
% change		(1.7)	(-0.7)	(6.9)	(4.0)	(2.5)	(8.6)	(10.0)	(37.0)	(19.6)	(11.6)	(7.5)	(6.2)
Total Greece	59.0	60.0	60.2	61.7	63.5	65.4	68.2	78.8	100.0	113.4	128.5	144.1	162.1
% change		(1.7)	(0.3)	(2.4)	(3.0)	(3.0)	(4.3)	(15.6)	(27.0)	(13.4)	(13.3)	(12.2)	(12.5)
OECD total													
% change		(3.0)	(4.0)	(4.8)	(5.6)	(5.3)	(4.9)	(8.0)	(13.6)	(12.2)	(9.0)	(8.7)	(8.5)

Source: OECD Annual survey Greece. 1977, 1979. And: The Greek economy in figures. Athens, Elektra Press, 1980.

	Average annual rates of change	
	OECD	Greece
1967-72	4.6%	2.45%
(1967-73)	5.0%	4.33%
1974-78	10.4%	15.68%

TABLE IX

Average annual % changes of private domestic consumption and of various categories of goods and services. (on the basis of 1970 prices)

	1967	1968	1969	1970	1971	1972	average yearly rate
Private domestic consumption	5.8	6.6	6.5	8.9	6.7	7.1	8.93
of which:							
for durable goods	8.9	9.8	9.1	12.9	7.3	22.4	11.73
for semi-durable goods	1.0	11.5	6.5	24.0	10.2	8.2	10.23
for non-durable goods	5.9	4.1	5.8	5.0	4.4	4.8	5.0
of which: food	4.8	2.9	4.9	1.4	2.9	3.4	3.38
for services	7.5	8.3	7.5	8.4	8.7	8.0	8.07

Source: N.A. of Greece, 1958-1975.

TABLE X-a

Private domestic consumption expenditure by category of good and services (million drs., at 1970 prices)

	1963	1964	1969	1972
1. Durable goods	4788	5449	8466	10256
2. Semi-durable goods	15596	18398	26008	38428
3. Non-durable goods	69582	73557	99134	113855
4. Services	38497	41550	59683	75948
TOTAL private domestic consumption expenditure	128463	138954	193291	240782

Source: N.A. of Greece, 1958-1975.

TABLE X-b

Composition of private domestic consumption expenditure (in million drs., 1970 prices)

	1963	1964	1969	1972
Durable goods	3.7	3.9	4.3	4.3
Semi-durable goods	12.2	13.2	13.5	15.9
Non-durable goods	54.2	52.9	51.2	47.3
Services	29.9	30.0	31.0	31.5
TOTAL	100.0	100.0	100.0	100.0

Source: N.A. of Greece, 1958-1975.

TABLE XI

Exports of certain categories of goods
Fob customs basis $ million.

	1967	1972	% change 1972/67
Clothing	4.58	17.66	385.6
Footwear	1.14	17.06	1496.5
Leather - leather products	7.9	21.80	276.0
Beverages - tobacco	144.91	138.94	-4.2
Food - live animals	113.19	217.24	92.0

Source: O.E.C.D. Economic survey, Greece, 1977.

TABLE XII

GDP growth in selected branches of manufacturing
In million drs., 1970 prices

	1967	1972	% change 1972/67
Manufacturing total	33346	58892	77.0
of which:			
a. food - drinks - tobacco	6763	11008	63.0
b. clothing - footwear	3916	5545	42.0
c. wood products - furniture	2244	3668	63.0
d. metal manufactures - electric goods	4726	8605	82.0

Source: N.A. of Greece, 1958-1975.

TABLE XIII

Composition of national income
at current prices
in million drs.

	1967	1972	% 1972/1967
1. Agricultural income	41.188	59.332	+ 44%
2. Wages & salaries of other sectors	68.601	124.814	+ 82%
3. Income from property and entrepreneurship accruing to households	66.247	118.825	+ 79%
4. Saving of corporations	1.594	6.024	378%
5. Direct taxes on corporations	1.152	3.804	334%
6. Government income from property and entrepreneurship, less interest on public debt	2.269	2.973	31%
7. National income	181.051	315.816	74%

Source: N.A. of Greece, 1958-1975.

TABLE XIV

Per capita consumption index, and Real wage index in industry
1964=100

Years	Per capita consumption index	Real wage index in industry	Difference
1967	131.4	125.4	6.0
1968	140.5	134.0	5.5
1969	152.4	144.0	12.4
1970	166.7	148.0	18.7

Source: Delivanis-Negreponti, M. 'The actual causes of inflation in our country', in 'Economikos tahydromos', issue of 13/12/1973, p.9 (in Greek).

TABLE XV-a

FOREIGN TRADE IN FOODSTUFFS
(in million dollars)

	1972		1973 Jan.- June	
	Imports	Exports	Imports	Exports
Meat and livestock	118.8	—	115.6	—
Dairy produce	31.0	—	23.2	—
Cereals	11.0	15.7	29.6	—
Sugar	19.1	—	22.8	—
Coffee	12.9	—	7.9	—
Vegetable oils	16.3	—	9.8	—
Animal feeds	24.8	—	18.9	—
Currants and raisins	—	43.2	—	32.5
Olive oil and olives	—	17.8	—	18.0
Wines and spirits	—	21.4	—	20.4
Fresh fruit (inc. citrus)	—	46.7	—	24.8
Fruit and vegetable preserves	—	36.2	—	16.6
Fruit juice	—	14.2	—	8.6
Total foodstuffs	292.8	224.5	280.6	146.8
Deficit	68.3		133.8	
Deficit in relation to imports	23.3 %		47.9 %	

Source: ECONOMIC BULLETIN, July-Sept.1973
COMM. BANK OF GREECE.

TABLE XV-b

FOREIGN TRADE IN RAW MATERIALS
(in million dollars)

	1972		1973 Jan.- June	
	Imports	Exports	Imports	Exports
Iron and steel	154.7	—	103.6	—
Timber	50.0	—	37.6	—
Cotton and fibres	38.6	37.2	32.0	34.4
Wool	34.4	—	27.6	—
Minerals and ores	22.6	54.7	18.4	31.4
Copper and copper articles	18.0	—	15.1	—
Hides and skins	13.3	26.0	11.4	16.3
Tobacco	—	116.8	—	58.8
Total all raw materials (1)	455.4	234.7	341.7	154.8
Deficit	220.7		186.9	
Deficit in relation to imports	48.9 %		54.7 %	

TABLE XV-c

DEFICITS ON TRADE IN PRIMARY PRODUCTS

Year	Deficit on foodstuffs		Deficit on raw materials (1)	
	$ million	% change	$ million	% change
1966	46.0	—	56.0	—
1967	47.8	3.9	33.4	-40.4
1968	15.0	-69.0	58.7	75.8
1969	60.4	302.7	111.6	89.8
1970	47.8	-20.0	161.6	44.8
1971	60.0	-25.5	167.3	3.6
1972	68.3	13.8	204.0	21.9
1972 Jan.- June	46.2	—	84.4	—
1973 Jan.- June	133.8	—	186.9	—

1. Excludes Petroleum derivatives.

Table XVI

Foreign trade of Greece by geographical area, 1972 - 1973.

EXPORTS BY GEOGRAPHICAL AREA

	January - June					
	1972		1972		1973	
	$ mill.	%	$ mill.	%	$ mill.	%
Total	*833.4*	*100.0*	*398.6*	*100.0*	*556.0*	*100.0*
E.E.C.: the Six	330.4	40.0	138.4	34.7	195.7	35.2
(W. Germany)	(161.9)	(19.4)	(58.8)	(14.7)	(96.0)	(17.3)
(France)	(61.4)	(7.4)	(31.6)	(7.9)	(33.0)	(5.9)
(Italy)	(51.4)	(6.1)	(21.1)	(5.3)	(33.4)	(5.9)
(B.L.E.U.)	(19.6)	(2.3)	(9.5)	(2.4)	(12.5)	(2.2)
(Netherlands)	(36.1)	(4.3)	(17.4)	(4.4)	(20.7)	(3.7)
Un. Kingdom	32.7	3.9	14.3	3.6	24.2	4.4
U.S.A.	162.7	19.5	71.9	18.0	112.3	20.2
Eastern Europe	113.8	13.6	61.6	15.4	94.7	17.0
Other European countries	88.9	10.6	29.2	7.3	60.1	10.8
Middle East	27.4	3.3	15.4	3.9	16.3	2.9
Rest of the world	79.5	9.6	67.0	16.8	48.5	8.7

IMPORTS BY GEOGRAPHICAL AREA

	January - June					
	1972		1972		1973	
	$ mill.	%	$ mill.	%	$ mill.	%
Total	*2,407.0*	*100.0*	*1,094.5*	*100.0*	*1,772.1*	*100.0*
E.E.C.: the Six	1,105.5	45.8	489.3	44.9	772.1	43.5
(W. Germany)	(462.9)	(17.7)	(216.5)	(19.7)	(351.1)	(19.8)
(France)	(238.7)	(9.9)	(82.4)	(7.5)	(141.4)	(7.9)
(Italy)	(235.0)	(9.8)	(109.2)	(9.9)	(149.3)	(8.4)
(B.L.E.U.)	(80.7)	(3.3)	(35.7)	(3.3)	(58.7)	(3.3)
(Netherlands)	(88.2)	(3.7)	(45.5)	(4.2)	(71.6)	(4.0)
Un. Kingdom	188.1	7.8	93.8	8.5	146.1	8.2
U.S.A.	273.8	11.4	118.3	10.8	172.8	9.8
Eastern Europe	162.5	6.8	67.1	6.1	116.0	6.6
Other European countries	262.3	10.9	118.3	10.8	172.8	9.8
Middle East	85.3	3.5	36.3	3.3	78.6	4.4
Rest of the world	329.3	13.8	163.3	14.9	239.3	13.5

Source: Economic bulletin (of the) Commercial Bank of Greece, no. 77, July/Sept. 1973.

TABLE XVII

Parities and exchange prices in Drachmae

	Parities (1)		Prices (2)			Revaluations in Drachmae %			
	Old	New	21.2.73(3)	19.10.73	20.10.73	New Over Old	19.10.73 Over Old	20.10 Over Old	20.10 Over 21.2.73
USA Dollar	30	30	30	30	27	0	0	-10	-10
British Pound	72	78,17	72,99	73,24	65,65	8,6	1,7	-8,8	-10
W. German D.M.	8,20	9,31	10,13	12,49	11,22	13,5	52,3	36,8	10,7
French Fr.	5,40	5,86	6,45	7,18	6,45	8,5	32,9	19,4	0
Belgian Fr.	0,60	0,67	0,74	0,83	0,75	11,7	38,2	25	1,3
D. Flor.	8,29	9,25	10,12	12,15	10,94	11,5	46,5	32	8,1
Italian Lira	0,048	0,052	0,053	0,053	0,048	8,3	10,4	0	-24
Swiss Fr.	7,35	7,81	8,95	10	8,94	6,2	36,1	21,6	0
Japan Yen	0,083	0,097	0,11	0,108	0,096	16,9	30,1	15,6	7,9
Austrian Schilling	1,21	1,29	1,41	1,69	1,52	6,6	39,6	25,6	- 2
Swedish Crown	5,80	6,23	6,66	7,25	6,53	7,4			

(1) Old Official Parities valid until the Washington Agreement of December 197I and those formulated after the Agreement.

(2) Average Exchange Buying and Selling Prices by Bank of Greece. For Japanese Yen Prices refer to Bank notes.

(3) Prices formulated after second devaluation of Dollar of 13.2.73.

Source: 'ECONOMIKI PORIA' issue of October 1973 (econ. mag.)

TABLE XVIII

Distribution of gross expenditure
Million drs. 1970 prices

Years	Gross expenditure (A)	Consumption (B)	Gross fixed asset formation* (C)	B/A	C/A		
1967	253331	198389	49770	79%	20		
1968	273512	213358	60397	78%	22		
1969	302005	226610	71653	75%	24	22.67	
1970	323925	239916	70663	74%	22		
1971	345852	256579	80558	74%	23		22.86
1972	375734	276270	92977	74%	25		
1973	413665	292074	100093	71%	24		
1974	387525	301068	74500	78%	19		
1975	409400	323331	74660	79%	18		
1976	429781	339149	79750	79%	19	18.8	
1977	449341	356954	86600	79%	19		
1978	469600	373750	91100	80%	19		

*Excluding change in stocks.

Source: N.A. of Greece, 1958-1975, and
Provisional N.A. of Greece, year 1978.

TABLE XIX

Consumer expenditure
Billion Drs. 1970 prices

Years	(1) Consumer Expenditure	(2) G.N.P.	(1)/(2)
1967	166.33	240.79	69%
1968	180.26	257.23	70%
1969	190.09	282.17	67%
1970	206.39	304.42	68%
1971	218.05	327.72	66%
1972	233.08	256.89	65%
1973	250.46	383.92	65%
1974	250.97	369.32	68%
1975	267.26	390.00	69%
1976	280.26	414.84	68%
1977	294.15	430.72	68%
1978	309.10	456.20	68%

1967-1973 average = 67%
1975-1978 average = 68.2%

Source: OECD Annual survey Greece.
1978, Aug. 1979

TABLE XX

Gross investment, net capital stock and output in manufacturing
At 1970 prices, million Drs.

Year	Manufacturing production	Gross investment	Net capital stock		Replacement investment	
			Drs. million	% change	Drs. million	% of gross investment
1960	18 430	2 873	18 593.4	2.6	2 403.9	83.7
1961	19 886	3 634	19 596.4	5.4	2 631.0	72.4
1962	20 934	4 280	20 977.9	7.0	2 898.5	67.7
1963	22 661	4 390	23 032.5	9.8	2 335.4	53.2
1964	25 537	5 628	25 984.1	12.8	2 676.4	47.6
1965	28 146	7 006	29 900.5	15.1	3 089.6	44.1
1966	30 672	6 660	33 089.6	10.7	3 470.9	52.1
1967	33 346	6 053	35 427.6	7.1	3 715.0	61.4
1968	37 208	7 245	38 592.9	8.9	4 079.7	56.3
1969	42 537	8 426	42 540.0	10.2	4 478.9	53.2
1970	49 266	10 044	47 588.7	11.9	4 995.3	49.7
1971	54 586	11 198	53 212.8	11.8	5 573.9	49.8
1972	58 892	13 238	60 197.8	13.1	6 253.0	47.2
1973	69 228	14 457	67 674.4	12.4	6 980.4	48.3
1974	67 226	14 914	74 893.0	10.7	7 695.4	51.6
1975	70 944	13 132	79 701.4	6.4	8 323.6	63.4
1976	78 029	13 288	84 014.8	5.4	8 974.6	67.5
1977	79 215	12 538	87 021.8	3.6	9 531.1	76.0
1978	84 350	12 551	89 524.8	2.9	10 048.0	80.1

Source: OECD Annual survey Greece. August 1979.

TABLE XXI

Expenditure of the public sector as a percent of G.N.P. (at current market prices).

Years	1963-1978 Current expend. on goods and services	Subsidies, transfers, etc.	Fixed investment	Total expenditure
	%	%	%	%
1963	11,1	6,9	5,6	24,1
1964	11,9	7,6	5,6	25,0
1965	12,0	8,4	5,7	26,1
1966	12,2	9,2	5,5	26,9
1967	13,4	10,1	5,9	29,4
1968	13,2	10,1	6,1	29,4
1969	13,1	9,3	6,8	29,2
1970	13,0	9,3	6,5	28,8
1971	12,9	9,7	7,7	30,3
1972	12,5	9,3	8,3	30,1
1973	11,8	9,1	7,5	28,4
1974	14,0	10,3	6,5	30,8
1975	15,4	10,9	5,6	31,9
1976	15,2	11,7	5,5	32,4
1977	16,1	12,4	4,9	33,4
1978	16,4	13,7	5,1	35,2

Source: RELMON, P. 'Public expenditure & inflation' (a presentation and critique upon the recent study conducted by the Institute of Economic and Industrial Research) in 'Economicos tahydromos', issue of 17/4/1980.

TABLE XXII

Percentage participation of the public sector in total consumption and in gross fixed investments of the economy (current prices).

Years	1963-1978 Participation in the total consumption	Participation in total gross fixed investment
	%	%
1963	13,2	29,7
1964	13,7	27,3
1965	13,9	26,7
1966	14,0	25,9
1967	15,2	29,8
1968	15,2	26,9
1969	15,5	28,1
1970	15,5	28,2
1971	14,7	31,2
1972	15,5	30,3
1973	15,2	27,8
1974	16,8	30,1
1975	18,1	27,7
1976	18,5	26,8
1977	19,3	22,1
1978	19,7	22,6
1964-68	14,5	27,3
1969-73	15,4	29,1
1974-78	18,7	25,0

TABLE XXIV

Percentage distribution of public sector gross fixed investment (at current prices) by sectors of activity, 1964-1978.

Sectors of activity	1969-73	1974-78
a. Agriculture, fishing, forestry, land improvement	14,4	13,2
b. Energy, water, etc..	29,2	28,8
c. Transportation and communication	38,8	33,3
- Total infrastructure investments (a+b+c)	82,4	75,3
- Investment in other fields	17,6	24,7
Total of public sector gross fixed investment	100,0	100,0

TABLE XXIII

Annual average % rate of change of public sector gross investment on the basis of constant prices) by sector of activity.

Sectors of activity	1969-73	1974-78
a. Agriculture, animal breeding, fishing, forestry, land improvement etc.	12,3	- 6,4
b. Energy, irrigation, drainage, etc.....	9,2	- 7,8
c. Transportation and communication	11,1	-10,1
- Total infrastructure investments (a+b+c)	10,6	- 8,6
- Other public investments	18,1	+ 6,9
Total public investments	11,7	- 5,7

Source: RELMON, P. 'Public expenditure and inflation' (a presentation and critique upon the recent study conducted by the Institute of Economic and Industrial Research) in 'Economicos tahydromos', issue of 17/4/1980.

TABLE XXVI

Evolution of the saving propensity of the public sector. 1963-1978

Years	Total revenue of public sector Mill. Drs.	Current expend. of public sector	Savings of public sector	Savings as a % of	
				Total revenue	Public sector investment
	(1)*	(2)**	(2)-(1)		
1963	32.996	26.599	6.397	19.4	79.6
1964	37.950	31.301	6.649	17.5	73.4
1965	42.919	37.436	5.483	12.8	53.0
1966	50.981	43.554	7.427	14.7	66.1
1967	57.247	51.657	5.590	9.8	42.7
1968	64.582	55.721	8.861	13.7	60.8
1969	73.319	60.866	12.453	17.0	67.5
1970	81.061	67.859	13.202	16.3	66.3
1971	89.152	76.343	12.809	14.4	49.2
1972	101.888	84.639	17.249	16.9	54.3
1973	124.429	109.647	20.782	16.7	55.2
1974	152.911	141.633	11.278	7.4	29.8
1975	186.487	181.940	4.517	2.4	11.7
1976	241.261	227.781	13.480	5.6	28.7
1977	286.986	283.224	3.762	1.3	7.7
1978	355.980	355.440	450	0.1	0.7

*Including direct and indirect taxes, income from public property and entrepreneurship etc.

**Including current consumption expenditure, subsidies, transfers and interest payments on public debt.

TABLE XXV

Distribution of public sector current expenditure (excl. defense) by basic categories.

Years	Percentages %			
	Salaries & wages		Purchases of goods & services	Total of current expenditure
	Armed forces	Civil servants		
1963	26,2	50,0	23,8	100,0
1964	24,7	51,2	24,1	100,0
1965	24,4	51,3	24,3	100,0
1966	24,1	52,6	23,3	100,0
1967	25,0	53,5	21,5	100,0
1968	27,2	51,9	20,9	100,0
1969	26,8	51,2	22,0	100,0
1970	26,6	52,2	21,2	100,0
1971	26,4	52,3	21,3	100,0
1972	25,6	52,9	21,5	100,0
1973	24,3	53,4	22,3	100,0
1974	26,6	53,5	19,9	100,0
1975	25,7	54,3	20,0	100,0
1976	24,4	55,9	19,7	100,0
1977	24,2	56,8	19,0	100,0
1978	24,6	57,7	17,7	100,0

Source: RELMON, P. 'Public expenditure and inflation' (a presentation and critique upon a recent study conducted by the Institute of Economic and Industrial Research) in 'Economicos tahydromos' issue 17/4/1980.

TABLE XXVII

Total savings of the economy as a percentage of G.N.P.

Savings ratio

Year	at current prices	at constant 1970 prices
1960	9.69	11.79
1961	13.61	15.61
1962	13.80	13.23
1963	16.22	17.43
1964	16.56	16.98
1965	17.16	18.09
1966	17.53	17.65
1967	16.23	16.86
1968	17.04	17.53
1969	19.63	20.00
1970	19.80	19.80
1971	22.12	21.38
1972	23.44	22.96
1973	26.50	23.12
1974	20.13	18.48
1975	18.26	17.09
1976	20.89	18.24
1977	19.91	17.13
1978	20.02	18.07

Source: The Greek economy in figures. Athens, Electra Press, 1980.

TABLE XXVIII

Evolution of, interest rates on deposits & inflation 1960-78

Year	on savings deposits (1)	inflation	real interest rate	on long-term deposits (2)	inflation	real interest rate
1960	5.6	1.6	4.0	5.7	1.6	4.1
1961	4.5	1.8	2.7	5.9	1.8	4.1
1962	4.5	-0.3	4.8	6.0	-0.3	6.3
1963	4.5	3.0	1.5	5.8	3.0	2.8
1964	4.5	0.8	3.7	5.7	0.8	4.9
1965	4.5	3.0	1.5	5.7	3.0	2.7
1966	4.7	5.0	-0.3	5.9	5.0	0.9
1967	5.0	1.5	3.5	6.25	1.5	4.75
1968	5.0	0.3	4.7	6.25	0.3	6.0
1969	5.0	2.5	2.5	6.25	2.5	3.75
1970	5.0	2.9	2.1	6.25	2.9	3.35
1971	5.0	3.0	2.0	6.25	3.0	3.25
1972	5.0	4.3	0.7	6.25	4.3	1.95
1973	6.0	15.5	-9.5	7.4	15.5	-8.1
1974	8.7	27.0	-18.3	10.2	27.0	-16.8
1975	8.5	13.4	-4.9	10.1	13.4	-3.3
1976	7.4	13.3	-5.9	9.4	13.3	-3.9
1977	7.0	12.1	-5.1	9.0	12.1	-3.1
1978	8.6	12.5	-3.9	10.6	12.5	-1.9

1) with commercial banks
2) six to twelve months

Source: 'Economikos tahydromos', issue of 30/10/1980.

TABLE XXIX

Tax elasticities with respect to GDP 1960/76

	Greece	OECD Europe[1]	OECD total[1]
Total taxes	1.13	1.22	1.20
Direct taxes			
taxes	1.26	1.27	1.26
of which:			
on households	1.12	1.37	1.36
on corporations	1.69	0.91	0.96
Social security taxes	1.17	1.38	1.38
Indirect taxes	1.07	1.04	1.03

[1]Unweighted average, excluding Greece.

Source: OECD Annual economic survey, Greece. August 1979.

TABLE XXX

The structure of taxation
Percentage of GNP in 1974

	Total tax revenue	Goods and services	Income and profits	of which: personal income	Social security	Other taxes
Greece	22.4	8.1	3.8	2.4	6.0	4.6
Belgium	38.1	10.8	14.3	11.2	12.0	1.1
France	37.5	12.7	7.2	4.1	15.7	1.9
Germany	37.6	9.5	13.3	11.4	13.3	1.6
Ireland	32.4	15.5	9.5	7.4	3.8	3.7
Italy	31.9	10.8	6.5	4.9	13.3	1.3
Netherlands	45.2	10.5	15.5	10.7	17.4	1.7
Norway	45.3	16.6	14.0	12.4	13.2	1.5
Portugal	22.4	8.3	5.2	1.9	6.2	2.7
Spain	18.8	5.1	4.0	2.4	8.4	1.3
Sweden	44.2	11.9	21.4	19.9	8.5	2.3
Turkey[1]	26.2					
United K.	35.6	9.6	15.4	12.5	6.1	4.5
OECD Europe	34.5	10.0	11.1	8.9	11.3	2.1
OECD total	31.0	7.3	12.4	9.3	8.0	3.2

[1]Details not available.

Source: OECD Annual economic survey Greece, 1977.

TABLE XXXI

Budget deficit and financing
Billion drachmae

	1975	1976	1977	1978
INVESTMENT BUDGET				
Revenue	1.1	0.8	1.0	1.2
Expenditure	32.5	40.2	45.0	51.7
Deficit	31.4	39.4	44.0	50.5
ORDINARY AND INVESTMENT BUDGET DEFICIT	32.2	37.6	44.6	50.5
Financing				
Domestic loans	16.0	35.8	39.3	36.0
Foreign loans	15.4	1.0	4.6	14.5
Foreign transfers	0.8	0.8	0.7	—
AGRICULTURAL PRODUCTS & GOVT. SUPPLIES DEFICIT	11.5	22.0	25.3	19.8
TOTAL DEFICIT	43.7	59.6	69.9	70.3
Financing				
Domestic loans	22.6	52.3	56.1	47.7
Treasury bills	16.0	33.3	39.3	36.0
Bank of Greece loans	—	2.5	—	—
Financing by the Bank of Greece	11.5	22.0	25.3	19.8
Foreign loans	15.4	1.0	4.6	14.5
Foreign transfers	0.8	0.8	0.7	—
Memorandum item:				
Total deficit, % of GDP at market prices	6½	7¼	7¼	6

Source: OECD Annual survey Greece. August 1979

TABLE XXXII

Analysis of government budget receipts
from domestic loans (in million drs.)

Year	Bank of Greece loans	Treasury bills	Bond issues	Total
1960	—	995	13	1.008
1961	—	380	760	1.140
1962	100	1.084	996	1.180
1963	—	600	1.510	2.110
1964	—	1.200	622	1.822
1965	1.129	1.000	7	2.136
1966	375	1.200	908	2.483
1967	300	2.600	1.502	4.402
1968	—	2.500	1.814	4.314
1969	—	3.000	2.003	5.003
1970	—	3.400	2.205	5.605
1971	575	4.400	2.353	7.328
1972	—	7.527	3.003	10.530
1973	—	7.274	1	7.275
1974	2.500	14.541	2	17.043
1975	—	16.019	—	16.019
1976	2.500	33.341	—	35.841
1977	—	39.232	—	39.232
1978	—	35.468	—	35.468

Source: 'The Greek economy in figures'. Athens, Electra Press, 1980.

APPENDIX III : References

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NOTES

1. Consult table I.

2. Consult table III and Appendix I (particulars).

3. Consult table V.

4. See: Bank of Greece. Highlights of monetary and economic developments in Greece, 1963-1969. Athens, Bank of Greece, Economic Research Dept., 1970. Page 7.

5. See: 'Ekonomiki poria', issue of 15/6/1973, p. 538, and issue of 30/6/1973, p.642 (economic magazines, in Greek).

6. This topic will be taken up later on.

7. See: Nurkse, R., Problems of capital formation in underdeveloped countries, Ch. V, p.112.

8. Schultz, C.C., 'Sectoral shifts and inflation' in R.J. Ball and P. Doyle (eds.), Inflation, selected readings. Harmondsworth, Penguin, 1969. Ch. 12.

9. Consult tables I and VIII.

10. See: Agricultural price indices (1966=100). Athens, National Statistical Service of Greece, 1975. Table 4, page 18.

11. If one takes into account that in the index mentioned a certain subsidy is already incorporated.

12. To make things more clear, say the government anticipated a 4% rise in the rise of agri-products: it allowed 2% to take place and granted income allowances to farmers to compensate for the difference.

13. See further: O.E.C.D. The agricultural policy of Greece. Paris, OECD, 1979, p.44.

14. See: Economou, G., Empirical analysis of the factors determining wages, salaries and prices in the Greek industry. Athens, Centre of Programming and Economic Research, 1975. Ch. 4, p.110 (in Greek).

15. See: Appendix I, p.100 note C.

16. Consult Appendix I, 'Particulars' of the Economic Development Plan of Greece', Note B (page 102 in thesis).

17. See: Economou, G., Empirical analysis of the factors determining wages, salaries and prices in the Greek industry. Athens, Centre of Programming and Economic Research, 1975. Page 196 (in Greek).

18. Papadopoulos, A. 'Inexcusably over inflationary the Greek wholesale trade', in 'Economikos tahydromos', issue of 26/1/1978, p.32 (in Greek).

19. Ibid. 18.

20. The same applies for perfectly competitive markets. Given the established price, inefficient firms would

enjoy a below average rate of return and efficient firms an above average profit rate.

21. See: p.3.

22. See: Schultz, C.C. 'Sectoral shifts and inflation', in Inflation, ed. by R.J. Ball and P. Doyle, Harmondsworth, Penguin, 1974.

23. Consult table XIX (Appendix).

24. See: Economic development plan of Greece, 1968-1972, ch. 23.

25. From table XI we can see that exports of food and live animals increased during the 1967-72 period by 92%. This possibly export drive was influenced by the 'suppressed' agricultural incomes policy; i.e. sell abroad where prices are higher; this may well have been an added reason behind the observed shortages given especially the low annual growth rate of agriculture's GDP.

26. Consult table VIII.

27. Consult tables XI and XII.

28. Ibid. 27.

29. For infant industry arguments as well as for balance of payments reasons Greece still 'enjoys' a high degree of protectionism. Imports of competitive products are made artificially expensive so as a consequence thse are 'out' of the average

consumer's purchasing list. Total imports thus are low in volume and consequently do not aid the supply side of the problem.

30. In the absence of a rapidly growing demand for cars etc. no need for such import restrictions would have been called for. Here again we wish to emphasize the change in the composition of demands - the consumption pattern.

31. See: Economiki poria, issue of 30/6/1973, p. 642 (in Greek).

32. See: Burger, A. Economic problems of consumers services. Budapest, Akademiai Kiado, 1970.

33. See: Delivanis-Negreponti, M. Analysis of the Greek economy. Athens, Papazesis Publ., 1979. Ch. II, pt. II, p.310 (in Greek).

34. Ibid 33.

35. See: Delivanis-Negreponti, M. Analysis of the Greek economy. Athens, Papazesis Publ., 1979. Ch. II, pt. II, p.311 (in Greek).

36. Consult table V: more than 35% of total fixed capital formation was directed into the tertiary sector during the 1967-72 period.

37. This table is found in the text, see page 15.

38. See pages 65, 66 and 67.

39. Wage and salary earners from the industrial and agricultural sector at least.

40. Change in the composition of demands, the growth of services and other.

41. See p.3.

42. Ibid 40.

43. See: Economic bulletin of the Commercial Bank of Greece, July/Sept. 1973, p.16.

44. See: tables XV-a and XV-b (appendix).

45. See: table XV-c (appendix).

46. See: Economic bulletin of the Commercial Bank of Greece (report), July/Sept. 1973, p.24.

47. Price controls for a limited number of imported and locally produced basic commodities (14 in total) were retained. This was possible after increased government subsidies and reduced anti-damping and other taxes on imports which allowed profit margins of producers, wholesalers and retailers to remain at acceptable levels. Prices now were formed on a 'cost-plus' basis, the profit margin set or determined by the authorities. (See 'Economiki poria', issues of 30/6/1973 and of October 1973, pp.642-44, and 992, 967 respectively).

48. Since through devaluation, imports in terms of the domestic currency were made more expensive while exports in terms of foreign currencies cheaper.

49. See: tables XVI and XVII.

50. See: 'Economiki poria', issue of October 1973, p.964.

51. See: table III (appendix).

52. Unfortunately we do not know which exactly commodity exports after mid 1973 were prohibited.

53. Some manufactured commodity exports were prohibited, possibly of primary origin i.e. juices, foodstuffs etc. See: 'The course of the economy', in Economiki poria, issue of 30/6/1973, p.619 (in Greek).

54. See: table III (appendix).

55. See: table 13, p. 42.

56. See: 'The first government measures', in Economiki poria, issue of October 1973, p.968.

57. See: Economiki poria, issue of 15/6/1973, p.536, last paragraph.

58. Consult table I.

59. Consult table III.

60. Consult table VIII.

61. In part this is the result of the devaluation of the drachma-part of the exchange rate policy.

62. Much of what is outlined herewith has been borrowed from KORLIRAS, P. 'Effective demand, liquidity and inflation', in 'ECONOMIKOS TAHYDROMOS' issue of 9/10/75, pp.15-18.

63. Also real income which however will tend to become nominal as the economy approaches full employment equilibrium.

64. If wages are allowed to increase only in accordance to average productivity. Thus most of the gains from rising productivity will take the form of increased profits: 'capitalization'.

65. This is debatable: higher profits might lead to increased consumption or might be directed towards investment activities which do not expand productive capacity: example - housing.

66. Enlargement of aggregate demand need not be done via budget deficits: a balanced budget may be sufficient.

67. Consult table II-b.

68. Consult table VI.

69. DELIVANIS-NEGREPONTI, M. Analysis of the Greek economy. Pt. II, ch.2, pp.306-7. Athens, 1979.

70. Measured here as the ratio of changes in manufacturing output over changes in employment.

71. The 9% mentioned for the period 1967-1970 has been derived from table 7, page 15.

72. See, O.E.C.D. Annual survey on Greece, August 1979, page 13.

73. See, KIRIAZIS, D. 'Declining growth rate of labour productivity in manufacturing in recent years' in E.T. issue of 17/4/80, p.26.

74. Consult table XX.

75. EINZIG, P. Inflation, Chatto & Windus, London, 1952, ch. XI, p.126.

76. Ibid 73.

77. See O.E.C.D. Annual survey Greece. August 1979, p.11 (footnote).

78. See, KIRIAZIS, D. 'Declining capital productivity and efficiency in the Greek industry', in 'Economicos tahydromos', issue of 24/4/1980, p.15.

79. What further may have contributed to the sluggishness of investment since 1974 is the climate of uncertainty regarding Greece's entry into the E.E.C.

80. Consult table 7, page 15.

81. Consult table XXI.

82. Consult table XXII.

83. Ibid. 82.

84. Consult table XXIII.

85. Consult table XXIV.

86. Consult table XXV.

87. See O.E.C.D., Annual survey Greece. August 1979, p.13.

88. ROWTHORN, R.E. 'Conflict, inflation and money'. Cambridge journal of economics, vol. 1, no. 3, 1977.

89. See, O.E.C.D. Annual survey Greece. 1978, page 10.

90. 'Economic bulletin', Commercial Bank of Greece, Jan-March 1979, p.13.

91. Consult table XXVIII.

92. See, O.E.C.D. Annual survey Greece, 1978, p.21.

93. See, O.E.C.D. Annual survey Greece, 1979, p.36.

94. O.E.C.D. Annual survey Greece, August 1979, pp. 35-36.

95. Consult table XXIX for further information.

96. Consult table XXX.

97. O.E.C.D. Annual survey Greece, August 1979, p.36.

98. DELIVANIS-NEGREPONTI, M. Analysis of the Greek economy, Ch. II, part II, p.319.

99. 'Faltering economy in need of radical handling' in 'Financial Times', August 18th, 1980.

100. 'Economic bulletin' Commercial Bank of Greece, Jan-March 1979.

101. Consult table XXII.

102. Consult table XXI.

103. Consult table XXVI.

104. Consult table XXXI.

105. See, O.E.C.D. Annual survey Greece. August, 1979, p.23.

106. See, Ch. V, p.47.

107. YIANNOPOULOS, G. 'Roots of the inflationary upsurge, the monetary and fiscal policy' in 'Economicos tahydromos', issue of 4/10/1979 (in Greek) pp.9-12.

108. ROWTHORN, R.E. 'Conflict, inflation and money', in Cambridge journal of economics, vol. I, no. 3, 1977.

109. Consult tables XXXI and XXXII.

110. See O.E.C.D. Annual survey Greece, August 1979, pp. 22-23.

111. See O.E.C.D. Annual survey Greece, 1978, p.43.

112. According to the O.E.C.D., M3, the 'broader' definition of money also includes savings deposits, private and public time deposits and special credit institutions.

113. Conclusion reached by the Radcliffe committee in England in 1959, see Korliras, P. 'Effective demand, liquidity and inflation in E.T. issue of 9/10/1975.

114. Consult table 18.

115. See further: O.E.C.D. Economic surveys, Greece. Paris, OECD, 1979, p.24.

116. Mouzelis, N.P. Modern Greece; facets of underdevelopment, chapter 7, pp. 115-133.

117. Look back at chapter II, pp. 15-16.

118. Also after ruling out the possibility of rising costs.

119. See: Schultz, C.C. 'Sectoral shifts and inflation', in Inflation, ed. by R.J. Ball and P. Doyle. Penguin, 1974.

120. See: Nurkse, R. Problems of capital formation in underdeveloped countries, Chapter V, p.112.

121. Data according to 1971 census, see p.31.

122. In 1978 or 1979 it doubled again to become one million drs. - equivalent to Dfl. 48.000.

123. Since increasing wear and tear of capital is brought about as further or full capacity is utilized.

124. See: Ch. 1 pt. A, Economic development plan of Greece, 1968-72 (E.D.P.G.).

125. See: Ch. 2 pt. A, Economic development plan of Greece, 1968-72.

126. See: Ch. 4 pt. A, Economic development plan of Greece, 1968-72.

127. Investment in Social Overhead Capital in the wider sense, is assumed by the public sector.

128. Revised incentives under law 147/1967 concerning capital inflows, see Ch. 7, pt. A, E.D.P.G.

129. See: Ch. 3 pt. A, p.25, E.D.P.G.

130. See: Ch. 9, pt. B, pp.71-80, E.D.P.G.

131. Semi-durable manufactures, and durable consumer goods.

132. It is expected that foreign demand for primary products is to decline and therefore an effort to promote exports of manufactures is a must. Credit facilities, tax concessions, subsidies and

other measures are mentioned as incentives for the establishment of these industries.

133. See: Ch. 15, pt. C, E.D.P.G.

134. Autonomous capital inflows, aid etc.