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**Industrial Restructuring and the State in Greece; National
Developments within an International Setting**

by

Efharis Skarvelis

**A Thesis submitted in fulfillment
of the requirements for the degree of
Doctor of Philosophy**

Department of Sociology

The University of Durham

1990



14 NOV 1991

Abstract

The conceptual premise of the present thesis is that the international restructuring of industrial capitalist production is actualized within specific national social contexts and at an individual enterprise level. A very fundamental dimension of the ongoing process of global integration of production is the way the national setting of the firm's operations reflects and adapts to the changing international environment. Within this framework, two central issues are being addressed:

- (a) How the national and international settings interact and interpenetrate at a firm level, and
- (b) What the mediating effect of the state is in this process as a regulator of the industrial crisis nationally.

These issues are concretely explored in the case of the Greek state and its involvement in the process of capitalist accumulation. The main argument of the thesis is that increasingly since the recession, and especially with the accentuation of the crisis in the 1980s, the Greek state has assumed the pivotal role in sustaining the nationally-based industries in their process of restructuring along lines defined by international developments. The empirical investigation exposes the ways in which the Greek state has crucially shaped this process through direct and indirect means of public sector intervention and through its subsidization policy for industrial and regional development. Case studies of individual firms highlight the ways in which the crisis of overaccumulation is experienced as an intensification of competition, and provide insights as to the variety of ways in which the nationally-based firm attempts to adjust and integrate to a changing international environment.

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To My Parents

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Table of Contents

	Page
Abstract	
Acknowledgements	
Table of Contents	1
Code of Transliteration	5
List of Abbreviations	6
List of Tables	8
Chapter 1: An Introductory Note	
1.1 On Topical Issues of the Development-Restructuring Problematic ...	10
1.2 On the Frame, Focus, and Method of the Present Research	21
Part I	
Industrial Development and the State in Post-War Greece	
Chapter 2: Phases and Features of Post-War Industrialization	28
2.1 Greece and the 'Old' International Division of Labour	30
2.2 From an Agricultural to an Industrializing Country	34
2.2.1 1948–1963: The Reconstruction Period	35
2.2.2 1964–1974: The 'Economic Miracle'	42
2.3 Post-1974 Period: Crisis and Industrial Restructuring	50
Chapter 3: State Industrial Development Policy; The Role of the	
Greek State in the Process of Capitalist Accumulation	62
3.1 State Industrial Policy: The Issues Involved	62
3.2 The Formulation of a Policy in Favour of the Private Firm	65
3.2.1 Private Initiative and the State	68
3.2.2 Subsidization of Private Investments: The State	
Incentives System	70



3.3	The State-Industry Relation within a Changing Context	81
3.3.1	New Aspects of State Industrial Policy	85
3.3.2	The Concepts of Dependency and Internationalization as Part of State Policy	90

Part II

Aspects of Sustained Restructuring Through Public Sector Intervention

Chapter 4:	State Subsidization through Infrastructure; The Case of the Public Power Corporation	98
4.1	The Public Power Corporation as a State Monopoly and its Policy towards Manufacturing Industry	99
4.2	The Manufacturing Firm in its Relation with the PPC	116
4.2.1	Case Study One: Rendering the Investment Profitable	116
4.2.2	Case Study Two: The Controversy Between Two State-Managed Firms	123
Chapter 5:	Problematic Firms; The Institutionalization of Sustained Restructuring	129
5.1	The Phenomenon of Problematic Firms: Undertaking the Cost of Restructuring on Behalf of Private Capital	130
5.2	Cases of Problematic Firms	150
5.2.1	The Case of a Non-Viable Problematic: Sunlight SA	152
5.2.2	The Case of a Viable Problematic: Piraiki-Patraiki SA	161
Chapter 6:	Public Sector Expansion in Manufacturing Industry	174
6.1	New Tendencies in Public Sector Investment Policy: The State as Industrial Investor	174
6.2	Attempts at Industrial Planning and Restructuring: The Post-1975 Practice	178
6.2.1	Breaking with the Post-War Tradition	178

6.2.2	Armaments Industry	186
6.2.3	Petrochemicals	189
6.2.4	Shipbuilding	192
6.2.5	The Mining-Metallurgical Industry	197
6.3	The Role of State Investments	205

Part III

Restructuring as Regional Development on the Basis of State Subsidies for Private Capital

Chapter 7:	Industrial Development, the Region, and the State	208
7.1	Industrial Development and the Spatial Distribution of Industry	209
7.2	Regional Aspects of the State Subsidization Policy for Industrial Development	214
7.3	The Case Study of a Region: Industrialization and Deindustrialization in Xanthi	222
7.3.1	Xanthi's Peripherality as an Agricultural Region	222
7.3.2	The Development of Industry in Xanthi	229
Chapter 8:	Subsidized Investments in Xanthi	239
8.1	The Subsidies Scheme: Effects and Prospects	239
8.2	The Industrial Firm in Xanthi: Aspects of National and International Integration	249
8.2.1	Garment Firms	250
8.2.2	Tobacco-Cigarette Industry: SEKAP SA	263
8.2.3	Food Industry: SEVATH SA	269
8.3	The Role of Subsidies in Industrial Restructuring	273
Concluding Summary		277
Appendix I		282
Appendix II		285

Material Consulted

Government and other Official Published and Unpublished Material,	
Reports and Pamphlets	292
Newspapers and Periodicals	298
Books and Articles in Greek	299
Books and Articles in English	315

Code of Transliteration*

$\alpha = a$	$\nu = n$	$\alpha\iota = ai$
$\beta = v$	$\xi = x$	$\epsilon\iota = ei$
$\gamma = g$	$\omicron = o$	$\omicron\iota = oi$
$\delta = d$	$\pi = p$	$\alpha\nu = av \text{ or } af$
$\epsilon = e$	$\rho = r$	$\epsilon\nu = ev \text{ or } ef$
$\zeta = z$	$\sigma = s$	$\omicron\nu = ou$
$\eta = i$	$\tau = t$	$\gamma\gamma = ng$
$\theta = th$	$\upsilon = y$	$\gamma\kappa = ng$
$\iota = i$	$\phi = f$	$\mu\pi = b$
$\kappa = k$	$\chi = h$	
$\lambda = l$	$\psi = ps$	
$\mu = m$	$\omega = o$	

NOTE:

The above code of transliteration has not been applied in cases of companies registering their own 'English name', and of individuals (e.g. authors) whose name appears in English publications under a particular spelling. Whenever such cases have been known, the 'original' form of the name has been retained.

* This is a simplified version of the code of transliteration provided in *Divry's Dictionary*, New York: D.C. Divry Inc., 1964.

Abbreviations

CEEP: European Center of Public Enterprises

DEKO: Public Enterprises and Organizations

DEKO-GS: General Secretariat of Public Enterprises and Organizations

DPK: Democratic Panscientific Movement

Drs: Drachmas (Hellenic Currency)

EAV: Hellenic Aerospace Industry

ECAP: Electrical Company of Athens and Piraeus

EC: European Communities

ECSC: European Coal and Steel Community

ELEVME (HIMIC): Hellenic Industrial and Mining Investments Company

ELSI (HFA): Hellenic Ferroalloys SA

ELVO: Hellenic Vehicles Industry

ETEVA: National Investments Bank for Industrial Development

ETVA: Hellenic Industrial Development Bank

EVO: Hellenic Arms Industry

GDP: Gross Domestic Product

GGA: Greek Geological Association

GNP: Gross National Product

GSEE: General Confederation of Greek Labour

GSEVE: General Confederation of Small/Medium Entrepreneurs and Craftsmen

IMF: International Monetary Fund

IOVE: Institute for Economic and Industrial Research

KEDE: Center of Public Enterprises

KEPE: Center of Planning and Economic Research

KME: Center for Marxist Research

KMS: Center for Marxist Studies

LD: Law Decree

LV/MV/HV: Low, Medium, and High Voltage
NSSG: National Statistical Service of Greece
OAE: Business Reconstruction Organization
OAED: Manpower Employment Organization
OBA: Organization for Industrial Development
OECD: Organization for Economic Cooperation and Development
OSE: Hellenic Railways Corporation
OTE: Hellenic Telecommunications Organization
OXOA: Organization for Financing and Economic Development
PASOK: Panhellenic Socialist Movement
PP: Piraiki-Patraiki Cotton Manufacturing Incorporation
PPC: Public Power Corporation
SA: *Societe Anonyme*; Limited Liability Company
SEKAP: Cooperative Tobacco-Cigarette Industry of Greece
SEKE: Cooperative Federation of Greek Tobacco Producers
SEV: Federation of Greek Industries
SEVATH: Thraki Cooperative Enterprise for Industrial Development

List of Tables

	Page
2.1 Changes in the Composition of Manufacturing Output, 1938-1970	44
2.2 Size of Industrial Enterprises by Number of Employees	51
2.3 Average Annual Rate of Growth by Manufacturing Branch	56
2.4 Public and Private Sectors' Participation in Gross Domestic Fixed Capital Formation	61
3.1 Profit Tax Exemptions on the Basis of State Incentives Legislation	77
3.2 Changes in Real Income and Lost Hours due to Industrial Action	92
4.1 Resources Contribution Percentage to Electricity Consumption	103
4.2 Evolution of the Composition of Electricity Consumption	106
4.3 Subsidization of Electricity Consumption in Industry	107
4.4 Outstanding Debts to the PPC	109
4.5 PPC Gross Profits/Losses	115
4.6 PPC Own Funds to Total Assets	115
4.7 PPC Loans: Domestic and Foreign	115
5.1 Problematic Firms	136
5.2 Viable Problematics Under OAE	138
5.3 Non-Viable Problematics	139
5.4 Piraiki-Patraiki Factory Sites and Product Specialization	162
5.5 Piraiki-Patraiki Subsidiary Companies	167
5.6 Piraiki-Patraiki Distribution of Finance	169
6.1 The Stratis Andreadis Group of Enterprises	179

6.2 Greek Arms Exports	189
6.3 Recently Established Public Groups of Enterprises	191
7.1 Law 289/76 and Law 849/78 Approved and Actual Investments	
in Zone E	220
7.2 Xanthi Population Statistics	224
7.3 Economically Active Population by Branch of Economic Activity	227
7.4 Number of Manufacturing Establishments by Branch of Production	231
7.5 Employment in Manufacturing Industry and Handicrafts (Xanthi)	232
7.6 Distribution of Manufacturing Enterprises by Legal Form (Liability)	
in Xanthi	235
I.1 The 50 Largest Manufacturing Firms in Greece (by Total Assets)	283
I.2 The Largest Manufacturing Firms in Terms of Employment	284

Chapter 1

AN INTRODUCTORY NOTE

1.1 On Topical Issues of the Development-Restructuring Problematic

This is a time for doubts and for questions, a time when schemas fall apart and when every apostasy can be justified. ... And yet, twenty years ago, everything seemed so clear-cut, even if not every judge handed down the same verdict. (A. Lipietz, 1987: 1)

These are some of Alain Lipietz's opening remarks in his book *Mirages and Miracles*, a book attempting to provide insights and explanations on "how the present crisis is transforming the international division of labour" (A. Lipietz, 1987: 4). The concepts of transformation and change have always been the centerpiece of social scientific inquiry. But, twenty years ago, indeed, the preoccupation of development sociologists and economists was in trying to explain the emergence of a pattern that was thought to be fairly stabilized and clear-cut: the international division of labour between industrial countries and non-industrial ones, international market exchange relations consisting of manufactured exports by the former and exports of raw materials by the latter.

This was a view of the global economy that dated back to the period of colonial imperialism (H. Bernstein, 1982: 219). The increasing number of colonized territories attaining formal independence during the post-war years brought the issue of national economic development in these countries at the top of the agenda (N. Harris, 1986: 11-12). But what was immediately observable in terms of economic development during the first two post-war decades was an economic boom

sweeping the Western industrial nations, on the one hand, and persistent economic poverty in what came to be identified as the Third World, on the other. The world market patterns of the colonial period were in their essence persisting.

For the liberal economists and modernization theorists, development was seen as a continuum — it was, therefore, a matter of stages, of timing, and of ‘catching up’ (W. Rostow, 1971). For the radical political economists and sociologists, the issue was the way the economy and capitalist accumulation were organized on a global scale. The world system was displaying not only uneven development, but also unequal exchange between nations. The Third World was undergoing a fundamentally different kind of capitalist development (peripheral as opposed to autocentric and autodynamic) which was **dependent** on the patterns of unequal exchange defined by the advanced industrial, imperialist nations. (S. Amin, 1974: 15-20). The alleged move up to a higher stage of growth was **blocked**. The Third World was in fact **underdeveloping** at the **periphery** of the world system. (S. Amin, 1974; A. Frank, 1978; E. Wallerstein, 1979). Whatever the “verdict”, ‘take-off’ or blocked development, stages of growth or the center-periphery mode of organization of the world system, and whatever the individual variations within each trend of thought (see E. Mavros, 1984, I. Roxborough, 1979; R. Jenkins, 1980), the underlying antithesis in and of the international division of labour continued to be comprehended basically in terms of industrialized and non-industrialized nations.

By the 1970s, it was evident that this crude picture conveyed by the international economic system was drastically changing. On the one hand, the advanced nations of the center had entered a phase of economic recession. Capital was undergoing a crisis of overproduction and overaccumulation brought about by its own internal contradictions (A. Frank, 1981; S. Amin *et al*, 1982; A. Lipietz, 1982; 1984b). On the other hand, international market exchanges were showing a break with the previous pattern. A number of peripheral countries were attaining industrialization levels sufficient to enable them to become exporters of manufactured

goods. Exaggerated or not¹, the reversal of the trend was there to be reckoned with. And yet, no sooner was the concept of the **new** international division of labour firmly established and fully come to terms with, than the crisis was expanding to the industrializing peripheral countries. To a certain extent, the established approaches, the neo-evolutionary and neo-marxist (dependency-underdevelopment), “degenerated to an ahistorical dogmatism”:

It is as though two theorists were contemplating the development of history, each of them wearing a watch that had stopped. If the South was stagnating, one theorist could tell you precisely what time it was: if ‘new industrialization’ was taking place, another would say it was time for ‘take-off’. If the NICs were in crisis, the other would reply, ‘I told you so’. (A. Lipietz, 1987: 3).

By the 1980s, the reality of the world capitalist system appeared even less ‘clear-cut’. A series of phenomena associated with the restructuring strategies of capital (at enterprise, national, and international level) in overcoming the crisis and the strong tendencies towards decentralization of production sites, greater global integration of production, and increasing internationalization of capital, induced more detailed inquiry into the changing aspects of the capitalist accumulation process. The topical issue became the transition to a **new regime of accumulation**. Capitalism seems to be entering a new phase or stage of development. (J. Grahl and P. Teague, 1989: 37; D. Gordon, 1988: 25; cf A. Lipietz, 1984ab). And to the extent that it cannot fully account for these changes, the sociology of development field seems to be facing an impasse (cf D. Booth, 1985; N. Mouzelis, 1988).

The impasse exists to the extent that the field seems to be lacking at present a dominant ‘theoretical paradigm’ and no single perspective seems to be generally convincing that it can provide full and comprehensive explanations (J. Browett, 1985). Nevertheless, there is most certainly no lack of attempts at accounting for

¹ Cardoso, for example, was claiming that, “It would be wrong to generalize these processes to the entire Third World. They only occur when corporations reorganize the international division of labour and include parts of dependent economies in their plans for productive investment.” (F. H. Cardoso, 1982: 125).

a number of changing aspects of the system. It is true that, individually, these attempts have to a large extent reproduced the “inconclusive discussions” and “sterile controversy” which, according to D. Booth (1985: 761-762), have for the most part characterized radical development sociology. But overall, emergence of the newly industrializing countries and the restructuring process of capital have opened up new directions for investigation. We shall here briefly consider some of these ‘new directions’ which generally define the conceptual premises of the present thesis. This brief overview aims to show that the debate and the different lines of inquiry associated with this investigation, even if ‘inconclusive’ as to the extent and nature of change in the capitalist world system, have nevertheless brought to the foreground a set of issues which the previous development agenda, preoccupied with establishing the importance of **global** systemic patterns, had played down. These issues pertain, on the one hand, to the social dynamics of concrete national-historical contexts and, most notably, the role of the state in these contexts, and, on the other hand, to questions concerning the **concrete** connections between the different levels of capitalist reproduction, i.e., the firm, the nation, the state, the world system. These issues as such provide neither an altogether new research agenda nor an alternative theoretical ‘paradigm’ as a glorious way out of the impasse. However, addressed in concrete investigation, they can inform the analysis of the specificities of national social formations in a way that allows for a step beyond a mere typology of development — and, possibly, for ‘our watch to restart’. In other words, their merit lies not in ‘conclusive’ and ‘comprehensive’ definitive statements, but rather in the questions that can be raised within the definite frames of concrete analysis.

First of all, the phenomenon of the industrialization of peripheral economies has increased scholars’ awareness of differentiation within the periphery (A. Hoogvelt, 1982: 1-2). Undoubtedly, one of the major contributions of the neo-marxist approach to development theory was the notion that capitalist accumulation is a process that takes place on a world scale. However, the attempt to understand the general mechanisms of this global process resulted into an over-emphasis on un-

equal exchange and uneven development between **groups** of countries, which was seen as the primary contradiction of the world capitalist system. This was at the expense of accounting for or even considering variations in the patterns of accumulation and development between individual social formations within the periphery as well as within the center, which were often treated as undifferentiated wholes. Wallerstein's concept of semi-periphery was one contribution towards unravelling the more complex aspects of the world system's structure, but not a sufficient one. The NIC's themselves were only a general category. The OECD (1979) grouping of South Korea, Taiwan, Hong-Kong, Singapore, Mexico, Brazil, Spain, Portugal, Greece, and Yugoslavia as newly industrializing, concerned countries with obvious differences between them as regards their paths of development and patterns of growth (J. Browett, 1985: 789). Diversity could no longer be ignored:

The methodology of historical materialism suggests that there can be no universal 'model' of capitalist development disregarding the specific conditions, forms and mechanisms through which it occurs (or fails to occur). (H. Bernstein, 1982: 227).

Thus, despite the insistence of certain scholars that analysis of capitalist accumulation can only be undertaken at a world level (S. Amin, 1974: 20) and that "development or ascent has been misperceived as taking place in particular countries whereas it has really been one of the processes of the world system itself" (A. Frank, 1982: 22), the **national context** of capitalist accumulation has been reasserting its importance. To this there has greatly contributed a parallel process of investigation into the way capitalism is restructuring **within** the countries of the center.

Attempts to examine the manifestations of the crisis in the advanced industrial nations and to analyse the political and economic strategies deployed in overcoming the crisis, have shifted emphasis to concepts describing the articulation of social forces and reproduction processes at a national level, such as 'modes of regulation' and 'regimes of accumulation' (i.e., the way **stable** schemas of capitalist reproduction are articulated **within specific** national economic and social formations) (M. DeVroey, 1984; A. Lipietz, 1987: 14-15; J. Grahl and P. Teague, 1989:

36-37). This framework explicitly or implicitly reinstates attention to two elements that have been by and large understated by most proponents of the dependency-underdevelopment approach. The first is capitalist competition (evidently accentuated during a crisis of overproduction). (A. Rainnie, 1984). The second is the direct economic interventionist role of the state in the accumulation process. (J. O'Connor, 1984: 191-194; J. Schott, 1983: 340).

The more the capitalist class is divided by the changing forms of competition, the more it is impelled to seek its unity in the framework of the state and to consolidate its domination by enmeshing the entire society in state-governed relationships. This leads to both **economic** and ideological practices of state intervention which constitute a development of basic social relations. (M. Aglietta, 1979: 19, emphasis added).

Furthermore, it has become evident that the economic crisis and capitalist restructuring are affecting different regions and localities within the countries of the "North" in different ways, creating peripheral structures within these countries as well. A series of inter-related phenomena such as the decline of certain industries (e.g., shipbuilding, steel, coal), the relocation of production sites, the physical disaggregation of production, and the de-industrialization of certain regions within advanced countries (e.g., the U.K., France, Belgium), induced detailed investigation into the spatial aspects of industrial restructuring. Thus, studies of restructuring processes within national and regional contexts and of individual sectors/branches of production further shifted emphasis from a global level of analysis to the level of the specificities of particular socio-economic formations and configurations. (H. Newby, 1985; J. Henderson and M. Castells, 1987; D. Massey, 1984).

Concrete analysis of concrete situations thus requires careful study of regional, sectoral, and national-state developments and the **connections** between these developments in different countries and regions with the world economy as a whole. (J. O'Connor, 1984: 67, emphasis added).

Emphasis on the study of concrete situations and of the specificities of social dynamics is not necessarily a rejection of the global aspects of the accumulation process. On the contrary: The more micro the level of analysis and the more

concrete the unit — region, sector or branch of production, the individual enterprise — the more it is revealed that multinationalization, international mobility, and the geographical dispersion of production are basic aspects of the current restructuring process of capital. Due to these, production is increasingly integrated at a global level and less within the national context. It seems that the crisis is rendering the international aspects of the accumulation process more prominent. The realm where these aspects become more empirically observable is the individual enterprise level, in particular the multinational firm (S. Hymer, 1982: 148). In fact, analysis at the level of multinational firm operations allows the tracing of some of the most tangible forms and modes of the capitalist accumulation process on a world scale and the international organization of production.

However, whereas the “globalization of production perspective” considers capital’s internationalization process as transcending the national frame both with respect to the advanced and the peripheral countries², the “new international division of labour” perspective that is informed by the broader “dependency” tradition strictly emphasizes the movements of capital from the center to the periphery (D. Gordon, 1988: 26-27). Drawing attention to foreign direct investments in the periphery, the immediate response of dependency theorists in explaining the phenomenon of “new industrialization” was to argue that, like capitalist development in general, industrialization in the periphery was also of a fundamentally different character: It was “externally” introduced. Industrial and capitalist structures within these countries were taking an “enclave” form, much like the capitalist mining and plantation sectors during the “old” international division of labour, and had weak linkages with the rest of the formation. The process of capitalist accumulation in the periphery was not a national one since it was originating in the center. (See arguments in S. Amin, 1974, 1976, and F. Frobel *et al*, 1980). The study by Frobel

² In fact, the most extremists of this view speculate that the next stage might in fact be one of conflict between national planning by governments and international planning by multinational corporations (S. Hymer, 1982), a conflict which the state does not seem likely to win (M. Baratt-Brown, 1982).

et al of foreign capital investments in free export production zones in peripheral countries provided support for the “blocked development” argument. Frobel *et al* showed that the interest of foreign capital in these cases is for the “vast industrial reserve army of extremely cheap labour”. Apart from this instance, such investments maintain no links with the rest of the society (possibly with the exception of links with the state infrastructure) and exist in isolation. The main points are summed up as follows:

The world market industrialization of the underdeveloped countries, as it occurs via the establishment of free production zones and world market factories, is the development of an industrial structure the reproduction of which is dependent on the reproduction process of capital, which in turn is largely dependent upon the reproduction process in the economies of the industrial countries. In this sense world market oriented industrialization is a development which clearly intensifies the historical process of dependent development in the underdeveloped countries of Africa, Asia, and Latin America. (F. Frobel, *et al*, 1980 : 383).

The “external-internal” line of analysis reveals some of the persistent aspects of dependency. For, in spite of allegations to the broad inter-dependency of nations (S. Hymer, 1982: 148), the qualitative dimension of dependency as defined by one of the pioneers in the field, i.e., that the production of the means of production, “the strategic part of the reproductive schemes”, is concentrated in certain countries only (F. Cardoso, 1982: 120), cannot be ignored when examining the way individual countries participate in the international division of labour (M. Baratt-Brown, 1982: 164). Nevertheless, concerning the question of compatibility between dependency and development, a number of empirical facts prove the above approach to be too narrow.

First of all, there are arguments contradicting the extent to which peripheral industrialization has been the result of multinational firms’ investments in labour-intensive industries, in other words, the extent to which industrialization in the periphery can be accounted for by the “low-wages” factor. D. Gordon argues that this is true only for certain branches of production, mainly textiles and gar-

ments (which is in fact what Frobel *et al* had been looking at), and that in fact the industries where newly industrializing countries have most rapidly gained advantages are capital-intensive such as steel, shipbuilding, chemicals and, recently, automobiles (D. Gordon, 1988: 52).

Secondly, production for export has been overemphasized. In certain countries, including Latin American ones, foreign capital investments are also intended for production for the domestic market, even if the stages of production located there are mere assembling and moduling processes. Furthermore, domestic markets become anyway increasingly important in capital's quest for profit realization. Sales, in this case, presuppose a certain level of prosperity and increase in wages. (F. Cardoso, 1982: 120-121)³

Thirdly, the notion that development is blocked because the "internal" structures of the peripheral formation remain in essence unaffected by or do not become a prominent part in industrialization is seriously questioned. Multinational investments are increasingly realized in joint ventures with local private capital as well as with the "peripheral" state (D. Gordon, 1988: 60-61). In addition to that, states in peripheral countries have shown initiative in undertaking investments not only in public infrastructure, but also in the mining and manufacturing industry. In a study of the increasingly prominent role of the peripheral state in central planning, H. Marcussen and J. Torp in fact conclude that, within the current framework of internationalization of capital, the peripheral state can become the leading instrument in transcending "blocked development". (H. Marcussen and J. Torp, 1982). Supportive of this view is evidence concerning the restructuring of specific branches of production, such as Vernon and Levy's study of the iron-ore industry and Rodnik's study of the bauxite-aluminum industry (in L. Jones, 1982), which show cases of multinational firms moving out of certain stages of the production process located

³ In fact, accounting for these "new patterns of accumulation", F.Cardoso concludes that "in specific situations, it is possible to expect development **and** dependency"(F. Cardoso, 1982: 125, emphasis added).

in peripheral countries, while the state 'moves in'.

The restructuring of capital in the periphery by means of state intervention, either as direct state investments or as part of a nationalization process (cf J. Faundez and S. Picciotto, 1978), is not the only case where the economic role of the state appears to rise.

State-owned enterprises comprise a large and growing sector of the economy in the majority of the countries in the world today. ... Their presence outside their traditional domain of public utilities is being felt especially in natural-resource-based and modern high-technology industries with high barriers to entry, in which multinational firms have heretofore taken the lead. They are moving into a dominating position also in senescent industries such as textiles, shipbuilding and steel where the government moved in to save present firms from going under. (Y. Asharoni, 1982: 67).

Whereas traditionally such an intervention has been associated with socialist objectives, there is increasing awareness and acknowledgement of the fact that public enterprise can be a major factor of supporting and subsidizing private capital:

For example, the state may operate risky high-technology projects in basic industries, absorb any loss, and sell at a low price to private producers who then enjoy comfortable profits with little effort. The scope and depth of private industrialization thus remains limited to low-risk and high-return areas, with the high-risk and low-return areas covered by the public sector. (M. Ahmad, 1983: 54).

The restructuring process of capital undoubtedly displays great empirical diversity. It is, ultimately, a global process which, however, involves and transcends simultaneously all frames-levels of capitalist reproduction: the individual firm, the state, the nation, the region (cf H. Marcussen and J. Torp, 1982: 159). In overviewing a number of perspectives adopted in examining this process, we saw that, basically, variations in these perspectives and disagreements among scholars concern differences in the proposed level of analysis and in the parameters being emphasized to be of dominant-determinant importance. As a result, and this is what in fact creates the sense of "crisis" and "impasse" in the field, the studies of phenomena which are diverse but not necessarily mutually exclusive (as demonstrated by the

various empirical evidence which individual scholars resort to in support of their arguments), appear (or create the impression), nevertheless, to be 'irreconcilable'.

This suggests that going beyond the "impasse" possibly requires fundamental changes in the kind of questions that are being addressed — or re-addressing the fundamental questions in the new context of current developments. Thus, determinate concepts of general categories (state, firm, nation, world economy) can, rather than taken a priori, re-emerge as the **result** of concrete investigation — a point advanced by H. Bernstein (1982: 231). Along these lines, questions addressing **relationships** between different frames of capitalist reproduction (which in theoretical inquiry reflect themselves as different units or levels of analysis) become contemporary issues and re-attain topical importance. Such are questions addressing the nature of the relationship between the state and the individual economic unit, the private firm, between the state and the international context, and between national and international aspects of the accumulation process (cf S. Picciotto, 1978, L. Harris, 1983: 501). Concern with these questions is increasing.⁴ As D. Gordon has recently argued:

[T]he role of the state has grown substantially since the early 1970s; state policies have become increasingly decisive on the **international** front, not more futile ... And small consolation though it may be, in an era of spreading monetarist conservatism, everyone including transnational corporations has become increasingly dependent upon coordinated **state intervention for restructuring and resolution of the underlying dynamics of crisis.** (D. Gordon, 1988: 63-64, emphasis added).

If this is so, then models built upon a separation-dichotomy between external/global and internal/domestic factors — where development in the case of each

⁴ In fact, the need to understand the way the state relates to the process of capitalist accumulation and crisis is what underlines the recently renewed interest in a theory of the state (e.g. J. Keane, 1988). The acknowledgement of this need is the main contribution of the German 'state derivation' debate (J. Holloway and S. Picciotto, 1978: 1-31). The contribution goes as far as suggesting that state interventionism must be understood in terms of a basic contradiction that characterizes the world system: the internationalization and nationalization of the accumulation process (C. Braunmuhl, 1978).

and every national social formation is to be exclusively comprehended and fundamentally defined in terms of the predominance of either one — can no longer provide useful insights into the changing aspects of individual countries' integration into the world economy, nor into the crisis and transformation of the international division of labour at large (cf. H. Radice, 1984). Rather, as our previous account showed, the need is explicitly or implicitly acknowledged for a line of inquiry that enhances our understanding of the inter-connections between different levels of capitalist reproduction in 'concrete analysis of concrete situations'.

2.2 On the Frame, Focus, and Method of the Present Research

Pursuing this line of inquiry, the present thesis sets out to examine certain aspects of state intervention for the resolution of crisis and restructuring in the specific case of the Greek industrial-manufacturing sector. We will be here dealing with the crisis situation as this is experienced by the individual manufacturing unit, the firm, as an intensification of international market competition (which is in fact underlined by an intense competition for cost-saving) and as it is revealed at a national level as 'industrial decline'.

Following high rates of growth during the post-war period, the Greek economy has been undergoing an increasingly severe crisis since the mid 1970s. It is manifesting as basically a crisis of and within the industrial sector, leading, especially during the 1980s, to what is being referred to as a process of "de-industrialization" and "dis-investment". For the past fifteen years, the sector has been undergoing a gradual process of decline as well as structural transformation. The purpose of the present research is twofold. On the one hand, it sets out to examine certain major mechanisms through which the Greek state, in attempting to sustain industrial development through a period of crisis, has directly intervened in the process of capitalist accumulation and reproduction at an individual enterprise level to minimize private capital costs and losses, and has thus shaped to a large extent the restruc-

turing process of the individual firm and of the sector in general. On the other hand, it sets out to demonstrate at an empirical-enterprise level how this 'shaping process' interacts with or mediates the ways in which conditions of an international context set the restructuring choices and directions of the nationally-based firm.

The study focuses on two aspects of state intervention to sustain industrial development and restructuring. One aspect pertains to direct and indirect forms of intervention through the public sector — that is, intervention either by direct state investments in manufacturing industry or by specific policies implemented through public enterprises and institutions (including banks). The other aspect concerns direct means of state subsidization of private capital investments. The basic unit of analysis and investigation is the individual private industrial firm, in particular the nationally-based firm. The choice of the nationally-based firm is intended as an attempt to break away from the prominent tradition of considering the multinational-transnational corporation as the exclusive agent of international economic and production integration and the exclusive unit within which international and national aspects of the capitalist accumulation process meet and interpenetrate. This way, we hope to be able to unravel the more subtle aspects of the phenomenon of integration and interdetermination of production processes (and stages of) at a global level — that is, aspects which do not necessarily pertain directly to capital's mobility throughout the globe (i.e., foreign direct investments).

The present study is thus highly based on case studies of particular firms. They are meant to highlight as well as inform aspects of the general processes investigated and presented on the basis of more general analysis of the phenomena of intervention that we are concerned with. The choice of the firms, although highly restricted due to problems of accessibility, was based, as it shall become evident in the course of the presentation, on their overall importance (or the importance of their location, in the case of the regional study) for the Greek manufacturing sector and their relevance to the issues under study here. The first steps towards establishing accessibility to companies were made in September–October 1986 and

then later in January–October 1987. The fieldwork was carried out during April to July 1987 and between January and May 1988. Contacts were re-established with some firms in October 1988 and in January 1989 to update the information concerning the firms' development where this was possible.

Empirical research is based on structured and semi-structured interviews conducted with the firms' owners or senior managers. Informal discussions with some of the workers were pursued in the few cases that access to them was possible. Interviews were also conducted 'off the record' with a number of state and local authority government officials which were very helpful for the formulation of a more concrete picture of the general issues involved. In addition to personal interviews, information, especially background information on matters of state policy, was sought in official pamphlets, inter- and endo-ministerial reports and accounts, in the companies' information sheets (mainly balance and account reports) where available, and in the elaborate legislative publications concerning some of the topics dealt with here, especially state subsidization of the private enterprise and state regional policy. These sources of information are all presented together in the bibliographical section of the thesis. Finally, the third aspect of research involved consultation of press releases (in periodicals and newspapers) concerning specific firms and branches of industry and other material relevant to our study. A variety of newspapers have been used as a source of information (see bibliographical section) which has been repeatedly cross-examined to ensure its validity. Journalistic accounts are, indeed, the main available source of specific and more detailed information concerning the operations of particular firms as there exist no other systematic and organized such sources (at least not widely available to the public). Periodicals have also been used as an important source of statements of public figures, i.e., government officials, cabinet ministers, chairmen of public enterprises, banks and other institutions.

It is here important to stress the limits and difficulties of carrying out empirical research within the factory site in Greece, even if this includes only interviews and/or discussions with owners or managers, and especially as regards private

firms. The problem starts, first of all, with accessibility, as in most cases owners or managers are not prepared to accept the individual research student even for a preliminary interview. For us, the solution to this aspect of the problem in most cases involved resort to a network of personal contacts or to a more complex structure of clientelistic relations. And it seems that this is a common resort for many. The problem sometimes continues even when an interview is granted. Our experience was that the researcher is often, especially at the first stages of the discussion, treated with an element of 'suspicion' and mistrust, as managers and owners find it hard to comprehend, or accept, the academic reasons offered as to why the researcher requires what they consider "inside information". This is partly due to the fact that such a type of research is very uncommon within the Greek Academia, and companies are not, therefore, used to it. They are more used to answering quantitative questions for general statistical purposes advanced by 'official' agents, such as the National Statistical Service and a number of public research institutes. But it should be mentioned that, although we cannot generalize on the basis of our limited experience, there seems to be a difference between the approaches of trained or highly educated managerial personnel or owners and the rest. The former have been much more helpful even when still 'reserved' or 'evasive'.

The interviews carried out were not tape-recorded. In some cases extensive notes were taken. In others, such as our 'Metalco-I' and 'Metalco-II' cases, permission to keep notes was granted only in certain instances of the discussion. In the case of Piraiki-Patraiki SA, the firm's public relations personnel answered the submitted questionnaire (see Appendix II) fully and in writing. Where permission to use the firm's name was not granted we have replaced it with a fictitious name presented in inverted commas or we merely refer to it as a "Case". Quotations in the text, either inserted or in inverted commas, which are not being followed by a reference, are statements from own interviews. All Greek names of companies, individuals, organizations, etc, as well as the titles of books and articles presented in the bibliographical section have been transliterated according to the code presented

in the *Note on Transliteration*.

The thesis is divided into three parts. The first part is a general introduction to the development of industry in Greece (chapter 2) and the role of the state in this process (chapter 3). In chapter 2 we examine some general morphological aspects of Greek industry, the manifestations of the overaccumulation crisis in the sector, and some general trends of restructuring. This section is intended to highlight and provide background information on issues that will be dealt with later on in the thesis. In chapter 3, we present the main aspects of state industrial development policy throughout the post-war period and we provide some first insights on the changing relationship between state and firm during the crisis period. Special reference is made to the post-1985 change in governmental economic policy towards austerity measures. The second part of the thesis deals with forms of public sector intervention. Chapter 4 examines the case of the Public Power Corporation which has been used as an instrument of state policy in reducing the production costs of high energy consuming firms and, thus, increasing their competitiveness in the domestic, but most prominently in the international market. Chapter 5 presents the phenomenon of 'problematic' enterprises. It is a case of direct state intervention to undertake private capitalist losses and save a number of enterprises from closure. It is a case of the state directly assuming the responsibility to reorganize and restructure firms with strategic positions in the national industrial sector and to reinstate their market position. In chapter 6 a number of similar cases are followed up to show that, in a break with its previous policy, the Greek state has moved towards some form of central planning involving the restructuring of Greek-based industry at large, in terms of sustaining the development of specific branches of manufacturing production. Finally, the third part examines the effects of state subsidization of the private firm on industrial restructuring along regional lines and with respect to the particular firms established in a highly subsidized peripheral region, that of Xanthi. In chapter 7, the case of Xanthi is used to illuminate some of the particularities of industrial development in Greece in general, and of the industrial structures of

the peripheral regions in particular. Chapter 8 deals with the importance of the subsidies schemes for the manufacturing enterprises established in the region and the way they affect these firms' national and international integration.

PART I

**INDUSTRIAL DEVELOPMENT AND THE STATE
IN POST-WAR GREECE**

Chapter 2

PHASES AND FEATURES OF POST-WAR INDUSTRIALIZATION

The dependent nature of Greece's economic and industrial development is widely acknowledged in all scholarly works on the subject. The existence of aspects of underdevelopment and the comparatively low development of the forces of production both in agriculture and industry are also issues extensively discussed in a number of prominent studies (e.g., M. Nikolinakos, 1976, 1977; N. Mouzelis, 1978; K. Tsoucalas, 1982; G. Samaras, 1982; T. Fotopoulos, 1986) and have not been seriously argued against.

Although, however, there is general agreement among scholars with respect to the country's main features of development, there is variation evident when it comes to interpreting its position in the international division of labour in terms of more general categories. Analyses based on the key concepts of dependency and imperialist domination show that the country has developed (or "underdeveloped") in the periphery of the world capitalist system (M. Antonopoulou, 1986: 15; see also I. Delagrammatikas, 1985). Analyses at the level of relations of production and political developments, on the other hand, are more specific in distinguishing Greece from the majority of Third World countries which have experienced colonial rule. Greece is, thus, considered part of the semi-periphery of the world system along with other countries displaying a distinct pattern of socio-economic development, such as Latin American (N. Mouzelis, 1986) and Southern European countries (G. Arrighi, 1985). Those scholars not employing the center/periphery/semi-periphery scheme in their frame of analysis tend to refer to Greece as a developing or "middle

level” country (P. Ntouskos, 1978; M. Malios, 1986).¹ And even those arguing for the peripheral nature of capitalist (under)development in Greece, acknowledge the existence of certain ‘exceptional’ patterns of development (see K. Tsoucalas, 1982: 15-16). Emphasis on these ‘exceptional’ or ‘highly distinct’ characteristics in comparison to Third World development and on Greece’s strong economic links with Western Europe leads other scholars to conclude that Greece is more appropriately classified among the developed countries (L. Eleftheriou, 1986: 69; A. Manesis, 1986: 35). Furthermore, being a member of the OECD and, since 1981, of the EC, Greece is for practical purposes anyway included among the ‘advanced’ countries in studies using OECD and EC general economy statistics as indicators of capitalist development in the center. Finally, Greece’s economic and political similarities with the other Southern European countries (N. Poulantzas, 1977; G. Arrighi, 1985; S. Babanasis, 1985; A. Lipietz, 1987) which have always enjoyed special economic links with the more advanced European nations (the notion of “linked development” advanced by K. Vergopoulos, 1986) leading to their recent integration with the EC, add an extra dimension to the framework within which the country’s position in the international division of labour is currently discussed. Peripherality is much more viewed with respect to the European North, whereas with respect to the rest of the world the country stands identified with the EC bloc (see for example, M. Nikolinakos, 1978; A. Williams, 1984; P. Roumeliotis, 1985).

The variation with respect to the general categories adopted is the result of different theoretical viewpoints as much as of different forms, levels and foci of analysis. It is beyond the scope and level of the present study to engage in a typology of Greece’s process of development. It is, however, evident from the above that what renders Greece susceptible to a variety of interpretations at an abstract level, is the combination of certain particularities in the country’s development and mode of

¹ For a criticism of the “middle level of development” notion see G. Milios, 1988: 320-321.

integration in the world economy.² Our interest lies primarily with the structural characteristics of the Greek-based industry as it developed during the post world war II period, when Greece attempted the passage from a basically agricultural to an industrializing country. It is, however, important to provide a schematic account of the main features of the country's participation in the 'old' international division of labour, in order to comprehend better the rapid transformations that its productive structure was to undergo during the post-war era.

2.1 Greece and the 'Old' International Division of Labour

Greece emerged as an independent, modern nation-state out of the disintegration of the Ottoman Empire. Any study of the formation of the Greek state requires, therefore, to be initially placed within a broader historical study of the social structures within the Ottoman Empire (cf H. Antoniadis-Bibicou, 1977), of the Balkan setting in particular, and of the national and international politics concerning these areas. It is important to note that, although foreign interference has undoubtedly been an important feature of modern Greek history (cf T. Coulombis *et al*, 1976; D. Horowitz, 1966; KME, 1984), the country has not been under colonial rule. It thus shares a similarity with the Latin American countries which also emerged as formally independent nation states during the nineteenth century (N. Mouzelis, 1987c: 16). Foreign interest in Greek affairs, however, was mostly the result of political considerations, due to a large extent to Greece's strategic geographical location, rather than direct economic interests in the country (K. Tsoucalas, 1981: 3-7).

Foreign companies did make a presence in undertaking state administered infrastructure works, such as construction works and energy and water supply. But apart from this, there were few cases of foreign direct productive investments. These were mainly in the mining sector (the well-known case of Lavrion, for example).

² Emphasis on the uniqueness of this combination leads to L. Eleftheriou's concept of a "distinctively Greek model of development" (1986: 69).

Overall, during the pre world war II period, foreign investors showed no particular interest in the country's productive potentials. Finance capital, however, was there to exploit the needs of the newly forming state. Foreign capital entered the country predominantly in the form of state loans. During the 1870s and 1880s there was a big inflow of such loans, which the Greek state used to finance basic infrastructure projects (harbours, roads and rail networks) and to organize, strengthen and expand the state mechanism and its bureaucracy (e.g., army, public education, legal system, administrative organization). The state relied heavily on foreign capital for the financing of this modernization process as it itself had initially few sources of income. It was during the 1880s that the state started to effectively implement a taxation system which further accelerated the monetarization of the economy. The high degree of financial dependency resulted in an official declaration of national bankruptcy in 1893, which led to direct international capital interference (the country was brought under International Economic Control in 1898) in managing the country's general economic affairs (see I. Delagrammatikas, 1982). Thus, the legacy of dependency in socio-economic development was first and foremost established at the state level.

The country's economic-productive basis, however, — almost exclusively agricultural for the most part of the pre-world-war-II period — rested mostly in the hands of "indigenous" ownership. For the purposes of the brief and schematic account intended here, we may detect three prominent features with respect to the organization of the productive structure. The first was the predominance of petty ownership in the agricultural sector. Small, fragmented farming in fact remains to date a main characteristic of agricultural activity in Greece. The second feature was the strong orientation of agricultural production towards the external market. This resulted in a high degree of specialization to the point of monocultivation, with raisin and tobacco being the two main export products. In other words, production even in small farms was primarily for the market. It also resulted in a relatively rapid monetarization of the economy, especially once the money-tax system was

introduced.

The third distinctive feature was the development of a prosperous commercial sector which agriculture was strongly attached to. The merchant strata mediated and controlled the 'space' between the farming location and the international circulation of the farming products, and exploited heavily the petty owners. The particular structure of trade, which also included a strong presence in sea transport and naval trade, had its origins in the Ottoman empire and well exceeded the territory of the newly forming state. It extended to the whole of the East Mediterranean area and included commercial centers outside Greece, in Asia Minor, Istanbul, Odessos and Alexandria. In these centers there existed well established and economically powerful Greek communities (*koinotites*). They not only maintained strong relations with Greece through commerce, but were, in fact, an integral part of the new state in terms of political, social, and ideological links with it while at the same time maintaining strong links with the international economy.³

Within the commercial sector an accumulation process of "indigenous" capital⁴ was taking place. This capital remained, however, in the spheres of trade and sea transport and was for the most part not invested productively, at least not until well into the twentieth century. The 1920s were in many respects the turning point. During that time, a combination of factors stimulated a re-orientation of productive activities. The merchant communities of the East Mediterranean had already started to decline by the turn of the century; importance had been shifting to alternative routes and forms of international trade. The last prosperous ones to be completely destroyed as a result of the military defeat of Greece by the Neo-Turkish Army in 1922 were those in Asia Minor and East Thraki. Around the same time,

³ See K. Tsoucalas's thesis of the "non-coincidence" between the Greek social formation at large and the territorial boundaries of the Greek nation state (K. Tsoucalas, 1982). On the same theme as it generally applies to the historical development of Greece over the centuries due to its geographical position, see K. Moskof, 1979: 17-24.

⁴ It is often described as "cosmopolitan" capital given that its economic activities were not restricted within Greece.

the West-market demand for tobacco and, mostly, for raisin was falling rapidly. This fall had a double effect. On the one hand, it hit trade most severely. On the other hand, it caused an "agrarian exodus" from the countryside to the cities making available a cheap labour force. But the radical changes in the labour market were caused by the inflow of about a million and a half Greek refugees (to be added to a population only twice that size) from the areas that were to constitute the modern Turkish state after the 1922 defeat. Refugees constituted not only a cheap but also a skilled labour force — textiles manufacturing, for example, had been flourishing in the Near East.

During this period, then, the decline of traditional trade and the availability of a cheap and to a certain extent skilled labour force stimulated the first significant inflows of capital (primarily "domestic" capital) into the manufacturing sector. Investments were directed into labour intensive industries: textiles, leather, food processing, ship repairing, and printing. At the same time, the state made the first systematic attempts to promote manufacturing production through the implementation of protectionist measures (imposition of tariffs and control of commercial transactions).

Although, however, the process of Greek industrialization can be traced back to the inter-war period, its qualitative aspects should not be overestimated. Both industrial and agricultural production were far from being intensively or significantly mechanized. Manufacturing remained mostly handicraft and artisan in form. The existing infrastructure (i.e., mainland transport networks, energy supply, telecommunications) was highly inadequate for supporting industrial development. The agricultural sector remained by far the predominant one in terms of output, employment, and exports.

2.2 From an Agricultural to an Industrializing Country

The qualitative breakthrough in industrial development in Greece took place after the second world war. Between the mid 1950s and the mid 1970s the country underwent a rapid and all-pervasive process of industrialization. In the rest of this chapter we shall sketch out the main quantitative and qualitative aspects of this process. We base our analysis on the following chronology of industrial development: (a) 1948 to 1963 described as the “reconstruction period”, (b) 1964 to 1974, the period of rapid economic expansion which has been referred to as the country’s “economic miracle”, and (c) the post-1974 “crisis” period marked by economic recession and industrial decline.

The proposed periodization reflects distinctive socio-economic trends of the post-war era and also corresponds to major political developments. The “reconstruction period” starts with the introduction of Marshall Plan Aid and the end of the civil war.⁵ This period is marked by extensive state investments in organizing the institutional and infrastructural basis for economic and industrial development along the lines prescribed by the Plan. The beginning of the “economic miracle” period is marked by the electoral victory of the Center Party. It ends with the establishment of parliamentary democracy after the seven-year dictatorial regime and the establishment of political stability after a long period of social and political conflict. Rapid economic and industrial growth during this period, assisted by the introduction of multinational capital direct investments in the manufacturing sector, marked Greece’s break with the old pattern of incorporation into the world economy. Greece entered a phase of development as an industrializing country which was eventually to lead, after the post-war boom was over, to problems of de-industrialization and dis-investment and to needs for industrial restructuring.

⁵ The Marshall Plan in Greece was implemented with some delay with respect to the other Western European countries due to the civil war (1946–1949). It was preceded by military aid on the basis of the Truman Doctrine (March 1947) which was the crucial factor in determining the outcome of the civil war (D. Horowitz, 1966).

2.2.1 1948–1963: The Reconstruction Period

The end of the second world and civil wars left the country and its people with heavy casualties, material and human. The reconstruction that was launched was not merely a resumption of the mode of life and level of production of the pre-war era, but it rather entailed a reorganization of the economy to attain a qualitatively different level of development. Capital penetrated all spheres of the economy and the domestic market reached a high level of unification. A strong external, primarily Western European, market orientation was established both in terms of capital and commodity imports as well as commodity and human labour (i.e., emigration) exports. As far as industrial development is concerned, this period was marked by public sector investments aiming at the development of an industrial infrastructure. This was not so much in order to replace what was destroyed during the war, as in other European countries, but to develop what had existed in a very poor and inadequate form and to, thus, provide a basis for economic recovery and further development. The initiative was taken by the Greek state as dictated, however, by the Marshall Plan imperatives for Greece. It continued after the end of the five-year Economic Cooperation program along the same lines, so that the 1953–1964 period is schematically described as “a period of development under state guidance” (G. Milios, 1988: 335).

The Marshall Plan provided for the “reconstruction” of Western Europe, economically devastated by the war, on the basis of U.S. capital assistance. At the time, the U.S. was the only industrially advanced country that had its productive capacity intact, in fact expanded through the application of technological innovations of the armaments industry onto civil production. “The Marshall Plan was the means by which the U.S.A. would assist in the reconstruction of Western Europe, and at the same time secure an increasing demand for American products, without which the American economy would stagnate”. (H. Marcussen and J. Torp, 1986: 18; see also Ph. Armstrong *et al*, 1984: 106-107; E. Mandel, 1986). In 1949, the

President of the International Bank for Reconstruction and Development, J. McCloy, was arguing before the U.S. Foreign Policy Association that:

“We must never forget that Europe’s dollar problem is America’s dollar problem as well; the extent of Europe’s deficit in its dollar balance of payments is a measure of the amount of goods and services this country is sending to Europe for which it is not receiving payment. ... [Any] steps which the United States can take to enable Europe to reduce its dollar deficit ... cannot be regarded simply as an added measure of generosity to Europe. They are justifiable only as they conform to the economic self-interest of the United States. ... To put it another way, every dollar earned by foreign commerce is used sooner or later to buy something else in the United States. (J. McCloy’s speech, 19 January 1949).

On the other hand, the Marshall Plan was also meant to complement the U.S. cold war policy of “containment”. For the U.S. there was the political necessity to minimize socialist influence from Eastern Europe, especially since there had been intense political radicalization of segments of the population in certain Western European countries, in France, Italy, and in Greece where it had led to the outbreak of the civil war. In the U.S. the issue was popularized as follows in distribution pamphlets aimed to inform teachers and pupils about the Economic Cooperation program:

Wars and revolutions breed in poverty and are nourished by desperation. ... The shadow of a communist dominated Europe darkened every discussion of the European [economic] crisis. (P. Todd, 1951: 3-4).

It is within this context that Greece’s political and economic orientations were determined at the aftermath of the war. The Marshall Plan in Greece was accompanied by the American–Hellenic Agreement on Economic Cooperation (July 1948). It was followed by the Agreement for “securing American capital investments” in 1952 and the Agreement granting the establishment of U.S. military bases in 1953. (D. Benas, 1978: 34-44). The Marshall Plan provided guidelines for restructuring production, the economy and the state. Decisions pertaining to the actual application of the Plan were taken, or had to be approved, by the American Mission for Planning in Greece and by the American Council which controlled the

Plan's grants and credits. For Greece, in particular, there were three main guidelines set as to where the credits should be absorbed (D. Benas, 1978: 36) and these make the orientations of the Marshall Plan very clear:

(a) **Commercial support of imports.** This was at the time a necessity for a country whose productive capacity had been destroyed. Given, however, the non-existence of a 'heavy' industry sector in Greece, the particular ways in which production was reorganized and rearticulated (i.e., dependence on technology and machinery imports) never reversed the negative balance in foreign trade which was established in this period. The structure of foreign trade changed in later years due to industrialization (manufacturing exports surpassed the agricultural ones in the late 1960s), but the increasing deficit in the trade balance became a permanent (economists now describe it a "structural") characteristic of the Greek economy and indicative of its dependent development (see T. Fotopoulos, 1985: 246-262). In line with the Marshall Plan guidelines, the state's attempt during this period was towards expanding commercial relations, especially with Western Europe. In 1953 (Markezinis policy), tariffs were reduced and the Drachma was depreciated by 50 per cent so as to promote trade. Furthermore, in 1961 Greece was connected with the European Economic Community market, and tariffs and duties were levied for EC products. The state, thus, backed away from the protectionist policy it had pursued during the inter-war period and sustained stronger links with the international market and economy.⁶

(b) **The organization of Finance and Credit.** The basic concern with respect to this issue was to promote capital investments and also to guarantee the security of these investments. During the five-year period of the Plan, these tasks were carried out by the American Council and the Central Committee of Loans. The aim, however, was a long term one. It had to do with organizing the institutional substructure that was to perform these tasks after the end of the Plan's implemen-

⁶ Similar developments, away from protectionism and towards a more "open economy", occurred at the same period in the other Southern European countries (see K. Vergopoulos, 1986: 13-14).

tation. In July 1954, an Agreement was signed between the American Mission for Planning in Greece, the Greek Public (i.e., the state), and the Bank of Greece. The object of the Agreement was “the dissolution of the Central Committee of Loans and the establishment of the Organization for Financing and Economic Development” (or OXOA by its Greek initials), which was the predecessor of today’s Hellenic Industrial Development Bank (ETVA).⁷

The OXOA was under legally protected U.S. control. Its basic tasks were (1) to manage the Marshall Plan capital that had been invested in private enterprises, (2) to manage state (public) financial contributions to private enterprises, and (3) to facilitate future investments of foreign private capital.⁸ The Agreement for the founding of the OXOA was validated by the Law Decrees 2970 of 1954 and 3733 of 1957 (D. Benas, 1978: 43). With respect to (3), in particular, a legal structure was formulated, pertaining to the “rights” and “protection” of foreign capital investments in Greece. It constituted the basis for the foreign capital attraction policy which we shall closely examine in the next chapter.

Under the Marshall Plan and state control, the organizational basis for credit and finance was thus set to promote productive investments and economic development. During the 1950s and early 1960s, such investments were mainly directed to infrastructure ‘public utilities’ sectors, such as energy, telecommunications, and transport, which constituted the necessary basis for any further increase of production capacity and industrial development. This brings us to the third objective of the Plan:

(c) **Financing of economic research and planning for future productive use.** This pertained to the establishment of an industrial infrastructure by state initiative but under the auspices of the Committee for Economic Cooperation.

⁷ The OXOA and the OVA (Organization for Industrial Development) merged into ETVA in 1963.

⁸ The so-called “Point Four Program”, which was a continuation of the Economic Cooperation (Marshall) Plan, encouraged U.S. capital direct investments in areas of the world that were “needing development” (P. Todd, 1951: 43-44).

The main task undertaken under this guideline was to resolve the energy problem. The particular sector was very little developed. The annual per capita consumption of energy at the end of the 1940s was 670 kWh as compared with the international average of 1,150 kWh, the European average of 2,480 kWh, and the U.S. per capita consumption of 4,800 kWh. Out of that amount, only 280 kWh (41.7 per cent) was electrical power. (G. Farakos cited in D. Benas, 1978: 38). The production and supply of electricity, therefore, was a crucial problem to be solved.

For this purpose, the Public Power Corporation was founded in 1950. Its planning and organization was undertaken by Ebasco Services Incorporation, a subsidiary of the multinational Morgan Group. Ebasco retained official control and management of the Corporation until 1955. Law 1633 confirmed the particular Agreement. For the first five years, the program was financed by \$90 million from Marshall Plan loans and by \$35 million from Italian war indemnities. After 1955, financing relied on the Corporation's 'own funds', the state budget, and the OXOA — in reality, this meant more foreign loans. Ebasco planned the projects to be carried out concerning the production (hydroelectrical constructions and lignite mines) and the supply of electricity. It also decided on the companies to carry out the construction works: Ebasco itself, the other U.S. companies Pierce Management Inc. and Knappen (the projects of Aliveri and Acheloos), the French companies Omnium Lyonnais and Cotesi (Louros and Megdovas), the Italian Edison (Agras and Ladonas), the German Krupp and the Swiss-German Braun-Boveri (Ptolemaida). (For more details see D. Benas, 1978; M. Nikolaou *et al*, 1982).

In chapter four we shall look in more detail into how the Public Power Corporation was established and how it expanded as a state monopoly. Electricity production was, indeed, the largest infrastructural project undertaken on the basis of the Marshall Plan guidelines and carried out mainly under the supervision of U.S. companies. Other such projects included the establishment of the Hellenic Telecommunications Organization in 1949 (OTE) as a state monopoly, whose organization and supplying were initially assumed by I.T.T. Water-supply for the

Athens and Piraeus area (EYDAP, another public corporation) was a project carried out by Ulen Co. Aviation was initially assumed by T.W.A. Most of these infrastructural projects were initially undertaken for military purposes. In fact, out of the \$4 billion of U.S. loans that Greece received between 1944 and 1964, more than half (\$2.15 billion) constituted direct or indirect military aid (W. Fischer *et al*, 1974: 77).

On the basis of the Marshall Plan, infrastructure works were 'initiated' by the Greek state, and as a result state investments constituted 33.4 per cent of the Gross Fixed Capital investments for the period between 1954 and 1963. Private investments, on the other hand, concentrated mainly in **housing and shipping** (excluding shipbuilding). Housing and transport (mainly ships) accounted together for more than half of total investments. Housing alone accounted for about half of total private investments. (Data from M. Nikolinakos, 1976: 71-75; A. Kintis, 1982: 30). M. Nikolinakos considers these investments to have taken place at the expense of the development of manufacturing industry: "If investments had not been mostly, until 1960, concentrated in the building sector, the industrialization process would have been accelerated" (M. Nikolinakos, 1976: 75).

Housing and shipping constituted major areas of private sector economic activity not only during the 1950s but throughout the 1960s and early 1970s (see G. Milios, 1988: 385-393; P. Petrakis, 1985; A. Tarpangos, 1987). This activity has remained a main characteristic of the Greek economy. As such, these sectors do not inhibit industrialization. In fact, as T. Giannitsis has argued, the growth of housing had a significant positive influence on manufacturing industry and largely affected the morphology of Greek industrialization. Non-metallic minerals (mostly cement), steel and other metal industries, furniture and electrical items were among the most prominent manufacturing sectors that developed during the 1960s and onwards, and are all attached to the construction industry. The "complementarity" of manufacturing and construction is described as a basic characteristic of industrial development in Greece (T. Giannitsis, 1985: 18). And even shipping (merchant marine) capital

did eventually make the step towards productive investments (mainly in the shipbuilding and petrochemicals industries) in the following decades (G. Milios, 1988: 393). Rather, the comparatively low percentage of industrial, and in particular manufacturing, investments during this period should be attributed to the lack of the necessary industrial infrastructure which was developing just then.

Although, however, it is true that “at least up to 1960, Greece remained a basically agrarian, naval and merchant economy” (M. Nikolinakos, 1978: 84), the manufacturing industry made, at least quantitatively, most significant leaps towards growth. By the mid 1950s, the country’s production capacity had reached pre-war levels. The volume of industrial production, in particular, well exceeded the average increase. By 1959 it had doubled over its 1938 level and by 1964 it had increased threefold. (N. Mouzelis, 1978: 50). Gross investments in the manufacturing sector alone increased overall as much as total Gross Fixed Capital investments in general, that is, tenfold between 1948 and 1963. Gross investments in industry as a whole (i.e., manufacturing, mines and quarries, energy and water — excluding the sectors of housing, shipping and other transports, and communications) increased fifteen times during the same period. (Data from M. Nikolinakos, 1976: 71-72).

So, even though industrial investments during this period appear low in comparison to investments in housing and shipping, they show a remarkable increase in comparison to their pre-war levels. Industry as a whole shows also an impressive development in comparison to agriculture. Although agriculture’s importance in Greece’s export trade persisted (in 1960, agricultural products comprised 80 per cent of total exports; N. Mouzelis, 1978: 277), its share in the GNP was steadily decreasing to be surpassed by that of industry for the first time in 1963. Furthermore, by the end of the 1950s, there was already a notable “agrarian exodus” in progress, leading to the proletarianization of the agrarian population and emigration to the industrial centers of Western Europe.⁹ Agriculture’s predominance was,

⁹ The landmark year in this process was 1960, when the number of emigrants from Greece more than doubled over the previous year. Emigration continued at high rates throughout the 1960s and dropped significantly only after 1973. (C. Vgenopoulos, 1985: 124).

thus, slowly but steadily declining while industry and the economy at large were displaying high rates of growth that were comparable to the other OECD and EC countries (see A. Kintis, 1982: 28-29). These rates were to attain impressive levels during the following years.

2.2.2 1964–1974: The ‘Economic Miracle’

During the period under discussion here the indices of economic growth in Greece were higher than the corresponding EC and OECD averages (see G. Milios’s statistical analysis, 1988: 356–363). The only index that remained lower in comparison to the industrial countries of Northern Europe was the wage index, although wages in Greece also increased remarkably, especially between 1963 and 1967 (G. Milios, 1988: 355). Specifically, the annual rate of increase of the Net Domestic Product was higher than that of France, FR Germany, the U.K., and Italy for the whole period between 1958 and 1975, with the exceptions only of 1967-68 and 1974 (data from Busch cited in G. Milios, 1988: 356-357).

This comparatively high rate of growth is accounted for basically by the increase in industrial investments and output. The rates of increase of industrial production were higher in comparison to both the other sectors of the economy and the overall rate of GNP increase (M. Malios, 1986: 68). While the state continued with its investments in the industrial infrastructure (‘public utilities’) sector, ‘private initiative’, including foreign direct investments, took over the other branches of industrial activity. The first big private investments were realized in the late 1950s and early 1960s (A. Gregorogiannis, 1980: 30-31). They continued throughout the 1964–1974 period, during which their impact on industrial production became manifest: In 1963 the share of industrial output in the GNP surpassed that of agriculture (OECD, 1966: 5-6). By 1969 manufacturing products accounted for the majority of Greek export trade. By the early 1970s, employment in industry was approximating that of agriculture (see KEPE, 1984). In 1973, the agricultural sector’s contribution to the GDP was down to 15.6 per cent, the industrial sector’s

up to 34.7 per cent, and the tertiary sector's around the same levels at 49.7 per cent (G. Kafkalas, 1984: 71). If Greece ever really broke away from its legacy of an agricultural society,¹¹ this happened during the 1964–1974 decade. This was the time when Greece made its passage to and presence as an industrializing country felt. This was the 'economic miracle', if one was ever indeed produced.

The sectors that had the leading role in industrial and economic development were construction whose importance we have already mentioned, manufacturing, extraction (linked with the mining and processing of metallic and non-metallic minerals), and the new 'service sector' industry — tourism. Although our interest in the present work lies primarily with the manufacturing–processing sector, the increasing importance of tourism for the Greek economy should be stressed. It is alleged that tourism brought into the country more foreign currency than all exports together in this period (M. Malios, 1986: 79). Tourism is not considered an industrial productive branch as such — the term being usually reserved for the manufacturing and mining sectors. Its links with the construction industry (building and furnishing of hotels and resorts), however, gave a big boost to the related manufacturing branches.

With respect to the manufacturing sector, which in terms of production output was growing at an annual average rate of 10.3 per cent (as opposed to 7.6 per cent during 1953–1963), certain qualitative changes in its structure became evident. **All** manufacturing branches underwent rapid growth during this period. However, a shift in the specialization within manufacturing industry had been taking place throughout the post-war years. Comparing the 1938 with the 1970 composition of industrial output (value in constant prices of 1954), M. Malios has shown that there was a **relative** rise or decline of certain manufacturing branches. The calculations presented in Table 2.1 indicate a strong shift from the 'traditional', light-consumer,

¹¹ In a comparative study of the three Southern European countries, Greece, Portugal and Spain, A. Lipietz concludes that "Greece is still the closest to the agricultural export market" (A. Lipietz, 1987: 127).

TABLE 2.1

Changes in the Composition of Manufacturing Output 1938–1970
(calculated on the basis of 1954 prices)

Branches in Decline		Branches on the Increase	
1. Food and Beverages	- 22%	5. Paper	+ 294%
2. Textiles	- 35%	6. Construction material	+ 263%
3. Clothing	- 69%	7. Metallurgical	+ 3033%
4. Wood and wooden products (including furniture)	- 26%	8. Metal processing	+ 289%
		9. Transport (shipbuilding)	+ 310%
		10. Chemicals (including petrochemicals)	+ 134%
		11. Other Branches	+ 78%

Source: Data calculated on the basis of information derived from the National Accounts and cited in M. Malios, 1986: 73.

light-technique branches of industry towards the 'heavier' industries of metallurgy, chemicals and construction materials (mainly cement), which pertained mostly to the processing and production of intermediary products, and transport equipment which pertained mainly to shipbuilding. In 1938 the former group of light industries (i.e., appearing in the Table as 'branches in decline') represented 74.5 per cent of total manufacturing production. In 1970 the corresponding percentage had dropped to 25.7 per cent (National Accounts cited in M. Malios, 1986: 73).

During the period under consideration here, investments in the light consumer, labour intensive industries were mostly investments for technological modernization and expansion of already existing firms. The textiles industry underwent, according to Malios, the most radical changes in terms of modernization. Among a proliferation of small, family enterprises, a number of large, vertically integrated, and technologically most modern firms emerged, which were competing successfully

with their Western European competitors. The most prominent one, Piraiki-Patraiki SA owned by the Katsabas and Stratos families, had in 1972 an annual turnover of Drs 1.350 billion with Drs 354.2 million net profits and accounted for one third of domestic textiles production. (M. Malios, 1986: 81-83) The second major branch of this type of industries that attracted big private investments was the food industry. Here again a plethora of small scale businesses emerged for the processing or semi-processing of agricultural products. But certain big industries which also became big 'brand names' in the domestic food market were established at the time: EVGA, AGNO, EVOL, PAVLIDIS, ASPRO.

The 'heavy' industry branches, on the other hand, constituted mostly new areas of investment, at least in the degree and form that they assumed. Among them, **metallurgical** industry was the most rapidly developing branch with an average annual rate of production increase around 37 per cent. This branch pertained mainly to steel and iron production — exploiting domestic iron ore deposits — and aluminum production — exploiting the domestic deposits of bauxite.¹¹ Since the late 1960s these rate among the most important export products of Greece (OECD, 1966, 1980 and 1986). Iron processing did exist before the war, but it was organized on the basis of small-scale production units with very low capacity. During this period, a number of large, capital-intensive industrial conglomerations dominated the whole sector: Halyvourghiki SA (a Greek-German joint investment), Sidenor Steel (a Greek-Belgian joint investment), Elliniki Halyvourgia (a domestic investment), and Hellenic Steel Co (a foreign investment). (D. Kazis and A. Vlisidis, 1986: 23-28). Aluminum industry, on the other hand, was a completely new branch of investment. Its development started in the late 1950s and became most rapid during the late 1960s; between 1967 and 1970 production increased by 76 per cent. A number of

¹¹ It should be specified that industrial firms in Greece do not engage in aluminum production as such, but rather in the processing of domestic bauxites into alumina, an intermediary product. The same is true for the processing of iron ores (ferronickel and ferrochromium, for example) and for the production of intermediary steel products. These issues shall be explored in more detail in chapter six.

small units were also established, but the whole sector was and still is dominated by the two multinational companies dominating world aluminum production and trade (D. Rodrik, 1982: 193) — the French-based Pechiney, which established in Greece its subsidiary Aluminum de Grece, and the Aluminum Industry of America (Alcoa).

Linked to the development of the metallurgical and metal processing industries was extraction. In addition to lignite, which was extracted by and for the purposes of the Public Power Corporation and whose volume of production in 1968 was almost five thousand times higher than it had been thirty years ago, the other main extraction industries pertained to iron ores and bauxite. The production of iron ores increased by 782 per cent during the five years between 1967 and 1972. During the same period bauxite production almost tripled.

The **chemicals** industry was another rapidly expanding branch. As such, it was not a new kind of production. A number of small, low technique units existed even before the war producing consumer goods, such as soaps for example. In fact, the chemicals branch is characterized by the existence of such very small units even today (ICAP,1984). What was new in the branch's development and what mainly accounted for its growth during this period was its gradual attachment to the petroleum industry. **Petrochemicals** became the most important branch of the Greek-based chemicals industry investments wise, as well as because of its links with related branches, for example, fertilizers, plastics, glass, synthetic textiles, paints, explosives, detergents. The latter were all new products which the chemicals industry started being oriented towards during this period. The sector was composed mainly of four industrial conglomerations engaged primarily in oil refining: Aspropyrgos was constructed by the state and sold by two thirds of the shares to Niarhos, a well-known Greek shipowner, in 1971. The Esso Pappas oil refinery in Thessaloniki established in 1963 as part of the Esso Pappas petrochemicals conglomeration there, was an Exxon subsidiary. Petrola was established in 1969 and Motor Oil in 1970 by two other big shipowners, Latsis and Vardinogiannis respectively.

It is obvious from the above that the petrochemicals industry constituted an area of investment for the Greek shipowning (merchant marine) capital. This can be seen as related to the shipowners' interest and activities as major transporters of crude and refined oil worldwide. In line with the old tradition and benefiting from the expansion of world trade during the post war period as well as from a number of privileges that it enjoyed in its relation to the Greek state (lenient legislation, free civil services, tax deliverances), shipping expanded impressively throughout the post-war years, especially during the 1960s and the dictatorship years when it was granted even higher privileges. (The total tonnage of ships under the Greek flag rose from 7.9 million in 1967 to 17.4 million in 1972; M. Malios, 1986: 77). During this period, it was the first time in its long established history that merchant marine capital started investing in the industrial sector. As M. Malios puts it, before then "Greek tycoons were known as big shipowners, but not as big industrialists" (M. Malios, 1986: 77).

In addition to petrochemicals, another branch that attracted investments from the same section of capital, also related to its activities, was shipbuilding. The Hellenic Shipyards was the first large firm to be established in 1956 by the shipowner Niarhos. The shipowner Goulandris established Syros Shipyards in 1969, and Kararas established Halkis in 1971. A number of smaller shipyards were established by other well-known shipowners, such as Handris, Polemis (Argo), Latsis (Hephestus), Diamantis (Kynosouras). The specialization of these shipyards was mostly repairing. Shipbuilding was restricted to certain small types of ships. The majority of the new and largest ships of the Greek merchant marine fleet were still being built in Japan, the U.K., Norway and other countries. Nevertheless, shipbuilding was at the time a new branch of activity that was expanding rapidly.

In following chapters, we will be referring to some of the largest and most prominent manufacturing companies established during this period. We shall be primarily concerned with 'domestic' investments or 'nationally-based' firms. Nevertheless, it is important to note here that one of the main features of industrial

development during this period was the influx of foreign capital direct investments. According to a number of writers, in fact, foreign capital investments were the decisive factor of economic growth during the 1960s' and early-1970s' boom.

Direct investments became a major form of foreign capital 'penetration' since the early 1960s, following the establishment of an elaborate legislation concerning the "privileges" of such investments in accordance with a consistent state policy of foreign capital attraction. Up until then, capital exports to Greece had been mainly in the form of loans, private or inter-state. Up to 1980, when foreign direct investments started to decline markedly (Z. Georgantas *et al*, 1986: 58), it is estimated that about \$1.5 billion had been invested on the basis of Law Decree 2687/1953 ("relating to investment and protection of foreign capital"), 70 per cent of which was directed to the manufacturing sector. About 60 per cent of total foreign investments in the manufacturing industry was absorbed in the chemicals, petrochemicals, and metallurgical branches. Another 17 per cent was absorbed in the shipbuilding and electrical appliances branches. (K. Mangelis, ministerial mimeo, no date; cf A. Gregorogiannis, 1980: 49-50 and G. Milios, 1988: 417-418). These investments were to a large extent realized in joint venture with domestic private capital. In about 1/3 of foreign investments' cases (exclusively foreign or joint ventures), foreign capital participated with a minority of shares. Nevertheless, the volume of investments in the aforementioned branches was impressive: In 1978, enterprises under exclusive foreign ownership or with a majority equity participation of foreign capital represented less than 1 per cent of the total number of established enterprises with more than 25 employees. However, they represented 39.5 per cent of the total volume of investments in these branches. (Calculations based on data provided by A. Gregorogiannis, 1980: 50).

Attention needs to be drawn here to the following issues concerning the form and direction of industrial foreign capital investments in Greece. First of all, as is obvious from the above, such investments were for the most part directed to what we have described as 'new' branches of post-war industrial development,

and were undoubtedly a determinant factor as far as the growth of these branches was concerned. However, it should be noted that these are high-technique, capital-intensive branches rather than labour-intensive. The latter (food, textiles, garments, footwear, leather, furs, etc) remained primarily an area of investment of local private capital. Furthermore, these branches where imported capital tends to concentrate are at least as export-oriented as certain branches where local capital predominates (i.e., garments, footwear, leather and fur products) (Chassid cited in G. Milios, 1988: 452); in fact, as we shall see, less so since the mid 1970s. And, finally, a problem of classification arises, which touches upon the very issue of the extent and nature of the internationalization process of capital.

G. Milios notes that, as the 'origin' of foreign direct investments is established on the basis of the 'nationality' of the currency in which capital is imported, certain misperceptions occur:

This way, investments realized by Greek shipowners in American, Panamanian, or British currency are classified as foreign investments. Yet, during the period under examination here [i.e., 1962-1973], the largest part of direct investments in the branches of petroleum products, shipyards, and tourism are realized by **Greek shipowners and not by foreign investors**. (G. Milios, 1988: 418-419, emphasis added).

In discussing the same issue, A. Gregorogiannis considers this section of capital not "Greek" but "cosmopolitan" and further considers cases of minority equity participation as equally foreign (A. Gregorogiannis, 1980: 32-36). Whereas Milios talks about "the 'cosmopolitan' section of **Greek capital**" (G. Milios, 1988: 419, emphasis added), Gregorogiannis argues that:

This constitutes a peculiar category, but still of **foreign capital**. For in all these cases the bonds of interests abroad carry a greater weight than national memories and language do. (A. Gregorogiannis, 1980: 33, emphasis added).

This is indeed so, but we may argue that it is so for Greek as well as for American or British "cosmopolitan" or multinational sections of capital. Greek shipowning capital is a case in point of how difficult the increasing multinationalization of cap-

ital makes the analytical 'disentanglement' of 'external' and 'internal' factors of accumulation.

Before proceeding to examine the post-1974 phase of industrial development, two points concerning the structural features of Greek industry need to be raised, which we shall come back to and elaborate on in the course of our analysis. The first concerns the spatial distribution of manufacturing industry. Industrial development in Greece, as the 1982 OECD report observes, took place almost exclusively in the two urban centers of Athens and Thessaloniki. It therefore displays to date a high degree of spatial concentration similar to no other OECD country (OECD, 1982). The second feature concerns what is referred as the "dualism" of Greek industry: the existence of a plethora of small-scale businesses, most of which in fact, according to the OECD description, "do not really engage in manufacturing activities proper" (OECD, 1987: 29). As the following table (2.2) shows, such units constitute a persistent characteristic of the Greek industrial structure and exist alongside the industrial conglomerations established over the past thirty years of industrialization. They are established in all branches, often performing functions ancillary to those of the larger units of the branch (e.g., repairs), but they are numerically most predominant in the 'light' consumer goods industries (garments, footwear, food, etc).

2.3 Post-1974 Period: Crisis and Industrial Restructuring

Following the first oil shock, the rates of growth of the Greek economy as expressed in a number of indices slowed down. The second oil shock marked the country's entrance into a phase of severe economic and industrial crisis which has persisted throughout the 1980s.

In 1974, as a result of the international oil crisis and of domestic political instability (the fall of the junta), national production was severely disturbed.

TABLE 2.2

Size of Industrial Enterprises by Number of Employees

Number of Employees	% of Total Number of Industrial Enterprises	
	1959	1978
up to 10	94.5	93.3
10 – 29	3.3	4.6
30 – 49	1.4	0.9
over 50	0.8	1.2
(over 100)	—	(0.6)

Sources: 1. Data for 1959: Coutsoumaris cited in M. Nikolinakos, 1976, p. 80.

2. Data for 1978 (most recent census): NSSG, 1985, p. 200.

There occurred a sharp decline of the GNP and of fixed capital investments. In absolute numbers, the GNP and industrial production output recovered in 1975 before dropping again sharply after 1979. (OECD, 1980: 62; G. Milios, 1988: 341). In relative terms, however, i.e., in terms of rates of growth and expansion, the mid 1970s marked a turning point in the country's development; the "economic miracle" was over. The first indication was the decline of capital productive investments activity, gradually leading to the phenomenon described in the 1980s as "investors' abstinence" (A. Papandreou, 1987).

Net investments of fixed capital as percentage of the Net Domestic Product (NDP) started to decline steadily as early as 1973. Within two years they reached the 1958 level and have remained **below** that ever since (G. Milios, 1988: 341). Net fixed capital investments in manufacturing industry, in particular, dropped during 1975-79 to almost half their 1970-74 average — from 10.67 per cent to 5.71 per cent. Overall, the average rate of industrial investments, which for the period 1964–1974 was 12.20 per cent, dropped to -0.65 per cent during 1975–1980 and to -6.34 per cent during 1981-83. (T. Giannitsis, 1985: 66-67). It is interesting to mention that

the decline of industrial investment activity during the second half of the 1970s was mainly the result of domestic capital's "abstinence". Foreign direct investments in the manufacturing sector continued to increase throughout the 1970s and started to decline only after 1979–1980 (Annual Report of the Director of the Bank of Greece 1981, cited in KEPE, 1986: 58). Here again, however, the first oil shock marked a turning point: According to T. Giannitsis's and V. Papandreou's calculations, foreign direct investments' **relative importance**, i.e., their importance in terms of participation in the total Gross Fixed Capital Investments, started to decline in the early 1970s and became negative after 1976. (T. Giannitsis, 1985: 94; V. Papandreou, 1986: 175-176).

So, since the mid 1970s the industrial sector in Greece not only stopped showing signs of expansion but it has actually been undergoing a steady and progressive shrinkage. By the time the OECD was placing Greece on its list of newly industrializing countries in 1979 (see C. Bradford, 1987: 299), a "deindustrialization" process was already manifest in the country. The OECD reports eventually caught up with it some few years later:

The transformation from a largely rural to an industrial economy slowed down markedly in the second half of the 1970s, with little, if any, progress since then. ... After having enjoyed sustained rapid growth of output for about thirty years, the expansion of the Greek economy has virtually come to a standstill since the second oil shock. Between 1979 and 1986 the average rate of growth of the GNP amounted to no more than 1 per cent, compared to 2.25 per cent for OECD total and 1.75 per cent for OECD Europe. ... **The post-war process of industrialization began to mark time in the second half of the 1970s and has since shown signs of a reversal.** (OECD, 1987: 26-27).

The economic crisis traced back to the mid 1970s, was quite acutely manifested in the 1980s. Between 1979 and 1986, the rate of inflation (on average more than 20 per cent) was two to three times higher than the OECD average; unemployment increased from 1.9 to 8.1 per cent, approaching 10 per cent by 1988; the external debt rose from 13 to 43 per cent of the GNP. (OECD, 1987). But, as is implied in the OECD report cited above, the qualitative effects of the crisis were to

be felt primarily in the industrial sector. In fact, in Greece, the general economic crisis revealed itself as basically a crisis of and within the manufacturing sector.

Deindustrialization has been manifest not only as a shrinkage of investment activity, but increasingly in the 1980s as a stagnation of manufacturing production and high unprofitability. Manufacturing output, which over the last two decades had been growing at an impressive annual rate of 10 per cent (nearly double the OECD average), reached negative rates of growth in the 1980s. In 1985 it was a mere one per cent up on its 1979 level. (OECD, 1987: 27-28). In 1986 it dropped by 7 per cent and in 1987 by another 2 per cent (IOVE cited in Oikonomikos Tahydromos no. 6, 1988). As a percentage of the GNP, "its present share is among the lowest in the OECD area and indeed the lowest if allowance is made for Greece's comparatively low per capita income and the predominance of small firms not really engaged in manufacturing activities proper" (OECD, 1987: 29). Furthermore, net profit rates in the manufacturing sector which had remained positive in the second half of the 1970s, turned negative. Since 1981, industrial losses have been higher than industrial profits — that is, the amount of losses made by the loss-making firms has been exceeding the amount of net profits realized by the profit-making firms. Between 1983 and 1985, in particular, industry's worst years in this respect, total losses were almost double the amount of total profits. In 1984, the net losses of 3,113 manufacturing firms surveyed amounted to Drs 38.5 billion, which was equivalent to a **negative** net profit rate of 13.6 per cent. The total number of firm closures since 1983 has exceeded the number of newly established firms. Although the post-1985 stabilization/austerity policy, which we shall be looking at later on, slowed down the downward trend in profitability, overall the manufacturing profit rates have remained negative and private industrial investment ventures very low. (Data based on the OECD reports of 1986 and 1987).

The fall in profitability aggravated the disinvestment trend. On the other hand, it necessitated a high reliance on bank loans. By the mid 1980s, industry was operating by three fourths of its equity on borrowed capital (G. Arsenis, 1985).

This reliance created a 'dead end' for many firms. The intensification of market competition in combination with the pressure to meet loan and interest payments, was forcing firms to sell at low — often below cost of production — prices if they were to sell at all. They, then, had to resort to more loans to cover operational expenses and pay for the purchase of primary materials. Meeting financial liabilities thus became increasingly harder. As a result, an increasing number of firms would either declare bankruptcy or come under the lending banks' ownership and/or management. Given that the majority of lending banks are actually run by the state, this was a process whereby the largest of the manufacturing firms would come under public sector management and control. However, although in the short run loans assisted individual firms to recuperate financially, in the long run they increased the firm's operational and production costs. As it will be shown through our case studies, this was especially true since financial difficulties were only the overt expression of deeper rooted problems. These pertained to the firms' need for restructuring, rationalization and modernization with long term prospects as a result of the structural changes in progress internationally.

In addition to the deterioration of the general economic indices described above, certain changes occurred in the structure of Greek-based industry. The "reversal" of the industrialization process depicted by the OECD report pertains to these changes, which constitute development tendencies opposite to those evident during the 1960s expansion.

The first such tendency, which has been studied in detail by T. Giannitsis (1985) and confirmed by more recent research at IOVE (1987, carried out by I. Chassid, *Oikonomikos Tahydromos*, no. 42, 1987), has to do with a general change in the composition of manufacturing activity since the second half of the 1970s. In our discussion of post-war industrialization we noted that production in 'heavy' industry was increasing at the expense of light consumer industries. In 1963, 'light' industry (i.e., food, beverages, tobacco, textiles, clothing, footwear, wood, furniture, paper and printing) accounted for 60.6 per cent of the total national manufacturing

product, whereas 'heavy' industry (i.e., chemicals, non-metallic minerals, metals, machinery, electrical appliances, and transport equipment, including shipbuilding) accounted for 38.9 per cent. By 1974, the percentage participation had changed to 52.3 and 47.6 respectively at the expense of light industry. Since then, the trend has actually been reversed (1979: 54.7 and 45.3 per cent respectively). The decrease of the heavy industry's share in manufacturing output between 1974 and 1979 is accounted for mostly by the decrease in metal and shipbuilding production, whereas chemicals (pertaining mainly to petrochemicals) and non-metallic minerals (pertaining mainly to cement production) continued to increase. Food and beverages, tobacco, textiles, clothing and footwear account for the greatest part of the light consumer industry's increase of participation in the national manufacturing production output. (DPK, 1984; T. Giannitsis, 1985: 55-57).

During the second half of the 1970s, therefore, there occurs a shift of industrial production towards the more 'traditional' consumer, light-technique types of manufacturing. This shift is observed not only in the composition of manufacturing output, but also if we consider the average annual rate of growth (investment expansion) of each branch. As calculated by T. Giannitsis(see Table 2.3), the 1974-79 growth confirms that the center of gravity of the Greek manufacturing industry moved towards the labour-intensive or, in Giannitsis's term, "raw material intensive" branches of production — mainly food and beverages, textiles, clothing and footwear, and cement. In the same table (2.3), one can observe the drastic decline in the rate of growth of these ten groups of manufacturing branches in comparison to the previous period (on average 12.6 per cent over 1960-1974 and 4.1 per cent over 1974-1979).

During the 1980s, the whole of Greek industry enters a phase of recession and stagnation. Manufacturing production declines and most manufacturing sectors record losses, including the traditional sectors of textiles, beverages, wood, paper and non-metallic minerals (OECD, 1987). So, as G. Milios argues, there are no visible tendencies of restructuring in terms of rise or decline in the relative importance

TABLE 2.3

Average Annual Rate of Growth by Manufacturing Branch

1960 – 1974	%	1974 – 1979	%
1. Metallurgical industry	29.12	1. Non-metallic minerals	7.47
2. Chemicals	16.09	2. Textiles	7.18
3. Transport equipment	12.49	3. Food-Beverages-Tobacco	5.29
4. Non-metallic minerals	12.02	4. Chemicals	5.11
5. Metals-Machinery-Electrical	11.25	5. Clothing-Footwear	4.76
6. Textiles	11.13	6. Paper-Printing	4.17
7. Wood-Printing	9.39	7. Other industries	3.92
8. Other industries	8.90	8. Transport equipment	1.81
9. Food-Beverages-Tobacco	7.95	9. Metals-Machinery-Electrical	0.96
10. Clothing-Footwear	7.75	10. Wood-Furniture	0.35

Source: T. Giannitsis, 1985: p. 57.

of certain manufacturing branches (G. Milios, 1988: 383). IOVE's study (by I. Chassid, 1987) confirms that, in this respect, the physiognomy of the Greek industry has not altered since the late 1970s.

Given the overall decline of investments, the structural change that occurred in the second half of the 1970s, is taken to indicate the different effects of the crisis on different types of manufacturing production and possibly the different needs in coping with the crisis. Labour-intensive industries have a greater margin of profit, relying primarily on the low cost of labour and requiring comparatively lower capital investments. The more capital-intensive industries, on the other hand, required a higher capital investment to achieve expanded reproduction and competitiveness in the international market. In the following chapters we will deal in detail with the different problems that different kinds of firms are faced with in their process of restructuring under the present crisis. For the moment, what we observe is that labour-intensive industries seemed initially more able to sustain development and

maintain their competitive advantages in the international market.

This is, furthermore, reflected in the structure of Greece's export trade where a similar shift has taken place. The textiles, clothing, footwear, leather and leather products branches accounted for the largest part of export increase over the 1974–1979 period. Specifically, textiles exports increased by 71.9 per cent, clothing by 267 per cent, footwear and leather exports more than doubled (101 and 109 per cent respectively). In 1974, this group of products represented 34 per cent of Greece's total manufacturing exports, although their share during the second half of the 1960s had actually been less than that (around one fourth). By 1979, their share had risen to 44 per cent reattaining its 1964 level. By 1985 they comprised **half** of the country's total manufacturing exports. (Calculations based on data provided in the OECD reports, 1971, 1980, and 1987). It is interesting then to point out that the sectors traditionally dominated by (a) domestic capital investments and (b) by small and medium size firms have been the ones increasingly oriented towards the external market.

The size of the firm, which is related to the firm's general mode of operation, is another structural characteristic of industry that shows different degrees and abilities in withstanding the crisis. Here again, we observe some trends which oppose those of the 1960s development. The biggest loss-making firms in Greece since the recession have been among the largest industrial units and super-profit making enterprises of the post-war period. At the time, economies and industries of scale seemed to constitute the core of industrial development and to guarantee a prosperous route to industrialization. This was a perception influenced by the post-war 'Fordist' model of accumulation evident in the industrialized nations of the West where expansion was sought through large scale, mass production industries and where the dominant organizational form of industry was the large factory (F. Murray, 1983: 75). Accordingly, Greece's "enclave" sector of large and mostly capital-intensive industrial units gave the impression of 'industrialization proper' albeit of a dependent form. The vast number of small scale, family businesses operating

on the basis of simple commodity production (N. Mouzelis, 1978) and displaying low productivity were thought to inhibit industrial development (A. Kintis, 1982: 103-104). However, the crisis, which has been described as a crisis of the Fordist model of accumulation (A. Lipietz, 1987), has brought about an international process of restructuring towards alternative patterns and regimes of accumulation and expansion. As F. Murray argues,

There is a growing body of evidence which challenges the idea that the progressive centralization and concentration of capital necessarily leads to a physical concentration of production, that the small production unit is the remnant of a disappearing traditional sector of production. (F. Murray, 1983: 75).

It has been observed that, with the rise of unemployment and the emphasis now being on more flexibility and higher specialization in production, the advantages of small and medium size firms have brought them to the forefront of development considerations. (S. Boutiller, 1988; Commission of the European Communities, 1988).

In Greece, in particular, according to the OECD observations, the largest and smallest firms were most severely affected by the crisis being the least flexible ones in transforming or expanding their production basis, although for different reasons. The smallest firms cannot find the financial and human resources necessary for such changes. The large firms, precisely due to their privileged relationship with banks and "official leverage to keep them in operation" could survive on the basis of loans, a common practice as we mentioned earlier, and were not under pressure to adjust for a long time. Medium sized firms (OECD definition: Drs 100 to 500 million capital), mostly family-run businesses, are generally more flexible both in their finances and in dealing with the labour force. (OECD, 1987: 34).

With respect to the 'smallest firms' referred to, these are units employing one to ten persons. Although registered in the manufacturing sector, many of them can be described as providing services rather than producing commodities or engaging in industrial activities proper (T. Giannitsis, 1985: 124; OECD, 1987: 29).

In 1980, out of 128,000 firms registered as “industrial establishments”, 109,000 employed up to four persons and another 10,500 employed up to ten persons. Such units are family businesses, often artisan in form, where the owner and family members are self-employed. They are, of course, too small to find the resources necessary for reorganizing and reorienting their activities or to individually enjoy state support, and they do display a high rate of bankruptcy during the 1980s (S. Boutiller, 1988). Overall, however, they are a persistent and dominant characteristic of the Greek industrial sector. Their social importance lies primarily in the fact that they provide employment for thousands of people (hence the high number of “self employed” in the industrial sector), keeping the unemployment rate down. Although the Greek industry has been most severely hit by the crisis, employment in manufacturing (around 30 per cent of the economically active population) continued to rise until 1982. It has since been declining, but the unemployment rate in Greece has remained well below OECD and EC averages. (OECD, 1987: 28-29).

The large loss-making firms, on the other hand, had been some of the most prominent, technologically most modern, and rapidly expanding industrial establishments of the 1950s and 1960s. They are among the largest industrial firms in their branch of production as well as nationally both in terms of assets and employment (more than 1,000 employees). For example: Piraiki-Patraiki SA, the largest textiles firm, Aget Heracles and Titan SA, the largest cement firms, the Hellenic and Eleusis shipyards, Larco SA of the Bodosakis Group, a monopoly in ferro-nickel production, Petrola Hellas, a petrochemicals unit, the Skalistiris Group of Enterprises specializing in metallic mineral processing, and a number of other firms we will be looking at in more detail in chapters five and six. Overall, twenty-five out of the fifty largest manufacturing enterprises (ranked by total assets) in 1984 displayed losses, while ten of them had their equity capital completely wiped out (ICAP Hellas, 1984).

The financial deterioration of these firms to the point of not being able to continue their operations, has necessitated various forms of state intervention.

This brings us to the third tendency evident during the recession which differs from the pattern of development of the previous period, namely, the expansion of the public sector in the economy and industry. This trend has again been markedly evident since the accentuation of the crisis in 1979. Since then, the contribution of the private sector to national production output has been minimal and public sector expansion almost fully accounts for the growth, albeit small as we have seen, of the GDP. State expenditure, which over a twenty year period (1960–1979) had increased by a mere 11.3 per cent, increased by 16.9 per cent over the six years from 1979 to 1985. By 1988, it came to represent more than half of the GNP. About one fourth of the GNP represented state transfers and subsidies. (OECD, 1986 and 1987). The participation of public enterprises' (DEKO) investments in total gross fixed capital formation increased from 27.7 per cent in 1975 to 42.6 per cent in 1985 (see Table 2.4). This is not to imply that the public sector has been 'healthier' than the private one. Its growth has, in fact, been increasingly sustained by loans. The debts (in current prices) of public enterprises have increased from 38.7 per cent of the GNP in 1980 to an estimated 102.4 per cent in 1988 and a forecasted 126.5 per cent in 1989 (Oikonomikos Tahydromos no. 10, 1989: 80). Public sector expansion under these conditions suggests that state entrepreneurial activity has assumed a crucial role in sustaining development. "Public enterprises have been asked to blunt the repercussions of the crisis"; their investments "have considerably contributed in sustaining economic activity" (KEDE, 1986: 24).

In the manufacturing sector, in particular, direct state investments have constituted a major means of sustaining industrial development and providing a direction and orientation for restructuring. This form of intervention has included both new investments in certain branches of production, such as armaments and metallurgical production, as well as take-overs of private loss-making firms, which their owners were prepared to phase out. Such firms could thus be maintained in operation avoiding major disruptions in the country's productive base. In intervening to sustain industrial development and regulate production, the state has significantly

TABLE 2.4
Public and Private Sectors' Participation in
Gross Domestic Fixed Capital Formation (current prices, mill. Drs)

Year	Total	Private	Public	Public/Total
1975	139,950	101,130	38,820	27.7%
1976	175,000	128,100	46,900	26.8%
1977	221,000	172,350	49,070	22.2%
1978	275,200	213,600	61,600	22.3%
1979	369,185	287,785	81,400	22.0%
1980	413,685	317,865	95,820	23.2%
1981	456,350	334,850	121,500	26.6%
1982	513,500	360,000	153,500	29.9%
1983	624,000	408,700	215,300	34.5%
1984	702,900	416,850	286,050	40.7%
1985	879,570	504,500	375,070	42.6%

Source: OECD Economic Surveys, 1980 and 1987.

expanded its presence in the manufacturing sector both as an investor and as an employer. By 1987, twenty out of the fifty largest manufacturing enterprises were under direct or indirect state ownership and/or management (see Appendix I).

During the recession, state investment activity has thus assumed again the importance it had 'lost' during the 'economic miracle' period when private capital was the pivot of rapid industrial expansion and development. Unlike the first post-war decade, it has not been restricted to investments in the infrastructure public-utilities sector of industry, but has, as we shall see, determinantly intervened in maintaining and/or transforming the structures of industrial production and the pattern of industrial development.

Chapter 3

STATE INDUSTRIAL DEVELOPMENT POLICY; THE ROLE OF THE GREEK STATE IN THE PROCESS OF CAPITALIST ACCUMULATION

3.1 State Industrial Policy: The Issues Involved

Having examined the main phases of post-war industrial development in Greece and the morphological aspects of the country's manufacturing industry, we shall in this section proceed to examine the relation between state and industry and the state's overall industrial development policy, as they were established in the course of post-war industrialization. We shall, furthermore, provide some first indications about certain re-orientations in state industrial development policy that followed and evolved as a response to the industrial recession.

There are two basic dimensions of state industrial policy and practice which we shall be concerned with here. These two dimensions define the role that the Greek state has assumed in the process of national industrial development and the form of its relation with the industrial firm. The first concerns the direct involvement of the state in the industrialization process as an entrepreneur, as an industrial investor itself. This area of industrial and economic activity is part of what is generally described as the public sector. With the realization of public investments in industry the state becomes itself an industrial owner, often of a monopolistic status, and directly participates in the production process. Public enterprise is the most direct means through which the state may explicitly (i.e., as part of a well articulated governmental policy) or implicitly (i.e., through the way public enterprises relate

to private ones and/or through their strategic position within industry) attempt to centrally plan industrial development and to influence the pattern of capitalist accumulation at a national level (I. Sachs, 1964). The second dimension of state policy and practice does not entail the direct activation of the state as industrial investor, but pertains to the way the state relates to private industrial investments, private capital, and the way it attempts to promote industrialization through reinforcing capitalist accumulation. In Greece this particular aspect entails what is referred to as the “state incentives policy”: A series/system of subsidies to the private capitalist firm.

These two dimensions have attracted the attention of a number of scholars when dealing with the state’s relation to industry in their studies of industrial development in Greece. Overall, such attention tends to inform heavy criticism in relation to both lack of state initiative in participating in industrial investments and planning as well as the highly beneficiary treatment of private capital at the expense of the overall economic ‘well being’ of the public sector. (G. Dovas, 1980; A. Kintis, 1982; T. Gianitsis, 1985; M. Negreponi-Delivani, 1986; M. Malios, 1986; S. Mangliveras, 1987). Such criticisms stem both from the left and the right of the political spectrum.

The case is, however, that state industrial policy has not in itself constituted a main theme of study in Greek socio-economic literature. Accounts of it have rather been the by-product of scholarly attempts aimed primarily at examining certain distinguished characteristics and/or prominent problems of Greek industrialization. In such cases attention is focused on those features of state policy — typically the most prominent ones and usually at the exclusion of others — that directly relate to those aspects of the industrial structure that are under examination. Such endeavours, therefore, have treated state industrial policy in a fragmented way: They focus on certain aspects of it depending on the general scope of the study, and view it neither as a coherent whole nor in its diachronic development.

For example, one of the main features of Greece’s industrialization that has received much attention is the intrusion of foreign capital investments. The Greek

state's policy in respect to foreign investments in the country has consequently been an exhaustively discussed subject, at the expense, however, of most other aspects of the state investment policy. The state's regional-peripheral development policy is another subject that has attracted scholarly attention. (G. Kafkalas, 1984; E. Andrikopoulos and G. Kafkalas, 1985; M. Negreponi-Delivani, 1986: 112-113; A. Kintis, 1982: 111-134). It has been critically examined in relation to its **effectiveness** — found minimal — in promoting industrial decentralization and alleviating the regional problem of Greece. It has not been studied, however, with respect to its connection with the overall state industrial investments policy or its practical effects on and actual uses for and by the individual manufacturing firm. In fact, with few notable exceptions, namely G. Stathakis (1983) and E. Andrikopoulos and G. Kafkalas (1985), such connections have been completely overlooked. And yet, studies in this direction could possibly provide more fruitful insights concerning the widely acknowledged 'faults' and 'inadequacies' of regional policy.

The relation between state and industry has recently become more topical than ever, because of a number of important steps the Greek state has taken in the 1980s in intervening in economic development. The 'problematics', for example, or the buying off of private firms by the public sector — issues we shall deal with in detail in our next chapters — have constituted favourite themes of journalism in recent years. And yet, the sociological literature, rich in schematic accounts, still lacks a concrete and systematic analysis of the relation between state and industry, especially as to the specific forms in which this relation manifests itself at the firm level. Such an analysis is now needed possibly more than ever in comprehending the recent developments of the industrial formation in Greece and in understanding along what lines the industrial sector re-structures and re-orientes its activities under the crisis. This is all the more so as there is strong evidence that the state-industry relation has (a) become increasingly strong and (b) has undergone considerable changes in the post-75 period. It has become increasingly dominant, in the sense that since the crisis, industrial development and restructuring have become more and more dependent on, and their form more and more determined by state intervention.

On the other hand, the restructuring of the industrial sector in Greece is increasingly occurring along international lines, being closely interlinked with global developments. Its long established extraversion is intensified. The industrial firm, forced by the circumstances of the crisis, that is, what it itself experiences as an intensification of international competition, is increasingly adopting an international orientation both at the production as well as market levels. It is, therefore, crucial to determine the way the firm emerging and operating within a national setting is simultaneously functioning on an international scale. It is a process whereby global developments determine and are determined by national ones.

The way the national setting of industrial development has, thus, become increasingly susceptible to state intervention and regulation while in its turn interpenetrates the process of globalization of production, attains major importance in determining the concrete aspects of the country's position in the international division of labour and the ways in which the state mechanism can act as a mediator between national and international developments.

3.2 The Formulation of a Policy in Favour of the Private Firm

The fragmented way in which state policy has been receiving attention conveys the impression that post-war state practice has not been underlined by any coherent logic. State measures pertaining to industry often appear circumstantial and coincidental. For some, it seems that a coherent and consistent development policy was never in fact adopted, especially as it is difficult to categorize the policy pursued either as an "import substitution" or "export oriented" one (M. Negreponi Delivani, 1986: 107-108).

Such views are further reinforced by the fact that most approaches to the issue of state intervention in industrial development strongly emphasize the first dimension of state policy that we have mentioned, the role of the public sector. State industrial planning and the role of public investments in industry constitute

their main considerations in determining the forms and degree of the overall state involvement in the industrialization process. Such an emphasis, given the actual developments within and of the public sector in Greece, confirms the idea that the Greek state has not pursued a dynamic policy of national industrial development and has, therefore, minimally influenced its nature, orientation, and degree. The reason is that the entrepreneurial activity of the public sector and the degree to which the state attempts to intervene and/or participate in the production process through such activity has been indeed very low, especially for the period up to 1975. State programming of industrial development, on the other hand, has been non-existent. This form of conduct on behalf of the Greek state has in fact constituted a definite political decision and has evolved as the basic governmental ideology with respect to industrial policy (T. Giannitsis, 1985: 80). Formulated in the early 1950s, this ideology has dictated the forms and limits of public sector expansion and has strongly influenced all related state policies since (A. Kintis, 1982: 154-155).

In this context, the Greek state's practice has been, more often than not, assessed against a potential — considered also ideal — public sector interventionist policy that could and/or should have been pursued in the early phase of post-war industrialization. The positive results that such a policy would/might have rendered are then weighted against the problematic situation of Greek industry evident today. It is on the ground of such plausible alternatives that A. Kintis accuses the state of “impotence”, “unwillingness” and “weakness” (1982: 160) and M. Negreponti claims that “the effort at industrialization, as far as governmental policy is concerned, never revealed the existence of any specific targets” (1986: 108). The lack of public sector participation in manufacturing industry is, on such a basis, implicitly or explicitly interpreted as lack of state intervention in the process of capitalist accumulation. Thus, T. Giannitsis claims that “the state systematically omitted to resume itself the advancement of capitalist accumulation in manufacturing” (1985: 19). The whole approach feeds a theory of “missed chances” for the establishment of a strong, nationally integrated industrial structure which considers

as static the 'impasse' that Greek industry faces today rather than attempting to examine the dynamics of the restructuring in process.

Public sector activity is, indeed, the most outstanding form of state intervention in the economy. It constitutes a direct form of state participation in capitalist reproduction. Studies of the patterns of development within and of the public sector and of the public-private share of economic activity in any concrete case are therefore crucial in determining the state-capital relation and the state's role in capitalist reproduction within a specific social formation (J. Sachs, 1964). When public sector entrepreneurial activity is high and/or when the state proceeds to articulate specific programmes to define the direction of industrial and other productive activities — whether in favour or not of private capital —, state interventionism in the process of accumulation and reproduction appears strong. An abstention from such entrepreneurial activity and planning, therefore, may at first instance give the impression of a weak link between state and industrial capital and a weak or non-effective state role in industrial development. Given, also, the dependent nature of Greek industry and its high extraversion, that is, its weak inter-sectoral linkages, its external market orientation, and the dominance of multinationals (P. Petrakis, 1982; T. Fotopoulos, 1985),¹ the industrial sector seems to have been developing along structures and orientations autonomous from the state.

Even so, however, a state such as the Greek one, weak and subordinate in its partnership with capital, a point made by N. Mouzelis in a slightly different context (1980: 255-256), is not necessarily a state not involved determinately in the process of capitalist accumulation for private capital interests, or a state lacking consistency or logic in its policy. To emphasize the public sector aspect of state policy, or absence of, is to obscure the specificities of the existing partnership and to minimize the effect of other, less obvious and direct, forms of state intervention in industrial development.

¹ Extravert as opposed to autocentric economic activities are considered a distinct feature of dependent development. On the use of the concept see S. Amin, 1976.

3.2.1 Private Initiative and the State

The state in Greece has always committed itself to the principle of free enterprise (N. Mouzelis, 1980: 253). The conservative governments preceding the socialists' election in office were strong advocates of this principle; the post-1981 PASOK (Panhellenic Socialist Movement) government never questioned it in actual practice (J. Petras, 1987: 12-16) although its policy had a strong orientation towards promoting a 'mixed economy' (A. Papandreou, 1987).

For the period at least up to 1975, this was furthermore a commitment to free **private** enterprise, which restricted state direct intervention in the production sphere either as investor or as a central programmer to the minimum possible degree. In describing this phenomenon for the early post-war period, James Petras claims that,

The swollen apparatus of the state, though heavier and more pervasive than anywhere else in capitalist Europe, had renounced any structural intervention in the productive economy and restricted itself to intermediation within well-known circuits.
(J. Petras, 1987: 5).

In respect to the state's position within industry, such a commitment exhibited itself in two ways:

(a) The state revealed a tendency to "abstain" from any productive investments that did not pertain to the basic infrastructure industries, necessary for the overall industrialization and modernization of the economy (T. Giannitsis, 1985). In spite of the state's strong presence in the banking sector,² its presence in non-service industries through public sector investments was restricted to the "public utilities" sectors, that is, energy, water-supply, telecommunications, transport and other communications. The manufacturing-processing and mining sectors, most notably, were left as the sectors of "private initiative".

(b) On the other hand, the state also did not assume any central program-

² Mainly through the National Bank and, since 1975, the Commercial Bank, the other financial giant of the country, which did and still do have strong links with the industrial sector (N. Mouzelis, 1976: 63-64, and 1978: 50-51, 272-273)

ming role which would define the production orientation of industrial investments, public or private. Such a plan would have been based on an assessment of the existing national resources and would have encouraged investment choices that would have benefited in the long run the national economy and the requirements of nationally centered development. It would have stimulated and encouraged a certain degree of inter- and endo-sectoral links within industry, which would have minimized its extraversion (D. Batsis, 1947) and would have therefore rendered it less vulnerable to the crisis. But the Greek state, even where, as we shall see, it did attempt to promote investments, did not promote them on the basis of production criteria and did not interfere with the actual investment process.

The lack of an explicit policy of industrial planning is a strong point in favour of those arguments claiming the circumstantiality of state measures and the non-existence of an industrial development policy as such. Even though, however, the state lacked a well articulated and consistent public sector interventionist policy and left all manufacturing investment decisions to “private initiative”, it most certainly played an important role in shaping and defining the context within which private initiative decisions could be actualized and private investments realized. And even though it abstained from direct investments itself, it did follow a very consistent policy in promoting them.

Possibly the only consistent and invariable aspect of state policy with respect to developmental problems of the post-war period was the commitment, ideological and practical, to the market economy. This commitment **did not restrict** the extent of state intervention, but defined-determined its direction: the private sector of the economy should be re-inforced by any means and the obstacles to capital should be removed out of the way through the granting [by the state] of the general conditions of production without the direct undertaking of productive investments. (E. Andrikopoulos and G. Kafkalas, 1985: 132, emphasis added).

The way the state pursued this objective was through a number of financial provisions to the private firm, aimed to constitute investment “incentives” for the private entrepreneur. The actual effect was to socialize a considerable part of the

private capitalist's production and reproduction cost. The state developed a very elaborate and consistent policy in pursuance of this objective, which has proved very effective for private capital interests albeit its incongruency with any 'national' autodynamic development visions and which it has consistently implemented to date. This policy should not be underestimated in its effects on the industrial structure of Greece and, in recent years, on its effects in the capital's attempts to cope with the overproduction crisis and with industrial restructuring. Although it has not been accompanied by any form of planning until possibly very recently, it has nevertheless in itself constituted a very strong and consistent form of state intervention in the capitalist accumulation process in Greece. It has been a most powerful means through which the state has attempted to sustain industrial and economic development with a specific target — that of securing the maximum possible benefits for private capital.

3.2.2 Subsidization of Private Investments: The State Incentives System

In the process of post-war industrialization the Greek state structured its relation with industry on the basis of financial provisions for the individual enterprise. These provisions developed into an elaborate system of state subsidies for productively invested capital, articulated and formalized into an equally elaborate legislative edifice, the so-called "incentives" or "development" legislation. Its basic aspects were established mainly during the 1950s and 1960s and provided the foundation for future formulations of state industrial policy and for the state's mode of conduct with industry.

State subsidization of the industrial firm became the dominant feature of state industrial development policy in Greece, irrespective of the various shades such policy assumed under different governmental ideological perspectives. It was exercised to such an extent and with such consistency that it not only came to dominate the state-industry relation, but to determinately influence the way the individual firm itself perceives its position within the national economy, practices

its growth policy, and defines its expectations from the state. At a governmental level it came to be the basic conception of how the state can influence, regulate or stimulate industrial development on a national scale. In short, it became a structural characteristic of Greek industry and an intrinsic feature of the pattern of capitalist accumulation in post-war Greece.

The idea that the state's effective line of practice in promoting industrial development is in subsidizing the operations of capital at a private firm level has also underlined the way the Greek state relates to industry through its own investment activity, that is, through the public sector in general and the public corporation in particular. Most predominantly, however, this attitude has constituted the quintessence of the state's direct form of conduct with the private firm, under the rubric "state incentives policy". In later chapters we shall look at the specific implications of the subsidization policy for the individual manufacturing firm. In this section we shall examine the formulation of this policy in its broad aspects as expressed in its legal framework.

The "incentives" policy relates to a number of economic advantages for private capital which range from taxation deliverances to interest subsidies and direct grants. In all cases the state is to undertake directly or indirectly part of the cost of production by minimizing the investment cost and further increasing the profit margin for the private entrepreneur. Overall, we detect four main sets of subsidies, introduced at different stages of the post-war development process up to the early 1970s : (a) subsidies for foreign capital investments, (b) subsidies for large scale investments, foreign or domestic, (c) subsidies for all types of investments — a measure increasingly associated with regional development policy, and (d) "export promotion" subsidies.

Accommodated by a series of laws institutionalizing the privileges involved, the incentives policy started off in the form of tax exemptions as early as 1949 (K. Mangelis, ministerial mimeo, no date). Tax exemptions were amended and increased over the years, reaching a landmark point with LD 4002 of 1959 advanced by

Karamanlis's government of *Ethniki Rizpaspastiki Enosi*. Over the following fifteen-year period tax related economic benefits remained the basic form of state subsidization "incentives".

The above taxation incentives, conclusively examined, were superior to those introduced in most other underdeveloped as well as advanced countries both in respect to their range, i.e. the large number of productive sectors covered, and in respect to their volume, i.e. very high discount percentages of the tax burden. (K. Mangelis, ministerial mimeo, no date).

These first incentives, or "tax facilities" as they are referred to in the legal texts, were not offered indiscriminately. In the first instance, the state implemented a policy favourable to foreign capital direct investments in Greece. The legal structure that accommodated this policy was established as early as 1953, with the infamous Legislative Decree 2687 "relating to investments and protection of foreign capital" (Government Gazette vol. A, no. 317: 10-11-1953). That was the year of the Marshall Plan's official termination in Greece. It was also the year of the major economic reformations of Markezinis³ which aimed at rationalizing the economic structures of Greece, adapting and integrating them to the international economic environment.

The Decree, which well preceded in time the actual bulk of inflow of foreign capital investments in the country, emerged out of the need to protect the existing Marshall Plan and American investments, which accompanied the Plan's implementation. It was also intended to allow for the "cosmopolitan" sections of the Greek merchant and shipping capital to re-enter the country on favourable terms (D. Haralabis, 1985: 74-75). It, thus, provided well in advance the frame for the beneficiary-privileged treatment that foreign multinationals were to receive when they did penetrate the country in larger amounts about a decade later. It has since constituted the substance of the state's foreign capital attraction policy.

What the particular piece of legislation informed was a set of economic

³ Markezinis was the Minister of Coordination at the time under the right wing government of *Ethnikos Synagermos* of field-marshal Papagos.

advantages for foreign capital investments, so as to secure for them the highest possible financial benefits.

Article 1: "For the purpose of this Legislative Decree foreign capital shall be deemed capital imported from abroad in any form, namely foreign exchange, machinery and materials, patents, technical processes as well as trade marks."

Article 2.1: "The provisions of this Legislative Decree shall apply to foreign capital in the aforesaid sense imported into the country for productive investment as from the effective date hereof."
(ETVA, no date: 3).

The following are some of the major provisions specified.⁴ The Decree permits the export ("remittance"), in foreign currency, of the invested capital along with the interest or the enterprise profits. The exportable amount of profits, if re-invested in Greece, also attains foreign capital status. The income tax rates approved at the time of the agreement freeze for a ten-year period. Taxation is, furthermore, not to be retroactive while it adopts automatically to the lowest limits. The Decree allows for the lowering or complete exemption "from customs duties, levies, or other taxes and charges on imports of machinery, accessories, spare parts and tools", as well as from any tax, charge or levy imposed by local governmental authorities, including also the turnover tax.⁵ Finally, the assets of these enterprises are exempt from "any and all compulsory expropriation" and all disputes between them and the Greek state shall be decided by arbitration, in which the umpire can be "a foreign national or a foreign legal entity". (ETVA, no date: 8-11).

The Decree was later supplemented by a number of laws, most notably those issued during the dictatorship, Laws 89 of 1967 and 378 of 1968 "relating to the establishment in Greece of foreign commercial and industrial companies", and the more recent Laws 27 of 1975 and 849 of 1978. These amendments increased the volume of provisions and did not alter the basic frame of the Decree which remains in effect to date and constitutes the backbone of all legislation that relates to for-

⁴ For a detailed presentation of the particular law as well as others of a similar context, see D. Benas, 1978: 44-57.

⁵ The turnover tax was the predecessor of the VAT which it was replaced by in 1987 due to Greece's incorporation into the EC.

foreign capital investments in Greece. It was provided constitutional status both with the 1952 Constitution, article 112, and the new Constitution of 1975, article 107. (ETVA, no date: 3, 16). The aforementioned legislation provided a strong basis for what Mouzelis describes "a very close collaboration" between the Greek state and foreign capital, a partnership in which foreign capital occupies the dominant position (N. Mouzelis, 1980: 255-256, 260).

It has been calculated that up to 1980 capital to the value of one-and-a-half billion US dollars has been invested on the basis of LD 2687.⁶ Manufacturing industry absorbed 70 per cent of these investments. They were directed primarily in the sectors of chemicals, petrochemicals, and metallurgical industries, which absorbed 60 per cent of the total manufacturing investments, and secondarily in the sectors of shipbuilding and electrical appliances (17 per cent).

The beneficiary treatment of foreign capital by the Greek state has received considerable attention in numerous publications and has been one of the few aspects of state industrial policy so exhaustively analyzed. (Some of the most prominent works on the subject include D. Benas, 1978, G. Dovas 1980, A. Gregorogiannis, 1980, V. Papandreou, 1986). It has been emphasized at the expense of other aspects of state policy to such an extent that overall it tends to create the impression that the Greek state has almost exclusively allied itself with foreign capital and disregarded the demands and interests of domestic capital. Some studies do convey

⁶ The data upon which the following calculations are based are provided by K. Mangelis, Spokesman for the Ministry of Coordination (mimeo, no date: 139-140), and cover the period up to the 30th of June 1980. They are in agreement with the data provided by V. Papandreou (1981: 173, 180-181). There is a difference in the amount of capital approved for import and that which has actually been invested, as in many cases the enterprises do not actually proceed to realize the investment or do not invest all the amount they had initially sought permission to. For the period our data refer to, the capital that has been approved for import amounts to almost \$4.5 billion as opposed to the \$1.5 billion that has in fact been invested. It should also be noted that the foreign capital imported on the basis of LD 2687 does not exhaust the total amount of foreign capital invested in the country, although it does represent the majority of it. Foreign capital has also been invested on the basis of the aforementioned 'supplementary' laws. In LD 2687 all foreign investments ultimately guarantee their security and protection. (V. Papandreou, 1981: 173-175)

the impression that domestic capital had to struggle with the multinationals for its survival primarily because of lack of state support (see V. Papandreou, 1981: 171-72).

If it has been the case that domestic capital has struggled, it has not been because of complete lack of state support, rather it is because of the general competitive, financial, and other advantages that the transnational corporation enjoys (F. Fishwick, 1982). The transnational-multinational company due to its size, calibre, technological superiority, mobility,⁷ and market position is much more powerful and dominant than the average domestic Greek industrial firm (I. Iliou *et al.*, 1973). Such advantages do of course include close collaboration with the state and the benefits it enjoys in this collaboration. But the Greek state's industrial development policy is not contained within the foreign capital attraction policy. As the industrial context changed, the "incentives" system was gradually expanded to include domestic investments. The fact that some privileges may be claimed to be higher than others should not obscure the essential element in the state-capital relation. The Greek state **has** indeed constituted an essential factor in the process of capitalist accumulation for domestic and international capital through the subsidization in various forms and in various degrees of the capitalist cost of reproduction.

Most of the industrial firms dominating the Greek industry today were already established by the early 1960s. At that time they were expanding quickly. Some of them represented major domestic capital investments. This produced a change in the pattern of state development policy. Whereas during the 1950s the primary emphasis of this policy was on foreign capital investments, in the 1960s the state started to formulate a policy for domestic investments. The first major attempt to systematize a set of subsidies for domestic capital as well came in 1961 with Law 4171 (as amended by the LD 916 of 1971 and other decrees during

⁷ "It is not that foreign interests have set up some sort of formidable pressure group which dictates what economic policies the Greek government must follow. ... The real strength of foreign capital lies less in its ability to exert pressure, than in its threat of potential defection." (N. Mouzelis, 1980: 256).

the dictatorship) and pertained mainly to tax exemptions. The particular law referred to investments that concerned the establishment of new industrial units, in which case the investment had to be over Drs 150 million, and/or the expansion of already existing units, in which case the new investment had to be over Drs 50 million. While this piece of legislation pertained only to big investments, it did not, however, discriminate on the 'national' origins of the invested capital. Under this law big industries, whether foreign or domestic, were treated alike. Big domestic capital started to enjoy, therefore, the tax exemption privileges which foreign capital had been entitled to until then.

During the following decade a series of laws reinforced the tax exemptions such enterprises could enjoy. The highest provisions for legal tax-escape were offered during the dictatorship (LD 147/1967, 1078/1971, and 331/1974) and this provided the basis for higher enterprise profits. The following table (3.1) based on Gregorogiannis's calculations (data from the *Statistics of Declared Income of Legal Personna and their Taxation*, cited in A. Gregorogiannis, 1980: 82) gives an interesting picture of the effect that the application of these laws had on some of the largest manufacturing enterprises in Greece (compare with Appendix I). For these fifteen companies included in the table, more than half of their net profits remain untaxed. For eight of them, four fifths of their net profits remain untaxed; in fact the percentage goes as high as 99.1 per cent! And as Gregorogiannis points out, this refers only to the declared net profits, that is not accounting for 'illegal' tax avoidance (see A. Gregorogiannis, 1980: 78-88).

In the late 1960s the incentives system expanded to include all productive investments as well as other forms of subsidies (Law 147 of 1967 as amended by Law 607 of 1968). The incentives concerned tax exemptions as well as interest rate subsidization. The precondition was that the investment had to be at least Drs 10 million. This minimum has since remained as a precondition of subsidization in all "development" legislation. In fact, the particular laws claim to have been aimed at assisting those small companies that would have been unable to proceed

TABLE 3.1
Profit Tax Exemptions on the Basis of State Incentives Laws
(1974 — in million Drs)

Manufacturing Firm	Status	Sector	Net Profits	Untaxed Part	%
Motot Oil (Vardinogiannis)	D	petrochemicals	107	98	91.6
Petrola (Latsis)	D	petrochemicals	385	338	87.0
Greek Petroleum Enterprise (Niarhos)	D	petrochemicals	32	21	96.7
Chemical Industry of N. Greece	F	petrochemicals	92	64	69.5
Ethyl Hellas	F	petrochemicals	63	41	65.6
Thessaloniki Oil Refinery (Pappas)	F	petrochemicals	217	180	82.9
Larco (Bodosakis)	D	metallurgical	78	58	78.2
Alouminum De Grece (Pechiney)	F	metallurgical	429	230	53.6
Sidenor-Northern Greece	F	metallurgical	272	239	87.6
Halyvourgiki	FD	metallurgical	152	112	73.7
Hellenic Steel Industry	FD	metallurgical	241	124	51.4
Viohalko	FD	metallurgical	124	84	67.2
Fulgor	FD	electrical appl.	135	130	95.9
Shelman	FD	wood-cork	123	122	99.1
Piraiki-Patraiki Man. Inc.	D	textiles	134	90	67.6
TOTAL (15 enterprises)			2,750	2, 269	82.5

F: Foreign Investment

D: Domestic Investment

FD: Foreign Equity Participation

Source: Calculations on the basis of data in A. Gregorogiannis, 1980, p.82.

with the investment without the state subsidies (K. Mangelis, ministerial mimeo, no date). By the late 1960s, therefore, with industrialization well under way, a system was established that would enable private industrial enterprises, whatever the nationality of their capital and whatever their size, to be subsidized to a lesser or higher degree by the state.

In parallel to the development of investment incentives mentioned above, a fourth set of subsidies was introduced since the mid 1950s. Its general aim where industry was concerned was to promote an export orientation in manufacturing production. In subsidizing part of the operational costs of private export manufacturers, it was intended to decrease the overall cost of production of Greek export products and thereby increase their competitiveness in the international market. The first major Law advanced for this purpose was issued as early as 1954 (Law 2861, Government Gazette vol. A, no. 117, 10-6-1954). The report asserting the reasoning behind it read as follows:

A study of our balance of trade shows that the products we export are mainly agricultural. Export activities pertaining to industrial products, however, must be gradually developed so that the country's labour capacity can be fully used, regardless of whether the primary materials utilized for the manufacturing of these products are domestically produced or imported. After all, during recent years, certain branches of Greek industry that have the capacity to fulfil domestic market needs as well as realize exports have been significantly developed. Every possible attempt must be made towards the direction of assisting the export of industrial products. Due to competition with the advanced industrial nations, grave difficulties confront Greek industry in the international market. (Legal Code of 1954: 502).

The above report in fact gives us the clue as to why state export subsidies, although they achieved a lot in promoting manufacturing exports over the years, did very little to improve Greece's trade balance deficit: In promoting manufacturing for export, they have indirectly promoted the import of primary materials and machinery to be utilized for their production. Export subsidies pertain to two types of firm operational costs. The first is precisely relief from all tariffs and other taxes paid for imported primary and fuel material to the extent that these are being used for the production of export items. The second is relief from social security and pension contributions that the employer is normally obliged to make for his/her workforce, insofar as this workforce is engaged in the production of commodities for export. The contributions are undertaken by the public fund.

Law 2861 “on promotion of exports of industrial and other domestic products” was subsequently amended by a series of legislative pieces (L 3213/1955, LD 4231/1962, L 4484/1965, LD 226/1969, and LD 849/1971), which maintained the same line of practice. The most notable of those was the Legislative Decree 4231 of 1962 (amended in 1969 and 1971) “on the promotion of the development of export trade” which, in addition to the above forms of subsidization, introduced extra tax deductions on company gross profits realized through exports.

In examining the “incentives” legislation, we realize that the industrial regime of accumulation established in Greece over the two decades following the end of the war, relied heavily on state indirect intervention to guarantee maximum profitability for private capital. It was thus based on a close relation between capital and the state (N. Mouzelis, 1980), in which the private enterprise had secured freedom of investment decisions, initiative, and a leading role in industrial development. In addition to establishing and providing infrastructural utilities, the state intervened to highly subsidize the returns on industrial investments, in other words, increase their profitability. It did so without attempting to directly or indirectly influence the specific direction of these investments, except for re-inforcing their export orientation. The private entrepreneur, foreign or domestic, was faced with a readily and cheaply available labour force (due to the agricultural exodus), an expanding domestic market, high state subsidization of the industrial firm’s turnover and export-import activities, and an overall favourable (at the time) international economic environment. The combination of these factors guaranteed, improved, and facilitated the private firm’s profit prospects.

The particular regime of accumulation, however, sustained a weak industrial structure that proved highly vulnerable under conditions of crisis. Given the high state support, which made easier the overall financial operations of the individual firm, and given also the dependent (most notably with respect to technology) and extravert nature of the industrial structure, it produced a manufacturing industry with high profits, but with a weak basis for achieving these profits. It also

produced a particular type of entrepreneurial attitude and activity — the type which, being accustomed to taking advantage of favourable economic circumstances, failed or was unwilling to maintain operations once it was faced with significant profit squeezes brought about by the recession and the intensification of competition nationally and internationally. In many cases this unwillingness stemmed from a generally “speculative” approach to investments that the specific pattern of accumulation fomented (M. Nagreponi Delivani, 1986: 79). In addition to non-productive, para-economic activities, “speculative” mentality pertained to productive investments to the extent that the emphasis was on short term high profits and short term exploitation of the available state subsidies and of easy bank credit. These were often intended for hoarding rather than long term business expansion, resulting in a type of industrialization which J. Petras describes as “directed not by the usual kind of entrepreneur but by a highly distinctive stratum of kleptocrats” (1987: 12). Such was often the case with the “problematic firms” we shall look at later on and with the way development incentives were sometimes exploited by private business. The lack of long term planning and programming was not, therefore, an exclusive attitude of the state; it characterized to a large extent private entrepreneurial decision making and outlook. In this sense, G. Sapountzakis describes the post-war industrial expansion as “more quantitative rather than qualitative” (1983: 21-22).

Overall, private capital failed to retain its initiative and its leading role in responding to the restructuring exigencies of industry. A state committee, set up in 1983 to inquire into the basic causes leading to the industrial crisis, concluded that the attitude adopted by individual enterprises was itself highly responsible for the deterioration of the firms’ performance. Such firms displayed: (a) “investment stagnation for the past fifteen years”, (b) bad management of financial matters — i.e., the immediate response to the firm’s problems was to resort to easy credit and over-borrowing, (c) overall inefficient management and lack of modern organization, and (d) “a static structure while the firm’s external environment was undergoing rapid changes”. (Business Information Bulletin no. 219, 1985: 31).

[During the 70s,] there was no attempt by the enterprises in our country to modernize their machinery; on the contrary, we observe a gradual deterioration of technological investments. We thus enter the 80s decade equipped with machinery which is not only antiquated, but is below the standards attained at the beginning of the 70s. If someone wishes to allocate [lack of] responsibilities, this is the greatest one: the de-industrialization of our country during the 70s. (G. Arsenis, 1985: 31).

The above is a statement by G. Arsenis, economist and Minister of National Economy at the time. His successor in Office, K. Simitis, advances a similar view:

Incorporation into the international economy exposes Greek enterprises to increasingly intensified international competition. Their competitiveness, therefore, attains an increasing importance. Greek enterprises respond to the intensification of competition **not** by improving their entrepreneurial efficiency, by resorting to traditional methods of survival, such as **state subsidies**, increased **borrowing** while knowing that repayment of liabilities is very unlikely, or inhibiting their competitors through political connections. ⁸ (K. Simitis as interviewed in Oikonomikos Tahydromos no. 8, 1989: 26 and 28, my emphasis).

3.3 The State–Industry Relation within a Changing Context

As discussed in the previous chapter, the industrial crisis in Greece became manifest both as a slowing down of the overall investment activity as well as an increasing built up of losses in the manufacturing sector. The first pertained to the “abstention” from investments of private entrepreneurs. The latter revealed the inability of individual firms to maintain profitable operations within an increasingly competitive environment and to successfully reorganize and reorient their activities in re-adapting and adjusting to the changes evident in this environment. These developments necessitated a response on behalf of the state to intervene as a regulator of the crisis at a national level. The underlying issues at stake were fundamentally socio-political rather than merely economic-monetary in nature: The coun-

⁸ K. Simitis here refers to the “personalistic” and “clientelistic” network of relations still evident in the Greek political structure (see N. Mouzelis, 1977).

try's productive infrastructure was in danger of disintegrating and the anticipated unemployment problem would have been immense.

In intervening as a regulator of the industrial crisis, the state's position vis a vis private capital did not alter fundamentally. The state continued to relate to it as a "subordinate partner" insofar as the main aim was to continue to provide and ensure the general conditions of capitalist accumulation and reproduction. Governmental policy, in practice if not in public rhetoric, continued to be underlined by the basic post-war 'philosophy' of considering private capital as the ultimate mover of industrial development. On the one hand, efforts were concentrated in providing incentive and direction for private initiative and in re-establishing an overall favourable environment that would allow for the realization of private investments — the attempt to break the "investors' strike" as Prime Minister A. Papandreou has referred to the deindustrialization process evident since the mid 1970s (A. Papandreou, 1987b). On the other hand and on the basis of the same rationale, efforts aimed at minimizing capitalist losses through directly or indirectly transferring them to the state budget and the public sector, that is to the people (S. Mangliveras, 1987: 53).

The post-war regime of accumulation did not collapse as such, but it was the state which assumed a leading role **on behalf of** capitalist interests and **on account of** capital's needs in attempting to pull industry through a restructuring process and out of the crisis impasse. At an individual firm level, state subsidization of the cost of production and/or of financial losses became a crucial factor in improving the firm's market competitiveness or in literally preventing closure. If in the 1950s and 1960s state subsidies, direct or indirect, aimed at increasing capital's profit returns, during the recession they have increasingly become a means of sustaining firm operations and even enabling individual enterprises to survive at the edge of market competition in the hope of a successful recuperation and a future improvement of the country's industrial development prospects within the changing international configuration.

It is the purpose of the present study to show in concrete detail the ways

in which the above ongoing processes are taking place and the ways in which they are being perceived and experienced on either side of the state-industrial capital relation. For increasing state intervention during the industrial recession is not merely a matter of 'state initiative' in the pursuance of certain politics and policies. Its prominent counterpart is an increasing dependence of the individual enterprise on this particular form of intervention. It manifests itself as an explicit and pre-planned reliance on the state practice of undertaking part of the firm's production and reproduction costs in order to improve the firm's competitive market position as well as on the state initiative for assisting and providing a direction for industrial restructuring at large. This reliance has its roots in the legacy of the post-war mode of accumulation and the already established tradition of direct financial support of industrial capital's operations. But, in particular, it has been capital's specific mode of responding to the country's changing position within the new international division of labour. This position has been affected both by global capitalist restructuring and by Greece's increasing international economic integration, most notably its incorporation into the EC in the 1980s and the prospect of the European market unification of 1992. These changes have brought increasing pressure on the Greek industrial sector, especially as they have shaken some of its traditional advantages and orientations.

In an increasingly competitive market what becomes crucial for the individual profit-seeking enterprise is cost saving. This is pursued in a variety of means and methods (e.g., relocation of the production site, shift of capital into other branches of production or other types of products and productive methods, technological modernization and higher automation) depending on the nature of production and the scale of firm operations. Overall, the minimization of the cost of labour, either in absolute or in relative terms, that is, through its replacement with machinery and through increasingly automated production methods, becomes a basic target in the cost saving competition. Greek manufacturing firms as a whole have seen recent developments on a global scale squeeze their options for cost saving

either way (T. Giannitsis, 1984).

On the one hand, dependency on imported machinery and technological know-how increases the capital cost of modernizing to a degree that cannot be efficiently or sufficiently met by the individual firm. On the other hand, although the cost of labour in Greece remains one of the lowest within the EC, the industry gradually loses out in competition with the much lower wages of other newly industrializing countries, especially the South East Asian countries, and the multi-nationals' strategy of relocating parts of their production process there. The latter form of competition has become increasingly intense as the center of gravity of Greek industrial entrepreneurial activity during the crisis reveals a tendency to shift from the technologically more developed to the traditional labour-intensive branches of production, such as textiles and garments, leather and footwear (T. Giannitsis, 1985). These branches along with agricultural products and minerals account for the majority of Greek exports. During the crisis, Greek industry has thus come under pressure on both sides: The sectors of production of technology are beyond reach as they constitute the area of specialization of the industrially and technologically more advanced nations. The commodities of labour intensive industries, on the other hand, have more or less become the area of specialization of other newly industrializing countries. (T. Giannitsis, 1984: 165-171).

In addition to the above, the global configuration has presented Greek industry with another negative aspect: The crisis of overproduction has been worldwide most acute in traditional sectors of manufacturing industry such as metallurgical and in particular steel and steel-related industry and shipbuilding, which had been the new sectors of investment in Greece during the 1960s boom. A report on the development of industrial investments in Greece submitted by the OECD after the government's request, concluded that investments show not merely a decline but very low profit returns due to the failure of Greek-based industry to adapt to the new technological and production conditions of the world economy since the beginning of the 1970s. "During the recession, industry remained attached to branches

whose products face a declining demand worldwide" (To Vima, 30-8-1987). Finally, Greece's incorporation in the EC means that not only is it deprived of any measures it could employ for the protection of domestic industry, but that international competition is increasingly located within its own market.

The pressures brought about by these developments within the international setting, which will be highlighted in a number of empirical case studies throughout the rest of this thesis, are felt by the individual enterprise as primarily an intensification of market competition and they are being treated as such by state industrial policy. In essence, they pertain to the terms and forms in which the industrial sector in Greece will be able in the long run to re-establish and re-define its position in the international division of labour. Development planning along restructuring lines is the response of the nationally-based industry to the changing global configuration. It thus involves an increasing external orientation and considerations which are influenced by international as much as national developments. In this sense, the state acts as a mediator of the national and international settings of the firms' operations and assists the nationally based industrial enterprise in functioning and situating itself within an increasingly integrated economic environment — that is, sustaining and subsidizing capitalist reproduction on a national as well as an international scale.

3.3.1 New Aspects of State Industrial Policy: Issues of Interest for the Present Study

Within this changing context whereby the state–industry relation has become closer and state intervention in the process of capitalist accumulation has assumed a more crucial function for national industrial development, state industrial policy developed certain new dimensions during the 1970s and 1980s.

The state incentives system did remain in general a main form of subsidization. Old practices were sanctioned and new ones were introduced. Tax, tariff, and other levy exemptions, which had been the basic form of state subsidies during

the first post-war decades increased and were reinforced by a variety of newly introduced "incentives". These new incentives pertained to much more specific aspects of capital operation and reveal a more conscious response to capital's needs for restructuring. Interest rates subsidies complied with the private investors' increasing reliance on borrowing. Subsidies for the cost of training of the labour force and the cost of technological modernization (i.e., replacement of old machinery or employment of new production methods) with particular emphasis on energy economizing were also introduced. Export subsidies increased. Most importantly, direct state grants were introduced and became a major means through which the state undertakes part of the financial cost of private capital investments. Today, in certain cases, an enterprise wishing to proceed with an investment worth an x amount of capital can, among other subsidies, receive **half** of that amount as a completely free state grant. It can, alternatively, choose to make a joint investment with the state, so as to minimize "private risks".

Included with these new forms of subsidization was an overall re-orientation of the state subsidies policy towards **regional** development. By the early 1970s the high concentration of the population and of industrial and economic activity around Athens and in few other urban centers of the country presented a sharp contrast with the economic decline of the agricultural and thinly populated countryside. The problem created by this particular spatial pattern of highly uneven development was one pertaining to the actual socio-economic survival of certain peripheral regions. This furthermore created severe disruptions for the process of national economic integration and domestic market expansion and unification.

Without negating any of its previous aspects that we have already discussed, state industrial development policy has thus increasingly since the early 1970s focused on regional development (LD 1378/1971, 1312/1972, and 1377/1973). In a country with half its industrial capacity and almost half of its population concentrated in the area surrounding its capital city, any national economic development considerations must include the problem of peripheral development. In fact, the two

issues have been profoundly interlinked especially with the most recent legislation of 1978–1982 “pertaining to the national economic and regional development incentives” (Government Gazette vol. A, no. 232, 1978; no. 8, 1981; and no. 70, 1982). The degree and form of investment incentive subsidies became a function of the firm’s location, so that more and higher subsidies are provided to enterprises established or relocating their production sites in regions of a lower level of economic development. State subsidization of private capital has thus become part and parcel of the subsidization of regional development. As a result, industrial restructuring over the past fifteen years or so has entailed to a certain extent a regional orientation. In the third part of the present study we will be addressing the question of whether this was primarily for reasons that pertained to the firm’s needs for a production reorientation or whether it was mainly in pursuit of the higher subsidies offered in the peripheral regions, increasingly needed for the growth of an industry severely hit by the crisis. For the moment it suffices to point out that through the ‘incentives policy’, whatever its form, the state has had major influence on the pattern and rates of capitalist accumulation in Greece. In the 1950s and 1960s the application of the subsidies system had the effect of accelerating industrial expansion and assisting in the realization of super-profits by the private firms. During the crisis, it has increasingly assumed the more critical role of maintaining industrial reproduction and investment levels, and assisting in the restructuring of industrial capital. In either case, the state has not merely interfered with the form of capitalist accumulation in Greece, but has itself become an immanent factor in this process.

In addition to the private enterprise and regional subsidization policy, a public sector interventionist policy has also been pursued since the recession with the aim of assisting overall economic development. As discussed in the previous chapter, public enterprise has intervened to maintain and stimulate investment activity and to ease some of the negative repercussions of the crisis. Public sector expansion attained high levels during the intensification of the crisis in the 1980s. During this time it became an articulate and systematically pursued policy under the PASOK

government. On the basis of PASOK's premise of a "mixed economy", the existing public enterprises (DEKO by the Greek initials) and state direct investments in the manufacturing sector became means of implementing the general industrial development/restructuring policy.

The government wants those DEKO with key positions in production, the larger ones which provide basic services in a monopolistic form, to resume a dynamic role in the policy of economic and social development. (DEKO General Secretariat, Internal Circulation Report, 1986: 1).

For this purpose a Public Enterprise (DEKO) General Secretariat was established in 1985. One of its main functions was to supervise and control the public enterprises policies so that they would correspond to the governmental economic policy. Public enterprises were to subsidize industrial development through investments and "reduced invoices" (i.e., providing cheap services and commodities to industry). They were thus to subsidize costs **in addition** to the direct subsidies provided by the state budget. (DEKO General Secretariat, Internal Circulation Reports 1986 and 1987)⁹

The government has declared its intention to use the existing public enterprises as well as the state-controlled credit system [i.e., the state banks] in order to promote an expansionist investment policy. ... The government has noted the strategic role of public enterprises and has planned to use it for the purpose of overcoming the structural problems of the economy. (KEDE, 1986: 111-112).

In addition to the already existing public enterprises (mainly "public utilities" industries), **new** state investments (direct and indirect, that is, realized through the state controlled banks) in the manufacturing sector have been used as a means to (a) impede certain branches of production from phasing out, (b) provide some kind of direction for industrial development (G. Papantoniou, Deputy Minister of National Economy, 1987), and (c) transfer to the public sector part of the losses incurred by the private one due to the crisis. This has been particularly true, as

⁹ Another function of of the Secretariat was to collect and organize a system for the collection of information concerning DEKO operations. As the reports admit there was complete lack of such information.

we shall see, in branches such as cement, shipbuilding, steel and metal production, which are considered productively dynamic but whose development has reached an “impasse” due to the intensification of international competition (G. Kraloglou, 1987).

The above are issues we will be dealing with in detail in the second part of this study. It should be stressed, however, that the public sector interventionist policy as implemented by the PASOK government had certain limits. As will become evident in the course of our analysis, these limits were defined by the practice — contrary to PASOK’s initial public rhetoric of a “socialist transformation” — of not violating private capital interests. On the contrary, the public sector was to cooperate with and assist the private one in an attempt towards economic recovery. The limits of public sector interventionism as encountered by the PASOK government are described clearly in the following statement by its Minister of National Economy, K. Simitis:

In a market economy, both the private owners of the means of production as well as the social agents cannot be forced to perform investments and activities that they do not wish to. They can only be stimulated to these through **incentives**. Programming cannot, therefore, forecast with certainty the activity of the non-public sector of the economy. It can only shape the appropriate climate for the movement towards the desirable directions. (K. Simitis, as interviewed in Oikonomikos Tahydromos no. 8, 1989: 25).

Asked why the state does not intervene to socialize private corporations so that it can further develop public enterprise and thus guarantee planned development, Mr Simitis responded:

The activities of the interventionist state have a definite limit. They can violate neither the reproduction process of capital nor the basic principles of the ownership status and the resulting authority over investment decision making. ... The opposition between public and private initiative as presented in the above question belongs to an outdated rhetoric. In a mixed economy like the Greek one, both sectors are necessary, are complementary to each other and conjure towards the direction of development. (K. Simitis, 1989: 26).

The above statement shows that the change of state development policy towards public sector intervention, although significant, was not a **radical** break

with the previous policy tradition. It was more of a move towards the “wider variants of Keynesianism” whereby state enterprise takes over as the principle driving force behind investment activity in order to “correct market failures” (K. Schott, 1983: 342; R. Rees, 1984). It was a break away from the previous predominant notion that the public and private sectors of the economy are incompatible and that the one necessarily grows at the expense of the other. A second contribution of PASOK in the formulation of national development policy was investing it with a strong international outlook. PASOK was to flag out in public rhetoric that policy decision making cannot be based on national considerations alone and to demonstrate this in actual practice by its post-1985 ‘change of economic policy’. It based this rhetoric on the notions of the country’s position in the international division of labour and its international (most notably EC) integration.

3.3.2 The Concepts of Dependency and Internationalization as part of State Policy

PASOK won the 1981 elections propagating, among other things, the idea of “autonomous” and “autodynamic” economic development. It was the first time in Greek governmental politics that the country’s links with its metropolitan centers were questioned at least in public rhetoric. (During the pre-electoral period PASOK campaigned its intention to take Greece out of the EC and the NATO). It was also the first time in governmental politics that the country was acknowledged as a dependent and peripheral formation. The PASOK government’s task in formulating a policy for national development was, allegedly, to improve Greece’s position in the international division of labour by breaking with the patterns imposed by it, that is, by moving towards autocentric economic and industrial development.

After five years in office, this task was assessed as “unrealistic”. The Prime Minister, A. Papandreou, acknowledged that “the course towards the internationalization of the Greek economy is an irreversible one” (1987a: 5) and that the country’s best prospects would be to try to take advantage of the changes brought about by

the new international division of labour and of the “new technological revolution” (A. Papandreou’s speech at Davos, in *Eleftherotypia*, 31-1-1988).

In 1985, at the beginning of its second term, the PASOK government was confronted with a high public deficit, increasing public borrowing, and the persistence of “the investors’ strike”. The government decided to abandon the “effective demand” aspect of the neo-Keynesian policy that it had pursued until that time in the hope of stimulating investment initiative. It replaced it with a “stabilization programme” of austerity measures, according to the demands of the OECD, the IMF, and the EC. A main aim was to make the nationally-based industry more competitive within the international market. In an article which was initially written for the American magazine *New Prospects*, A. Papandreou maintained:

When J. M. Keynes developed his theory of ‘effective demand’ in 1936, he provided a solution for the unemployment and underconsumption problems **within the national frontiers**.... But the new international division of labour changed all this. If we reinforce the consumers’ purchasing capacity here in Greece, we create jobs in Italy and Germany ... to the extent that our consumers buy Italian shoes and the best German cars, and thus create a problem in the Greek balance of payments. Today, a Keynes supporter would have driven Greece to bankruptcy within two years. ... For a country to survive today, it must produce commodities which are not only intended for the internal market. (A. Papandreou, 1987b: 6, emphasis added).

The austerity programme launched in October 1985 included price controls, the freezing of wages, and a 15 per cent devaluation of the currency in order to boost exports by further lowering real wage income. Its core aspect, however, was the abolition of the wages indexation system (ATA) as it had been established during PASOK’s first term. This was a system whereby wages would automatically readjust at a higher level according to the indexed cost of living. According to the new system, this readjustment was to take place on the basis of a ‘targeted’ rather than the actual rate of inflation. In announcing the specific measure, K. Simitis argued: “We cannot devalue the currency in order to improve competitiveness and at the same time increase incomes, thus **raising the cost of production** and

TABLE 3.2

Changes in Real Income and Lost Hours due to Industrial Action

Year	Real Income %	Hours (million)
1979	-1.8	12.3
1980	-1.2	20.9
1981	-2.5	5.7
1982	-2.8	9.2
1983	-3.7	3.9
1984	3.1	3.3
1985	2.0	7.7
1986	-8.0	9.0
1987	-10.2	16.3

Source: Bank of Greece, 1987.

reducing the chance of the improvements we are seeking". (Special Advertizing Section in Time, February 1987). These new measures practically eliminated the indexed cost of living adjustment and brought real wages drastically down (Table 3.2).

The implementation of the austerity package did not go without strong popular protest. It was followed by continuous strikes throughout 1986-87 (Table 3.2), especially in the public-controlled sector where wages had suffered most severely as the state decided to follow the OECD prescriptions of cutting down state expenditure (J. Petras, 1987: 15).

The government, however, implemented the particular programme with such consistency that prominent economic observants described a "convergence" between PASOK's practice and New Democracy's (the conservative parliamentary opposition party) perception of economic policy (P. Klavdianos, 1987; P. Genimatas, 1987). This convergence was also detected by the Federation of Greek Industries (i.e., the union of industrial owners). At a foreign press conference, its

Chairman, Th. Papalexopoulos, stated that “as far as the political and economic national climate is concerned, there is now a convergence between the two largest parties, PASOK and New Democracy, with respect to the basic parameters of the economy” (cited in P. Gennimatas, 1987).

A. Papandreou, strongly criticized for implementing a policy inconsistent with his previous rhetoric both as a parliamentary opposition party politician as well as a political economist (cf A. Papandreou, 1972 and 1975), maintained that the post-85 policy, emerging from the need “to bridge the gap separating us from our competitors.... is the only possible one in consistency with the objective of preparing the economy to sustain the full competition raging due in less than five years” (1987a: 4-5). These five years refer to the 1992 European Market unification, which is a main concern of the government and of industrial businessmen alike. However, Papandreou further maintained that,

The need for the modernization and development of the Greek economy is immediate and imperative in any case, even if we were not participating in the EC or even if 1992 did not exist. [This need] is due to the cosmogonic changes taking place in the global economy, such as the new technological revolution, the emergence of the Pacific countries [i.e., NICs], and the new international division of labour which is gradually forming.(A. Papandreou, 1987a: 4)

In this sense, A. Papandreou seems to have comprehended very well the needs for capitalist restructuring along international lines. His views are in agreement (another “convergence”) with the views of private investors themselves. According to P. Kyriakopoulos, Chairman of the Federation of Commercial and Industrial Chambers and Chairman of Federation of Metallurgical Firms, the imperative of modern enterprise in planning for its future development should be “the internationalization of its activities”:

The dynamics of today’s economic functions have moved from a national to an international level. From now on, each and every country as well as each and every enterprise wishing to flourish must accept that the tune is set by the international economy and that the domestic economic policy can succeed only to the extent that it reinforces or, at least, does not undermine the country’s

competitive potentials at an international level. (P. Kyriakopoulos as interviewed in Oikonomikos Tahydromos no. 51: 49).

The 1985 reorientation in socio-economic policy was aimed at improving the “industry’s competitiveness and dynamism within the international environment” (21st and 24th Conference of PASOK’s central committee meeting, Eleftherotypia 8-11-1987) both through minimizing the cost of labour as well as assisting the enterprise in technological modernization. In dealing with the industrial crisis, ‘economic adaptation’ became the industrial development policy’s imperative, defined by one of the Ministers of National Economy as “an adaptation of the national economy, of the national branches of production, of the enterprises, and of the people to the changing situation in national and international production and demand” (P. Roumeliotis, 1987a: 20). In preparing for the formulation of the government’s second Five Year Plan (1987–1992) the Ministry of National Economy announced that the model of development of the Greek economy would be defined by the following parameters:

- (1) Autonomous development is an outdated notion and therefore not a realistic–achievable target as it has been proven by Third World experience.
- (2) The classical model of industrial expansion of the 60s decade has been transferred to countries that can maintain the labour cost at low levels.
- (3) In connection with the latter, the EC and other countries, which the Greek economy has strong links with, advance technological development. ... Greece, therefore, cannot ignore the necessity for and the importance of technological modernization. (To Vima, 9-10-1987).

Along these lines the PASOK government increased direct state subsidies through the incentives and overall direct and indirect public sector intervention in the industrial sector in the hope of seeing “a new industrialization wave” .

Social policy was executed with the explicit purpose of concentrating income in the hands of the capitalists to promote investment and development. Unable to maintain the broad class coalition of its first term in office, the PASOK government turned in October 1985 to the old power bloc of local and foreign capital hoping that a rise in the rate of exploitation of the Greek labour force would sufficiently compensate local capital for its disadvantages vis-a-vis the foreign banks and EEC competitors. (J. Petras, 1987: 15).

In its attempt to break the “investors’ strike”, the PASOK government reinstated the attraction of private investments and foreign investments in particular at the top of its economic policy priorities agenda. (G. Kraloglou, 1987). The Prime Minister’s talk at the annual meeting of international entrepreneurs in Switzerland (the Davos Forum) in February 1987 was an open invitation to multinational investors and a strong attempt at convincing them that Greece provides an advantageous and secure environment for their investments (see *To Vima*, 1-2-1987 and A. Papandreou’s interview in *Elefthrotypia*, 2-2-1987). The Davos Forum initiated a governmental ‘marketing’ campaign in search of private investors. The government advertized in every possible way (including special advertizing sections in the American magazine *Time*) its change of policy away from ‘populist’ issues and towards the establishment of a favourable and secure entrepreneurial environment for private or joint investments. In his article in the newspaper *To Vima*, which presents a summary of his views on the changing international economic order and how a socialist government can help Greece adapt to these changes, the Prime Minister stated:

The main issue [for the private entrepreneur] is profit and this is an issue of survival. We [i.e., the PASOK government] now also show greater attention to the needs of foreign investors as we try to attract foreign investments.

And further down he justifies:

If Greece cannot attract foreign investments in order to finance its participation in the technological revolution, then it will be deemed to remain a tourist country. (A. Papandreou, 1987b).

Although the industrial quantitative indices, such as profits and investments, show tendencies of recovery since 1987–88, the “industrialization wave” that the PASOK government seemed to expect has not been and is unlikely to be realized under the current national and international situation as we shall see. The particular policy was an attempt to assist the industry in coping with the crisis along lines that (a) are dictated by Greece’s international and EC integration and (b) respond to private capital’s reorientation and restructuring exigencies. As K. Vergopoulos

has argued, the issue of capitalist restructuring in Greece is more than a financial matter. It is a matter of providing a **direction** and of **defining** the choices possible for the industry. (K. Vergopoulos, 1987). Increasingly since the recession, this has been more a matter of state rather than private initiative. Especially in the 1980s, under the PASOK government, state intervention has been openly acknowledged and accepted as a main means for coping with developmental needs both at a national and individual firm level. It has furthermore been exercised on the basis of a perspective revealing higher awareness of the country's specific position within the world economy and market and defined by the political decision — complying with capital's choice — towards higher international economic integration.

In his study on *Industrialization in Crisis*, Giannitsis states that “the crisis is defined by a dialectical relationship between stagnation and transformation” (T. Giannitsis, 1986). Our purpose in the present study is to show that in the case of Greece the state has played a determinant role in this transformation process.

PART II

**ASPECTS OF SUSTAINED RESTRUCTURING
THROUGH
PUBLIC SECTOR INTERVENTION**

Chapter 4

STATE SUBSIDIZATION THROUGH INFRASTRUCTURE; THE CASE OF THE PUBLIC POWER CORPORATION

The subsidization of production costs through public sector infrastructure enterprises is not a new component of state economic policy. State enterprises, especially those of a strategic and monopolistic position within the industrial and service sectors, are generally operating with the purpose of guaranteeing the availability of crucial commodities and services to the productive sector at large and supplying them at cheap prices. Such enterprises are mainly (but not exclusively) those monopolizing the sectors of energy, water supply, communications, and public transport. To a certain extent, the function of such enterprises had always been to support industrial and economic development by providing certain general conditions of production and by covering, that is, socializing part of the operational costs of individual enterprises (A. Kanellopoulos, 1984).

In recent years, however, this form of subsidization has been turned into a crucial means of sustaining and restoring the industry's profitability by transferring losses and production costs to the public budget. As we have already discussed, it has become a significant aspect of state industrial development policy. This policy has been implemented in two ways: (a) through providing very cheap (sometimes below cost of production) commodities and services to other enterprises, and (b) through allowing debts of other companies to build up, debts that are unlikely ever to be re-

paid in full (N. Tavoularis, 1987).¹ Financially, individual firms benefit enormously from such 'treatment', while their national and international market competitiveness is highly improved. The effect on the public enterprises, on the other hand, has been increasing deficits and debts. DEKO deficits, which increased by 9.6 per cent from 1982 to 1983, have been increasing at an annual average rate of 32 per cent between 1983 and 1988 (Bank of Greece, 1988). Their debts have been increasing drastically during the 1980s. It is estimated that in 1989 they will approach three trillion Drs and will thus represent 126 per cent of the GNP as opposed to 38.7 per cent of the GNP in 1980. (Oikonomikos Tahydromos no 10, 1989: 80).

In this chapter we will be examining in detail the way this particular form of public sector interventionism has been implemented through the Public Power Corporation with the aim of subsidizing and sustaining industrial restructuring at branch and firm levels. The case of the Public Power Corporation has been chosen not merely in order to highlight the main aspects and effects of the particular policy, but because it has, in fact, constituted its **centerpiece**. This is due to the strategic position of the Corporation with respect to certain highly energy consuming industries of key importance for the country's productive sector.

4.1 The Public Power Corporation as a State Monopoly and its Policy towards Manufacturing Industry

The Public Power Corporation (hereafter PPC for short) has constituted the focus of numerous studies, publications, discussions and debates in reference to

¹ A third, more indirect way in which certain public enterprises have been asked to comply with and subsidize the governmental economic policy has been by using them to attain foreign loans. In cases where the state's lack of credibility (the public budget deficit is currently approaching one trillion Drs and cannot be serviced by loans) does not allow it to secure a loan, an independent corporation borrows on its behalf and is burdened with the interest payments. This has been a common practice with the Hellenic Telecommunications Organization. (D. Stratoulis, 1986; Eleftheros Typos, 10-7-1989).

a variety of issues: It has been discussed in connection with the general development of the energy sector in Greece and state energy policy, in relation to public sector economics, the issue of workers' participation and socialist transformation, and with reference to its relations with monopoly capital and foreign multinationals. For the purposes of this study the PPC will be examined with reference to its position within Greek industry and its linkages with the manufacturing sector as a state owned industry and as the exclusive supplier of an absolutely basic and indispensable for any form of industrial development, commodity — electricity. The case study of the PPC is in this respect being used as a concrete illustration of state subsidization of industry through infrastructure public enterprises.

As has been mentioned in chapter two, the PPC's establishment in 1950 was part of the Marshall Plan's aim to develop and organize the country's infrastructure. Until 1955 the PPC was under American management and under the official control of the American EbasCo, which had undertaken the construction planning of PPC's first production units and distribution networks. Until PPC's establishment, the energy sector comprised about 400 separate small companies which were supplying an almost equal number of towns with electricity. These were all private companies; few of them — about 60 — were privately owned by local municipalities. (S. Vasilakopoulos, 1979: 7). PPC's founding Law 1468 of 1950 granted to the corporation the **exclusive** right for the production, transport and distribution of electricity (Government Gazette vol. A, no. 169, 1950). This right, however, could not affect the already existing private distribution networks. Starting in 1956, the PPC launched, therefore, a major project aiming at taking over these private companies, so that the state could establish its monopoly in the energy sector as planned.

According to Law 3523 of 1956, which was issued for this purpose, the existing power companies would be bought with their concession through negotiations with their owners or, else, the transaction could be enforced. Deadlines were set for the initiation of transactions: the 1st of August 1956 for the networks located in the



mainland, the 1st of July 1957 for those located in the islands, and the year 1960 for the Electrical Company of Athens and Piraeus (ECAP) which constituted, as we shall see, an “exceptional case”. Starting at the above dates, a uniform price of electricity for the whole country was also set by the PPC, to be charged by all companies. This was generally a much lower price than that charged by the private companies. Private companies were selling electricity at a price up to Drs 11 per KWh, whereas the PPC’s established price was between Drs 0.7 and 1.1 per KWh (G. Birdimiris, interviewed in Oikonomikos Tahydromos no. 31, 1987: 27). The PPC resumed the responsibility to pay to each company, up to the time of its take over, the difference between this uniform price and the one that it would otherwise have charged. This form of subsidization, over just a six-year period (1956–1961), cost the PPC Drs 325 million, more than half the total amount it cost to actually buy all of these companies: approximately Drs 741 million. (S. Vasilakopoulos, 1979: 11, 18).

By 1963, the majority (406) of the existing private electrical companies had been bought by the PPC, and by 1968 the task had been completed; all 415 of them had come under PPC ownership, and the electricity sector had become a state monopoly. This transformation was achieved, as described above, without in any way violating private capital interests. It is worth mentioning that in no case did the need emerge for the state to exercise its “forced transaction” right or for any company to resort to arbitration (S. Vasilakopoulos, 1979: 16, 20). It is also worth mentioning the “exceptional case” of ECAP, in which every precaution was taken to secure the company’s interests.

ECAP was the only company exempted from Law 3523 regulations. It was a foreign company, controlled by the White Hall Group of London via Power & Transaction Finance Co. Power and Power’s subsidiary, the General Electric Company, had dominated the energy sector in Greece since 1925, before being replaced by their U.S. competitors, EbasCo and the others (D. Benas, 1978: 38; S. Vasilakopoulos, 1979). ECAP was by far the largest, most modern and most efficient power unit



of all. It operated since 1925 on the basis of a Privileged Licence. Licences were distinguished into "simple", which could be recalled by the Ministry at any time, and "privileged", which were based on Agreements (contracts) between the private company and the Local Authority or, more seldomly, with the state (as was the case with ECAP), pertaining to predefined time periods of operation. ECAP's Agreement with the Greek state was due to expire in 1960. So, negotiations for the company's sale did not start until after the Agreement expired, and redemptions were paid according to the provisions made by it : Drs 1.884 million which the PPC paid by installments. (S. Vasilakopoulos, 1979: 18).

Today the PPC is the exclusive producer and supplier of electricity in the country. The few exceptions are very small electricity production units operating on imported coal or oil, which certain highly energy-consuming manufacturing firms establish on their premises for own use, special permission granted by the PPC. Electricity is supplied to 90.7 per cent of the residential areas, which represent 99.7 per cent of the country's population (Oikonomikos Tahydromos, no. 37, 1987: 106). PPC is the largest enterprise in the country and the largest industrial state monopoly. It represents 50 per cent of total Public Enterprises investments. Its investment programmes for 1986 alone represented more than 50 per cent of the total Public Enterprises investments planned for that year. (DEKO-GS, 1985: 10). Its overall investments according to its Five Year (1986-1990) Development Programme are estimated to reach Drs 500 billion, an amount equivalent to 2-3 percent of the country's GNP.

The PPC utilizes a number of different resources for the production of electricity (see Table 4.1). Domestically produced lignite is today by far the major resource utilized. Hydropower is the one with the lowest cost. Imported oil is also being used, although the ultimate plan of the PPC is to be able to abandon completely its reliance on oil within the next ten-year period. Finally, electricity is also being imported from neighbouring countries, as Greece is not yet completely self-sufficient. (Oikonomikos Tahydromos, no. 37, 1987: 106-107; G. Birdimiris,

TABLE 4.1
Resources Contribution Percentage to Electricity Consumption

Resources	1980	1982	1984	1986	1987
1. Domestic	60.9	72.0	69.6	80.9	85.3
Lignite:	44.5	55.2	57.7	67.8	75.4
Hydropower:	16.4	16.8	11.9	13.1	9.9
2. Oil	36.1	24.6	19.8	14.0	11.9
3. Imports	3.0	3.4	10.6	5.1	2.8

Sources: 1. PPC Balance Sheet of 1984, p. 22.

2. G. Birdimiris, in *Oikonomikos Tahydromos* no. 30, 1987, p. 30.

The PPC's policy, as a state monopoly in the production and supply of electricity, has always aimed at subsidizing part of the cost of electricity consumption in productive activities. For the manufacturing-processing sector in particular, which absorbs half of the total electricity production of the country, this policy has been of crucial importance and highly beneficiary, especially because of the existence of a number of large enterprises which are highly energy-consuming. Such are the metallurgical and mineral-processing sectors, in particular the aluminum, steel, ferroalloys (nickel and chrome), and cement industries, which process domestically produced ores and minerals and are also highly export-oriented. In these kinds of industries, the nature of production is such that necessitates the use of large quantities of electricity, hence the cost of it represents a large part of their overall cost of production. Subsidization of the electricity cost, therefore, allows for the realization of much higher profits in the domestic and international markets or results in the minimization of company losses, depending on the case.

The latter has, in fact, been increasingly the case in recent years, especially

since some of these branches have been severely affected by the crisis. It is understandable, therefore, that during the crisis period, this form of subsidization, for this type of industries in particular, has become “a determinant factor of market survival” as one company manager put it. It has correspondingly become an essential aspect of state industrial policy.

The ‘beneficiary treatment’ by the PPC of certain manufacturing industries has been highlighted and dealt with in several studies, especially where its ‘invoice policy’ is concerned, that is, the supply of cheap electricity. But this policy has been either looked at in an economic sense, i.e., as a case of bad management responsible for the corporation’s poor economic performance, or understood only in terms of the firm’s subordination to foreign capital and the multinationals (the ‘external’ factor). (Cf. M. Nikolaou *et al.*, 1982; M. Nikolaou, 1985). True as this latter point is, the PPC policy should also be understood in relation to the current phase of industrial development in Greece and the changing structures of Greek industry, so that recent developments may be accounted for. For example, D. Benas, who has examined the PPC’s position within Greek industry with reference to its subordinate relation with multinational capital (D. Benas, 1978), illustrates his case by mentioning that in 1970 the industrial sector absorbed 60 per cent of total electricity output, 48 per cent of which (that is, one third of total production), however, was absorbed by only **seven** manufacturing units:

1. Aluminium de Grece SA
2. Esso–Pappas Chemicals Industry SA
3. Nitrogenic Fertilizers Industry SA (AEVAL)
4. Phosphoric Fertilizers Industry SA (of the Andreadis Group)
5. Larco SA (of the Bodosakis Group)
6. Aget Heracles
7. Viohallko

These private units were either subsidiaries of or had strong links with foreign companies. (D. Benas, 1978: 41). For Benas, this was apparently indicative of the fact

that the PPC policy was designed to serve foreign capital interests. Today, however, five out of these seven companies are under state ownership and/or control: As we shall see in more detail in our next two chapters, Phosphoric Fertilizers was nationalized in 1975 along with the whole of the Andreadis Group; Esso-Pappas was bought by the state in 1984 and is now part of the EKO Chemicals public Group of Enterprises; Aeval Fertilizers belongs to the ETVA (Hellenic Industrial Development Bank, a state bank) Group of companies; Larco was bought by state banks in 1982 and is essentially under state ownership; Aget Heracles belongs to the Problematics and is managed by the Business Reconstruction Organization, a public corporation. Links with foreign multinationals do continue to exist, but the picture is no longer as simple nor relations as obvious as they may have seemed fifteen years ago.

The PPC implements its policy in two ways. The first, which has been mentioned above, is selling electricity at a cheaper price — in fact, in most cases, at a price **below its actual cost of production**.

[I agree that] we cannot, in the name of high energy-consuming needs of a specific industrial venture, disregard a given fact, that is the **cost** [i.e., PPC's cost of production]. What I do apprehend, however, is that units as those of aluminum production or units such as Larco or ELSI (Hellenic Ferralloys SA) vindicate special 'invoice treatment'... ..

[The] Ministry of Economy does not finance the PPC losses that result from the provision of cheap electricity. As Minister of Energy, I wish to state that, as a result, I see that the PPC is **obliged** to supply electricity at a price below the cost of production. (Statement by A. Peponis, Minister of Industry, Energy, Research and Technology, in Oikonomikos Tahydromos no. 22, 1988: 29, emphasis added).

The second way is through the accumulated debts of a number of manufacturing companies because of unpaid bills, debts which they either delay paying to the PPC or, in actual practice, are not expected to pay at all. Either case, as the PPC does not discontinue the supply of electricity, constitutes indirect subsidization for these

TABLE 4.2

Evolution of the Composition of Electricity Consumption (%)

Consumption	1973	1976	1980	1981	1982	1983	1984
Residential	24.2	24.9	28.2	29.1	30.8	30.9	31.0
Commercial	12.0	12.4	12.9	12.9	13.0	12.8	12.3
of which							
LV and MV	24.7	23.4	22.1	22.8	22.7	22.5	20.9
Other	5.9	5.6	5.5	5.8	6.1	6.5	6.8
of which							
Agricultural	—	—	—	—	—	2.6	2.8

Sources of Data: PPC Balance Sheet and Activities Report of 1983 (1985, p. 31) and of 1984 (1986, p. 20).

industries.

Concerning the first aspect of PPC policy, invoices are distinguished into three categories depending on the level of electricity voltage consumed by the customer.

- (i) Low Voltage (LV), mainly for residential, commercial, agricultural, and small-sized industry use,
- (ii) Medium Voltage (MV), mainly for industrial use, and
- (iii) High Voltage (HV), for use by the highly energy-consuming industries, the PPC's "big customers": about 20 manufacturing firms.

The LV price is generally the highest, with the exception of electricity used in agricultural production, which is also highly subsidized, but which, however, represents less than 3 per cent of total consumption (see Table 4.2). On the other hand, HV is by far the lowest price charged.

Although electricity consumption in the industrial sector is not the only one subsidized, it does represent 50 per cent of total consumption, while the HV use alone

TABLE 4.3

Subsidization of Electricity Consumption in Industry (1985)

Consumer	Sales GWh	Price Drs/KWh	Cost Drs/KWh	Income (mill.)	Total Cost (mill.)	Subsidy (mill.)
LV	1,060	10.77	10.80	11,420	11,448	28
MV	3,800	7.10	7.60	26,980	28,880	1,900
HV:			6.51			
Aluminium	1,920	2.64	6.51	5,455	12,499	7,044
Larco	1,000	2.84	6.51	2,841	6,510	3,669

Source of Data: General Secretariat of Public Enterprises Report, September 1985.

absorbs 30 per cent of total electricity production (Table 4.2). In other words, about 20 manufacturing firms in Greece consume 30 per cent of total electricity production and are being charged for it the lowest price, a price well below its actual cost of production. The Chairman and Governor of the PPC, G. Birdimiris, estimated that in 1984 the PPC lost a total of Drs 44 billion because of the difference between the price charged per KWh and its actual cost of production. For 1987, this loss is expected to double to about Drs 80 billion. (Oikonomikos Tahydromos no. 31, 1987: 29).

The above table (Table 4.3), based on the PPC budget for 1986, shows that two HV electricity consuming companies alone, Aluminium de Grece (a subsidiary of the French Pechiney) and Larco (a domestic company producing ferronickel) consume more than half the quantity of electricity consumed by all MV industries together. In the course of just one year, these two companies were subsidized by the PPC by more than Drs 10.5 billion. Note that subsidization is calculated as the difference between the price charged and the actual cost of electricity production rather than a price that would allow some profit margin for the PPC itself.

For Pechiney (Aluminium de Grece), a super-profit making industry, it has

been estimated that if it were charged the actual cost of electricity, its rate of profit would fall by two thirds — but would still be able to make profits (G. Andriotis, 1982: 427-428). What is unique in Pechiney's case is that the price of electricity is determined as a function of the international market price of aluminum. So, whenever the aluminum price falls internationally, the price of electricity charged to Pechiney decreases, and PPC subsidization of Pechiney's profits increases. The price charged in no case exceeds or is equal to the actual cost of electricity production which, of course, does not undergo similar market fluctuations. The Minister of Energy, Mr Anastasios Peponis, comments on the current fluctuations of the aluminum market:

Currently, Pechiney admits to super-profit margins. It admits to that in the sense that the price of electricity increases; PPC's income from Pechiney increases proportionately to the price of the product [i.e., aluminum]. There are other periods when the price [of aluminum and, therefore, of electricity] is low. But, the cost of energy does not undergo such fluctuations. Unfortunately, the cost of energy is stable, with upward tendencies. (A. Peponis, interviewed in *Oikonomikos Tahydromos* no. 22, 1988: 26).

The case of Pechiney has been the most notorious one concerning its privileged Agreements with the Greek state for the supply of extremely cheap electricity. It has been repeatedly discussed in connection with the provision by the state of important privileges to foreign capital. Larco, on the other hand, producing and exporting ferronickel since 1966, used to be owned by the domestic private Group of Enterprises Bodosakis. Unlike Pechiney, Larco has been a loss-making company for the past ten years. To avoid its closing down the government 'socialized' the firm in 1982. What happened was that the firm was bought by two state banks, the National and the Commercial Banks of Greece. Since then, Larco has been under state ownership and management. It has been undergoing major restructuring through new investments, lay-offs, and administrative re-organization. The company is highly overdebted to domestic and foreign banks and not least of all are its debts to the PPC. In spite of its provision with very cheap electricity in the

first place, in 1986 the company had accumulated nearly Drs 24 billion outstanding debts with the PPC, as compared with 'only' Drs 340 million during 1981-1982 (S. Antoniou, 1986: 44-46).

This brings us to the second form of PPC subsidization, the indirect one. The following table (4.4) is a list of enterprises most heavily indebted to the PPC (based on accounts of the 31st of December 1986), most of which are among the largest manufacturing industries in Greece (compare with Appendix I) :

TABLE 4.4
Outstanding Debts to the PPC (31st December 1986)

Firm	Type	Debts to PPC (million Drs)
1. LARCO SA	(metallurgical)	23,856
2. AGET HERACLES	(cement)	9,915
3. HALKIS CEMENT SA	(cement)	6,673
4. METALLURGIKI HALYPS SA	(metallurgical)	3,514
5. HELLENIC FERROALLOYS SA (ELSI)	(metallurgical)	2,546
6. METALIA AMIANTOU N. GREECE	(metallurgical)	1,324
7. PHOSPHORIC FERTILIZERS IND	(fertilizers)	161
8. HELLENIC SHIPYARDS CO SA	(shipyard)	146
9. TITAN CEMENT CO SA	(cement)	95
10. HELLENIC ASPROPYRGOS REFINERY	(oil refinery)	74

Source: PPC.

These debts were allowed because since 1981 the PPC showed a certain leniency concerning the payment of bills, thus expecting [to assist] certain enterprises not to become problematic and to **maintain their competitiveness**. [The PPC] did not anticipate, however, that this temporary leniency would develop into a permanent situation which would reach a dead end. Now, seven

years later, neither have these enterprises proved capable of becoming competitive nor can the PPC collect its money. (To Vima, 3-5-1987).

Most of these firms have been facing severe financial problems in recent years. In later chapters we shall deal with some of them in more detail, as they are currently undergoing extensive rehabilitation and restructuring programmes under state management and are being sustained and subsidized in other forms as well. While continuing to supply these industries with cheap electricity, in 1987 the PPC decided to suspend debt repayments for a number of these firms.

For a number of most serious, general reasons which concern the overall state programme to support and rehabilitate these enterprises, and realizing the overall social problem, the PPC has frozen the issue of collecting these debts. In January 1987 the amount of such obligations had reached Drs 40 billion. (Statement by the PPC's Chairman, G. Birdimiris, in Oikonomikos Tahydromos no. 30, 1987: 29).

In other words, in addition to the subsidies provided through the supply of electricity at a below-cost-of-production price, the PPC has subsidized these industries by an extra Drs 40 billion, in order to assist their overall restructuring and rehabilitation programmes.

Let us consider one example, that of cement, one of the most important sectors of Greek industry and a highly energy-consuming one, and note the extent to which PPC and state subsidies have essentially determined the branch's overall development and international position in recent years.

The thriving of the cement industry during the 1950s and 1960s reflected the boom of the construction industry that followed the end of the war. Since 1974-75, when domestic building activities started to decline and so did the domestic demand for cement, the sector turned to exports. Since then, production has been increasingly for the international market. Today, more than half of the country's total production output is being exported. In fact, Greece along with Spain and Japan are the largest cement exporters worldwide.

Up to 1981-82, the main market for Greek cement were the Arab countries, especially Saudi Arabia, which between 1981 and 1983 absorbed one third of total Greek exports (Aget Heracles 75th Account Report, 1986: 6, 28). Since then, this market has shrunk abruptly for a number of reasons (see M. Fragoulis, 1987: 69 and A. Vasilopoulos, 1987: 71), a main one being the establishment of cement manufacturing industries in the Arab countries themselves. The Greek cement industry has since been undergoing a severe overproduction crisis resulting in economic recession for the whole branch. Cement is one of the oldest Greek industries. The four domestic companies which comprise it have been in operation for more than three quarters of a century: Aget Heracles, Titan Cement, Halkis Cement, and Halyps Cement. These firms were placed in grave financial difficulties. Two of these firms in particular, Halkis Cement and Aget Heracles, a huge industrial conglomeration and the exclusive owner of twenty-one subsidiary companies (Aget Heracles 75th Account Report, 1986), facing high debts and big deficits, were on the verge of closing down.

To avoid the closing down of these strategically significant companies and the overall deterioration of the branch due to the worsening national and international conditions, the government intervened in a number of ways, some of which we will consider later. Concerning its intervention through PPC subsidies, support was provided both in the 'traditional' form, that is, subsidization through the provision of HV electricity at a very cheap price, as well as through the additional subsidization since 1983 of allowing in practice the three largest cement firms (see Table 4.4) not to pay at all or to indefinitely delay payment for part of the electricity used. For example, when in the summer of 1987 the PPC decided to discontinue Halkis Cement's supply of electricity because, as it was announced, the firm's unpaid electricity bills amounted to Drs 29 billion, the government intervened and the stoppage did not last more than 48 hours. (D. Stergios, 1988: 6). This intervention has resulted in considerably reducing the cost of cement production and hence largely assisting these firms to re-adjust to the changing market conditions.

The ability to maintain, if not increase, export activity is the crucial factor for the branch's survival (A. Vasilopoulos, 1987: 71), a task that has been increasingly difficult to achieve since the cement sector is internationally undergoing a severe overproduction crisis². Specifically, the Greek cement companies have in the past five years reoriented their export activities to a large extent towards the Western European market. In this market the Greek cement's most important advantage is that its price is by far the cheapest one : \$39.64 per ton (the 'Portland type') in 1986, while the next least expensive one was Italian cement at \$54.94 per ton. Spanish cement, which like the Greek is produced mainly for export, was \$71.33 . The cheaper price of Greek cement has in fact caused the British cement industries, 'threatened' by the Greek firms' entrance in the U.K. market, to officially protest by claiming that state subsidization, including export subsidies, and other grants available to the Greek industrialists enables them to reduce their prices.

Mr Jack Shepherd, sales manager of the Blue Circle enterprise, claims that a series of governmental subsidies at the disposal of Greek cement producers enables them to offer lower prices than those charged by the British producers.

Last month, Mr Alan Clark of the British Department of Trade and Industry, demanded that the European Council immediately stop concessions towards the Greek cement exporters. (A. Taylor, 1986: 58).

Concerning the case of Aget Heracles in particular, which is being subsidized by the state in other forms as well (i.e., as a 'problematic' enterprise), the three largest British cement firms (Blue Circle, Rio Tinto Zinc, and Rugby Portland), which control 95 per cent of the U.K. market, demanded the intervention of the EC Council. The Council is thus currently considering the case as one violating the rules of free competition. (A. Taylor, 1986: 57 and Financial Times, 14-10-1986; Financial Times, 4-2-1988). As for Aget Heracles, itself a loss-making company for years, it has, at least, managed to present gross profits amounting to Drs 100 million in 1987 and Drs 1 billion in 1988 (To Vima 2-4-1989). The EC-Greek government

² "... in all industrially developed countries, the cement market has reached such high levels of saturation that cement industries can only be truly saved if an altogether new usage of cement as discovered." (A. Papandropoulos, 1986: 65).

debate concerning Aget Heracles was still going on, when attention was drawn to another cement company, Halkis Cement. On the 6th of April 1989, the report from Brussels has as follows:

Yesterday, the European Council declared illegal the state subsidies given to the overdebted enterprise 'Halkis Cement' and demanded that the Greek government abides by the Community legislation. According to the Council's Announcement, the government allowed the aforementioned enterprise **not to pay its liabilities to the banks and the PPC**, without previously notifying the Community and requesting its approval.

As it became known, within the next few days the Council shall address the government in writing and request that the company's debts with the banks and the PPC be arranged. In the case of the government not answering positively within a period of one month, the European Council has the right to take the case to court and plead violation of article 93 of the Treaty of Rome
(Eleftheros Typos, 6-4-1989).

The cement industry is only one example of the ways in which the PPC policy is assisting the overall development of the industrial sector and positively contributing to its general re-adjustment to the changing national and international conditions following the crisis. In a recent interview, the Greek Minister of Industry, Energy, Research and Technology, Mr Peponis, made a point of the fact that the PPC is obliged by state policy to subsidize the cost of electricity in order to assist the country's industrial development (A. Peponis, interviewed in Oikonomikos Tahydromos no. 22, 1988). This view is totally accepted by the PPC's state-appointed Chairman, Mr Birdimiris (interviewed in Oikonomikos Tahydromos no. 30 and no. 31, 1987), who, however, because of his position, seems to be more aware of the contradiction involved in the PPC's functioning: on the one hand, being an instrument of state policy whereby it subsidizes the capitalist cost of production and therefore assists in the realization of higher profits or minimization of losses, and, on the other hand, being itself a capitalist, that is, profit-seeking enterprise.

Although not the only factor, the subsidization policy implemented by the PPC has contributed to the corporation's bad economic performance. In recent years the corporation has been able to present gross profits (i.e., turnover profits

registered before long term financial liabilities are met — as opposed to net profits) due to consecutive (1986, 1987, 1988) increases of LV and MV charges. For the PPC, therefore, a figure like the Drs 10.5 billion that it subsidized Pechiney and Larco with in 1986 does not merely represent potential profits which it has ‘denounced’ for the benefit of ‘private initiative’. It is, often, directly translated into deficits. It means that each of the approximately 3.5 million people constituting the economically active population of Greece has directly contributed daily by at least Drs 8.20 to the operating expenses of these two firms. (Indirect contributions, of course, by far exceed this amount).

Although government grants to the PPC nearly doubled between 1982 and 1984 (PPC Balance Sheets and Activities Reports 1984: 81 and 1985: 67), the corporation has been increasingly relying on loans, especially foreign loans (Tables 4.6 and 4.7) which are the ones carrying the higher interest. Today, almost half of the PPC’s annual income is used for its financial obligations — 16 per cent for debt repayments and 32 per cent for interest payments. (G. Birdimiris, in *Oikonomikos Tahydromos* no. 31, 1987: 29).

The links between the PPC’s “unfavourable” financial position and its policy of “favourable treatment” of manufacturing industry has increasingly in recent years constituted a favourite theme of journalism and a strong point of criticism towards governmental public sector policy. To this, the PPC’s Chairman counterpoises the general philosophy that has underlined post-war industrial policy in Greece and most significantly throughout the past, crisis decade :

When a country is facing problems of industrialization ... it is natural for the state to establish policies of beneficiary treatment towards industrial investors. (G. Birdimiris in *Oikonomikos Tahydromos* no. 31, 1987: 20).

In the following sections, we examine the cases of two such “industrial investors”, two metal-producing and highly energy-consuming industries. In these accounts we focus on the other end of the relation, the manufacturing firm itself. Through these cases we shall consider concretely the firm’s reliance on the PPC

TABLE 4.5

PPC Gross Profits / Losses 1980-1986 (in million Drs)

1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
1,065	-1,796	-189	683	-1,476	1,741	-27	4,143	4,139	5,300

- Sources :
1. PPC Balance Sheets 1985 and 1987.
 2. General Secretariat of Public Enterprises Report, September 1989.
 3. KEDE, 1986, p. 126.
 4. To Vima, 30 July 1989.

TABLE 4.6

PPC Own Funds (Net Applied Capital)

to Total Assets (1979-1984)

1979	1980	1981	1982	1983	1984
26%	20%	18%	15%	13%	14%

Source: PPC Balance Sheets and Activities Reports, 1984: 74 and 1985: 93

TABLE 4.7

PPC Loans : Domestic and Foreign (in billion Drs)

Debts	31-12-1982	31-12-1986
Total	219.2	425.6
Foreign	99.2	258.5

Source: PPC.

policy, the investor's view on its significance for the firm's functioning within the wider national and international setting, and the way the investor perceives the state - PPC - industrial investor relation.

4.2 The Manufacturing Firm in its Relation with the PPC

In the previous section we focused on how the PPC, and through it the state, sustain industrial development during the crisis years, how they assume a stimulating role concerning the restructuring of the manufacturing sector, and how they, or more accurately, their officials perceive this role. In this section, we focus on the manufacturing firm itself, that is, the basic unit which the aforementioned policies aim at assisting. We look at how it is affected by the PPC policy and how the industrial investor himself perceives the position of the firm within the general industrial complex, national and international, and its relation with the PPC and the state in respect to their subsidization policy.

For this purpose we have chosen two firms of different ownership statuses. The first firm is a joint investment of local and foreign capital. The second is a domestic manufacturing firm whose management and majority of share capital have in recent years come under state control. Both cases demonstrate the firms' heavy reliance on PPC subsidization, and their endeavour to secure the maximum possible benefits in their relation with the PPC. The first case highlights how industrial investors perceive their own private interests vis a vis the state, the public corporation, and industrial development at large. The second case highlights the extremes to which companies will go in securing such interests.

4.2.1 Case Study One: Rendering the investment profitable

The first case we examine concerns a private company, which we shall call 'MetalCo-I', and which produces various kinds of iron and steel intermediary

products such as pig iron, reinforcing bars, slabs, hot and cold rolled coils, wire products and others. The company was first established in 1938 under a different name and was a family business of the 'Father & Sons' type. The owners of this company subsequently (1947) established MetalCo-I in joint investment venture with the well known German steel-manufacturing firm Thyssen. In 1954 the two firms merged. The majority of the shares belong to the foreign shareholders, but the firm is managed by its Greek owners. In fact, few of the factory's workers are aware that the company is not the exclusive ownership of the Greek family. And even those who "suspect it", like the foreman we interviewed who has been with MetalCo-I for twenty years, are not sure as to the identity of the foreign shareholders.

MetalCo-I is the largest of the six companies that comprise the steel sector of Greek industry and the only vertically integrated one, that is, the only one that includes a raw-steel production unit. The two blast furnaces utilized for ore processing were established in 1963 and 1972 respectively. Whereas the other factories base their production on scrap processing, MetalCo-I could also utilize raw steel produced at its own premises through the processing of iron ores — a considerable advantage over its competitors during the 1960s and 1970s. MetalCo-I is furthermore the only steel factory with the capacity to manufacture both slab and billet products.

The steel industry in Greece developed during the past 20 to 25 years and is export oriented. About 30 per cent of national production is being exported, while for some particular types of intermediary steel products this percentage is considerably higher (for example, 60 per cent of slab products sales are abroad). (D. Kazis and A. Vlisidis, 1986: 30-31, 72). MetalCo-I, in particular, has always been characterized by a strong external market orientation. Apart from the fact that exports constitute the majority of the firm's sales, loans have always been received from foreign banks, and it has been the firm's policy not to rely on domestic, state or other, financing. In recent years, for reasons that shall be mentioned later, the company has increasingly utilized slabs as primary material. It is indicative of the firm's orientation that, although other steel-manufacturing firms in Greece produce

slabs and in fact export the greatest part, MetalCo-I imports its own. Generally speaking, MetalCo-I is a company with an international ('external') orientation, with few links with the domestic industry and market, and relatively minimum reliance on state subsidization and other forms of state support. There have been two important exceptions to the latter : The first is the privileges, mainly taxation deliverances, which the firm is entitled to as a foreign direct investment. The second is the provision of electricity at a low price, a benefit that has become of crucial importance in recent years due to the crisis in the steel industry.

Since the second half of the 1970s the steel industry internationally suffered an overproduction crisis and is undergoing major restructuring (see D. Kazis and A. Vlisidis, 1986: 98-113). The market of intermediary steel products, unlike the markets of other types of products, especially mass consumption commodities, is one of the relatively least flexible ones. Demand is highly influenced by a number of social and general economic factors that can be only to a limited extent affected by company marketing and advertising policies, a big difference from the textiles and garment or cigarette industries for instance. War, for example, is one such factor highly contributing to the profit making of steel industries. "A war will save us" was, in fact, a comment most pragmatically and least cynically made by one of MetalCo-I's general managers. Under these circumstances the sector has become increasingly price competitive, and the minimization of the cost of production has become the crucial factor for firm survival.

MetalCo-I's management started thinking in terms of the overproduction crisis in 1979 and proceeded to restructure and reorganize production: Investments were cut down, production output reduced, and parts of the production process were phased out. Along these lines, and after the introduction of production quotas by the European Coal and Steel Community (ECSC), the decision was taken in 1981 to shut down the whole raw steel production unit, the largest MetalCo-I investment and the only one of its kind in Greece, as economically non-profitable. Production has since been restricted to the processing of imported secondary material, slabs

and rods, and, occasionally, of scrap. "The company is no longer competitive in the vertical-production unit. For [MetalCo-I] in the 1980s, it is more profitable to import its primary materials than to produce them at its own premises".

Today, the factory which for decades operated on a 24-hours-per-day, 7-days-per-week basis operates on two shifts and only occasionally on weekends. It does not operate on a steady production output basis, but according to the orders it gets. Its capacity is highly underutilized, at best by half, and its workforce has decreased by more than two thirds since 1980.

Still, MetalCo-I as well as the other steel manufacturing industries in Greece are considered among the most modern ones within the European Community (D. Kazis and A. Vlisidis, 1986: 24, 93-95). MetalCo-I utilizes machines and furnaces which are the most advanced of their kind. Parts of production are completely automated and computer controlled. Although the company has considerably cut down on its investments in the 1980s, it has continued to invest for new technology in those sections of production that pertain to certain types of items for which there is still high demand; for example, hot rolled (H/R) coils.

The above policies had a positive effect on company performance. Although MetalCo-I has presented deficits in the last couple of years (1986-1987), it has, on the other hand, managed to increase both its annual turnover and the quantity of its exports. Nevertheless, its margin of profit has been squeezed considerably, and competition is expected to tighten as the EC Council is planning to levy within 1988 the protectionist policies it has been applying to the European steel industry for the past eight years. It is now more than ever that the provision of cheap electricity has become for the firm a crucial factor in determining profit.

A few years ago, MetalCo-I established its own small power station at the factory site, in an attempt to reduce somewhat its overall cost of energy consumption. The station can cover only a small part of the factory's electricity needs, but it can do so at an even lower cost than the price at which electricity is provided by the PPC. Management believes that MetalCo-I's international market position will

soon be under such pressure, that even this relatively small amount may constitute a considerable saving. The station is not operating at the moment; it is more of a future investment for "when market conditions worsen even further". The station operates on coal which is also needed for the operation of certain furnaces. Coal needs to be imported, an additional economic burden for MetalCo-I. In fact, in one particular case, the firm has been sued by the state for overstating in their declaration form the price at which coal was imported, thereby obtaining a higher tax deduction. Management has considered this "a sign of bad faith on behalf of the government", which, in their opinion, "shows no compassion for the private investors and no consideration for the competitive market conditions they need to function within".

How does MetalCo-I's management, then, consider the "competitive market conditions" of the firm vis a vis a state policy which, although favourable by our account, seems unsatisfactory to them? After all, the company has always been subsidized by the PPC. In fact, it is one of the few highly energy-consuming industries which has no outstanding debts to the corporation. Still, MetalCo-I's management not only takes this form of subsidization for granted, but considers it insufficient.

In discussing the firm's reliance on PPC subsidization, management feels that it has to uncomfortably stand on the defensive because of the popularity the issue of PPC's advantageous treatment of industry has acquired in recent years. The public, repeatedly informed of PPC's loss-making, has to face up to annual increases in the LV electricity price. This is currently the highest price of electricity charged and is for household usage. On the other hand, twice in recent years, price increases advanced by the PPC did not include HV usage. For MetalCo-I's investors, however, it makes no sense to compare their expense on energy with the household price, but to weigh it against their overall cost of production and determine its effects on the company's market position in comparison to its competitors. For the firm, the cost of electricity currently represents a larger share in the total cost of production than any other single factor of production. Management, therefore,

thinks that the price of electricity (including PPC fixed rates) currently charged is, under the circumstances and considering the problematic conditions of the branch, very expensive:

To spell it out, the electricity price charged by the PPC may be lower than that charged to other users, it may be lower than its actual cost of production, but what interests MetalCo-I is that it is, for example, 50 per cent higher than what it costs the Italian steel manufacturers.

Competition is international whether in the external or domestic market. In this, the grievances of MetalCo-I's management are shared by and reflect those of the majority of the country's industrial owners:

Addressing the Ministries in charge, producers demand a decrease in the price of electricity; the reason given is that the high price of energy raises the cost of Greek products and diminishes their competitiveness... .. [E]xport industries are particularly concerned, drawing attention to the fact that the PPC price is double that charged in Italy or other EC member countries. (Eleftheros Typos, 20-7-1989).

The above considerations are in fact appreciated by the government. The Minister of Industry and Energy, Mr Peponis, and PPC's state-appointed Chairman, Mr Birdimiris, both acknowledge the fact that, as a result of its higher cost of production, the industrial price of electricity in Greece is very high in comparison to other EC member states,³ and that this has a negative effect on the industry's competitive status.

The problem of competitiveness is, of course, part of the industrial consumption of energy. It is a given fact that — with the exception of four EC member countries — Greece has more expensive High Voltage electricity.⁴ (A. Peponis, 1988: 27).

³ The higher cost of production of energy is mainly due to the import of technology, machinery, oil, and the lack of know-how in certain areas. This is where the PPC is highly criticised for maintaining unprofitable connections and agreements with domestic and foreign monopolies whose interests it serves as their customer (see M. Nicolaou, 1985). Even the new PPC plan to increase reliance on domestic resources (mainly lignite) in order to avoid dependence on imported oil, necessitates huge investments which in the short run increase the cost (see G. Birdimiris in Oikonomikos Tahydromos no. 31, 1987).

⁴ These four countries are Germany and Ireland with considerably higher

The state policy is indeed formulated on the basis of such considerations:

The fact that, in two consecutive cases of PPC invoice increases, the High Voltage price was not raised shows the in-practice appreciation of the fact that our price is high in comparison to the price of other EC member states. (A. Peponis, 1988: 28).

For MetalCo-I's investors, it is absolutely essential that their cost of production is subsidized in this form, if the investment is to be considered "worthwhile", meaning, profitable. And what we are 'taught' by MetalCo-I's management is that profitable for the capitalist entrepreneur is **not** the investment that merely renders profit, but **that** kind of investment that renders **the highest possible rate of profit** as compared to other kinds of economic activities, productive or unproductive. As MetalCo-I's general manager expressed it : "If one's profit is 8 per cent and the bank's interest is 22 per cent, why bother investing ? ". On the other hand, the profitability of the investment, as it has been demonstrated and will be so repeatedly throughout this study, is not judged or determined on the basis of domestic market conditions alone, but also on the basis of the international state of any particular branch of production and firm competition within it.

In appreciation of these circumstances and in its drive to sustain and stimulate industrial investment, the Greek state assumes the responsibility to subsidize part of the private capitalist cost of production. The PPC is a case in point of the way the state exercises this particular policy through state-owned infrastructure enterprises. The case of MetalCo-I and that of the cement industry likewise, show how the state's intervention through the PPC aims to regulate and re-adjust domestic conditions of firm operation so as to improve the individual firm's ability to adapt to the changing international environment; the state thus acts as a mediator between the national and the international setting. Part of the private cost (financial or other) involved in this process of re-adjustment and restructuring thus becomes

prices, and Spain and Portugal with minor price differences. As Mr Peponis claims, Germany represents a very different case in that large industries are allowed to maintain energy production units to cover their own needs and that they, therefore, enjoy only partial reliance on the central agent of production and distribution of electricity. (A. Peponis, 1988: 27; G. Birdimiris, 1987: 29).

'public'. Our second case study shows precisely the contradictory position in which the PPC (and ultimately the state) is caught in the process.

4.2.2 Case Study Two: The controversy between two state-managed enterprises

For the second metallurgical highly energy-consuming industry that we will be considering here, and for which we shall use the name 'MetalCo-II', PPC subsidization is not 'just' a means for improving its competitiveness in the international market and making the investment "worthwhile" by raising its rate of profit. For MetalCo-II, this form — any form, in fact — of subsidization is an absolute must if the company is to continue its operation at all, since it is a loss-making and highly indebted enterprise.

MetalCo-II was established in 1963 as part of a powerful, domestic, private Group of Enterprises. In later years, a French firm also participated as a minority investor and acquired a small percentage of its shares. MetalCo-II owns a number of mines, ore and lignite, and a metal-processing factory. Its basic product is a type of metal which is essential for the production of stainless steel. The company's importance for the industrial sector, possibly not that of Greece alone, lies in the fact that it is the **only** producer of this particular type of metal (henceforth called merely 'metal') in Western Europe. And since there is no stainless steel manufacturing industry in Greece, 100 per cent of its production output is exported. These exports account for 2 per cent of the international consumption of 'metal'. MetalCo-II's customers are some of the largest stainless steel manufacturing firms in Europe: British Steel of the U.K., Usine of France, Krupp of West Germany, and others.

The production of 'metal' commenced in 1966. For a decade the firm, one of the largest in Greece, was the "pride of the country's metallurgical sector", especially since, for all practical purposes, it is considered a domestic investment. In 1976, the Group proceeded with a large investment aiming to increase MetalCo-II's output by two thirds. This was when the firm's financial position started to weaken.

Firstly, because the initial estimation of the amount of capital necessary for the investment was in practice exceeded by about 60 per cent, resulting in the firm's over-reliance on foreign and domestic bank loans. Secondly, because the investment did not render the expected results; on the contrary, production output declined over the next years. It was only in 1984 that it eventually came close to — without exceeding, however — the 1976 level, and only after another big investment was realized in 1980-81. This second modernization investment, financed exclusively on loans, bore heavy financial obligations for the firm. In combination with the fact that in 1980 the price of 'metal' started to decline internationally, MetalCo-II came on the verge of facing bankruptcy : The firm reached the point where it could not meet any sorts of payments, including those to its working personnel.

The firm's closing down was avoided — as in the case of a number of other manufacturing firms of "strategic importance" for the Greek industry (see next two chapters) — through the intervention of the state. One of the measures enforced by governmental decision in 1982 in order to "save" the firm, was that two state banks bought 75 per cent of its shares (the rest remained with the Group). Thus, MetalCo-II in essence came under state ownership. For a period of eight months the mines and the factory remained shut while the practicalities and formalities of the take-over were completed. In 1983 they started operating again and have been ever since, albeit not under the most favourable conditions.

A number of steps were taken towards the firm's restructuring, such as the reduction of its workforce by 10 per cent and the planning of further reductions (25 per cent) over the next eight years, and the increase of productivity through intensification of the labour process. Big investments are also deemed necessary for the modernization both of technology and of administrative organization. Such investments, however, may take place only to a limited extent due to financial limitations. In 1987, the company faced a major crisis when one of its machine suppliers, Caterpillar (U.S.A), threatened to seize machinery that MetalCo-II was already using, because of long overdue instalment payments. The company is heavily indebted to foreign and domestic banks which along with state grants and subsidies

constitute its exclusive source of finance: Not only is the price of 'metal' quite low in the international market,⁵ but MetalCo-II's cost of production today exceeds by 60 per cent the international average and the firm is therefore forced to sell at a price below its cost of production.

For these reasons, MetalCo-II's conditions of operation have constituted the subject of numerous debates in parliament, with the left opposition parties and the company's trade unions demanding, in the short term, the "real" and complete transfer of the enterprise to the public sector and, in the long term, the full integration of production through the establishment by the state of a stainless steel factory in Greece — a point on which we shall elaborate later. The government, on the other hand, has announced its decision to sell the company to private investors. In the meantime, until private investors do show interest in buying it, the state continues to sustain MetalCo-II's functioning through a number of grants and subsidies. One such form of subsidizing has been through the PPC.

The provision of electricity at a low price by the PPC has been a state subsidy of vital importance for MetalCo-II's operation over the years: Its consumption of electricity constitutes 5 per cent of total national consumption and represents almost half of its total cost of production. Its agreement with the PPC dates back to when MetalCo-II was still a wholly privately (meaning, non-state) owned enterprise.

Although MetalCo-II, as a HV consumer, had always been paying less for the use of electricity, in 1975 it requested, and was indeed granted, an even lower price. This was just before its major investment project of 1976. Its request was based precisely on the ground that unless an even cheaper price of electricity was secured, it would not be financially able to carry out its investment project. In other words, the firm's owners counted upon this particular form of state subsidization

⁵ Its price started to decline in 1979 and reached its lowest point in 1986. It started to recover rapidly at the beginning of 1988 and is expected to continue rising for the next decade.

for the realization of modernization investments. To assist, then, the firm's technological modernization, the PPC accepted to provide electricity on the basis of an agreement reminiscent of its agreement with Pechiney. The electricity price charged was a function of the prices of lignite and 'metal' which were calculated as the ratio of current international prices to certain fixed "basic", that is, safety-set prices. Thus, by securing a most advantageous price for electricity, MetalCo-II was able to considerably reduce its cost of production and maximize, at least for a period, its margin of profit.

On the other hand, however, as the firm's scientific personnel claim, the easy availability of relatively cheap electricity had certain negative long-term effects on the firm. Its owners tended to over-rely on electricity cost subsidization and be reluctant to invest in the appropriate technology necessary for the minimization of electricity waste, as is a common practice in such types of industries. The firm's specialists claim that MetalCo-II's consumption of electricity is still 30 to 40 per cent higher than what is considered an internationally accepted standard, due to the forementioned form of waste. It has certainly contributed to the worsening of the firm's competitive market position. Only when, in later years, this waste started manifesting itself in company finances as money loss, and the PPC increased its financial claims to MetalCo-II, did management start considering the need for energy saving technological investments.

Unlike PPC's agreement with Pechiney, the one with MetalCo-II was set for a limited period of time. Due to expire at the end of 1984, it could then have been subject to alterations. In 1983, however, that is, before its actual expiration date, the PPC denounced the agreement and started charging MetalCo-II the normal price charged to the majority of manufacturing industry (MV usage). By that time, however, MetalCo-II had come under state ownership. The controversy that eventually broke out, therefore, was between two firms under the management of the same institution, the state, each contending for its own private interests — a manifestation in the extreme of what we previously referred to as PPC's contradictory

functioning.

The PPC had every legal right to denounce the agreement. In fact it could have ceased the supply of electricity altogether, since MetalCo-II was not fulfilling its payment obligations and had accumulated outstanding debts with the PPC. On the other hand, MetalCo-II was suddenly faced with a charge of Drs 4.9 per KWh, as opposed to Drs 1.70–1.80 that it used to have to pay. It comes as no surprise, then, that the firm's Board of Directors decided not to acknowledge the new price. By not accepting the higher PPC price, MetalCo-II could save about one third of its cost expenses. This made a significant difference to the firm's finances, considering that it was forced by international market prices to sell each ton of 'metal' at a price one third lower than what it actually cost to produce it. What this amounted to in practice was that MetalCo-II had every intention of directly passing part of its losses over to the PPC. So, even after the expiration of the official contract, the company would still not accept the new PPC prices. Thus, in 1983, whereas the PPC charged MetalCo-II Drs 2.10 billion, MetalCo-II accepted as "true" charge only Drs 518 million, that is, only one fourth of what the PPC demanded. In 1984, PPC charged 4.30 billion. MetalCo-II accepted only one sixth of that, Drs 750 million.

The controversy was carrying on for several years, correspondence between the two enterprises was piling up, and meanwhile MetalCo-II was not paying at all for the use of electricity, 'waiting' for the issue to be settled. By 1987, the firm's debts to the PPC amounted to several billions; the PPC was claiming more than Drs 20 billion, whereas MetalCo-II's calculations would render only Drs 5.5 billion! It was the same institution, the state, which as the owner of the PPC would raise the price, and as a member of MetalCo-II's Board of Directors would reject the decision.

Eventually MetalCo-II 'won' the case: In 1987, in line with the governmental decision to freeze the debts of a number of manufacturing industries in order to enhance their finances and assist overall industrial development, the PPC dropped its claims to Drs 9 billion and further accepted to decrease the price per KWh to

“Pechiney levels”. The company is currently negotiating the financing of a new, Drs 150 million worth, investment aiming to minimize electricity waste. This will be financed partly on loans, partly on state grants, and Drs 80 million will be freely granted by the EC Council as part of the general EC programme for energy economizing.

Now that a considerable part of what is regarded as redundant labour force has been discharged, a considerable part of the firm’s debts to the public sector dismissed, productivity has increased, and the price of ‘metal’ is up again, attaining in 1988 its highest price in ten years, it is believed that private entrepreneurs will be interested in buying MetalCo-II from the state sector. In addition to the aforementioned ‘achievements’, the fact that the PPC – MetalCo-II controversy has now been settled, with the latter securing the best part of the deal, should render the company additionally attractive to private investors.

Chapter 5

PROBLEMATIC FIRMS; THE INSTITUTIONALIZATION OF SUSTAINED RESTRUCTURING

In discussing the cases of Aget Heracles (cement) and 'MetalCo-II', we touched upon another form of state subsidization, aimed at assisting firm restructuring, which involves the actual passing of certain firms over to the public sector. These firms, known as 'problematics', have come to stand as a popular symbol of the major problems confronting Greek industry and of the challenges facing the industrial policies aiming to solve these problems.

The problematic firms were passed-over to rather than taken-over by the state in that the government did not initiate or enforce any transaction ¹: Instead, it provided the institutional framework which private owners, in abandoning interest in their investment (i.e., a form of disinvestment), could take advantage of. The state intervened in the first instance to prevent these firms from immediate closure, in anticipation of the unemployment problem and the disruptions in the domestic industrial production (chain effect) that would have been abruptly caused. The firms' restructuring, then, became the responsibility of the public sector; so did all the decisions involved in the process of 'rehabilitation' or liquidation — whatever each individual case called for. Public management in this case was thus intended to reinstate the firms' operational viability, and thereby to renew private capital's

¹ Different procedures were followed in the cases of Aget Heracles, Larco, and Pyrkal; these companies, however, came under state control **before** their submission to the 'problematics' group. Cases of take-over on governmental initiative will be discussed in the next chapter.

interest in these investments — in which case the companies are to be returned to the private sector, no longer as ‘problematic’.

5.1. The Phenomenon of Problematic Firms: Undertaking the Cost of Restructuring on behalf of Private Capital

In previous sections it was noted that since the second half of the 1970s a growing number of large manufacturing firms have been suffering losses and ‘structural’ deficits (i.e., deficits have become permanent features of the firms’ operations which are maintained by continuous borrowing). These ‘ailing’ firms, also officially referred to as ‘overdebted’, cover the whole production spectrum of manufacturing industry (G. Arsenis, 1985: 31).

[They] have been kept in operation by publicly-controlled banks or other official institutions through extension of credit lines beyond economically warranted limits. A large proportion of these credits could in effect be considered grants since they are unlikely ever to be repaid. Since the second half of the 1970s, a growing number [of such firms] has in practice been run by banks. (OECD, 1987: 34)

In the early 1980s, the state banks introduced the term ‘problematics’ to refer to those ones among the ailing firms which faced severe problems of survival — i.e., being unable to meet debt and interest payments and having declared or being close to declaring bankruptcy —, but which at the same time had a key position in Greek industry and a prominent role in the economy. (L. Nicolaou-Smokovitis and S. Bruyn, 1984: 75). Here, “key position” refers to quantitative and qualitative aspects of the firms’ status, such as size of investment, size of labour force, product specialization, export capacity, or their linkages with other firms and sectors. It implies that the possible closure of such enterprises would, in all probability, cause economic and social problems of an even greater scale than those presented by their bad financial situation. In this sense, they represented a multi-dimensional problem to be reckoned with by political rather than strictly economic-financial institutions (i.e., the banks).

After its election in October 1981, the PASOK government was faced with a rapidly increasing number of problematic companies. As the issue became pressing, the government decided to intervene directly and provide some form of official framework within which such firms could deal with their problems and be dealt with. The immediate governmental action was to release 1/100 of the Central Bank's reserves to allow these problematic industries to continue their operations while the whole issue was being studied by the Ministry of Coordination. For this purpose the Secretariat of Problematic Companies was formed in April 1982 within the Ministry. The Secretariat concentrated all jurisdictions and acted as a coordinator between the lending banks and the companies. (L. Nicolaou-Smokovitis and S. Bruyn, 1984: 75). The 'solutions' were eventually sought through state intervention.

For us, the matter was clear: Determined and coordinated state intervention was deemed necessary in order for these enterprises to be rehabilitated, at least those ones that are viable and which may, under certain rehabilitating conditions, contribute positively to our country's development. (Statement by the Minister of National Economy, Mr Gerasimos Arsenis; speech printed in the Business Administration Bulletin, 1985: 32).

The institutional framework within which solutions could be implemented was provided with Law 1386, issued in August 1983, which enacted the foundation of the Business Reconstruction Organization (hereafter OAE,² for short) a public corporation. The Law established the terms and conditions on which the state, through the OAE, could proceed with the management, control and restructuring of problematic firms. We, here, provide a detailed description of the OAE's functions and operational jurisdictions as these are defined in its founding Law 1386 (Government Gazette vol. A, no. 107, 8-8-1983).

The OAE is a Limited Liability (SA) corporation. It operates under state surveillance-supervision which is directly exercised by the Ministry of National Economy. As explicitly stated, its aim is to contribute to the **social and economic** development of the country through:

² The Greek initials are here, as in a number of other cases, retained for reasons of familiarity.

- (i) the economic rehabilitation of enterprises,
- (ii) the import and application of foreign technology and the development of indigenous technology,
- (iii) the establishment and operation of nationalized or joint venture companies.

The OAE's sources of funds are mainly state grants, coming mostly from the Ministry of National Economy budget and the public investments programme. Its capital may amount to Drs 5 billion and is subscribed by the state.

Entitled to come under OAE administration are companies which:

- (i) have suspended or temporarily ceased their operation for economic reasons,
- (ii) have ceased payments,
- (iii) have declared bankruptcy or are under their creditors' administration and management or any form of temporary management,
- (iv) cannot meet their financial obligations and the total amount of their liabilities is at least five times their total assets.
- (v) pertain to national defence,
- (vi) ask for their submission to the OAE.

On provision that any of the previous conditions is met, the company's shareholders or other administrators, its private creditors, the Greek Public (i.e., the state), state-owned banks (in case the firm has unfulfilled financial obligations towards them), or the Greek Manpower Employment Organization (OAED) may apply for protection under Law 1386 and the company's submission to OAE administration and control. The company's application is processed by the Secretariat of Business Economic Reconstruction, and ultimately the decision is taken by the Minister of National Economy.

What are then the **immediate** procedures followed once the application is approved? The OAE resumes the **temporary** administration of the company by appointing a new Board of Directors (in which a workers' representative may participate). The firm's ownership status is not altered, but the firm is under direct OAE control; its owners and shareholders may continue to meet, but they

may not recall the Board appointed by OAE. If there are any profits (in actual fact there were none) it is the Minister of National Economy that decides as to their distribution. The OAE finances the firm's operations and may provide it with loans. It, itself, may receive loans from any public or private, domestic or foreign financial institution, with the state acting as its guarantor.

During this temporary period under its administration, the OAE studies the firm's overall situation, assesses its economic viability, and negotiates with its owners and creditors a specific plan of restructuring and economic rehabilitation. For the implementation of such a plan **agreement** needs to be reached between (a) the **owners** holding 51 per cent of the company's shares, (b) the **creditors** representing at least 60 per cent of the company's total liabilities, and (c) the OAE.

However, on the basis of Law 1386 the OAE is allotted powerful jurisdictions which it may exercise with no need of formal agreement: It is allowed to request and/or proceed itself with the compulsory increase of the company's capital. It may proceed with the capitalization of the company's debts, that is their transformation into equity capital, albeit this may **only** be imposed on publicly-owned or publicly-controlled enterprises and institutions. In other words, debts to the public sector may be capitalized by the OAE without the consent of the creditors concerned. The OAE may, on the other hand, decide at any time and undertake the company's liquidation. Finally, the OAE may itself participate in the company's equity and **transfer** (that is, not necessarily sell) shares to public or private entrepreneurs.

It is apparent from the above that, in establishing the OAE, the state established a powerful interventionist and **protectionist** institution to financially and administratively assist manufacturing firms in their process of restructuring. While under the Law's protection, the firms could continue their operation on the basis of OAE funds and further loans received on favourable terms, for example lower interest. Payments of debts and interests could be suspended for a period of up to three years and rescheduled.

Within three years, the Ministry of Coordination received applications for 250 individual firms to come under the protection of Law 1386 and be submitted to OAE management (OECD, 1987: 36). A sample of 90 firms chosen among those advancing such applications showed the extent of the financial problem to be dealt with. These 90 firms operated on Drs 130 billion worth of loans while their own assets amounted merely to Drs 5 billion (G. Arsenis, 1985: 31). The applications were processed by a commission consisted of SEV (Federation of Greek Industries), GSEE (General Confederation of Greek Labour), and bank representatives. The success of the application depended on whether the enterprise “showed any signs of viability” (G. Arsenis, 1987: 113). This was determined on the basis of the following considerations, as expressed by G. Arsenis, Minister of National Economy at the time.

We are interested in the problematic firm as a productive unit We are interested in whether it is able to purchase primary materials, process them, and sell the products in the market at prices which can cover the cost of the primary materials, the cost of the operating expenses (not of the old debts), and the labour cost. If these requirements can be met, then this approach [i.e., maintaining the firm's operation] increases the national product, increases employment, and generally contributes positively to the economy. From the point of view of development and production, this criterion is judged sufficient. (G. Arsenis, 1987: 112).

By 1986, forty-four of these applications had been approved: sixteen in 1983, twenty-two in 1984, five in 1985, and one in 1986. (OECD, 1987: 35-36). For another twenty ailing firms that had applied for submission to the OAE, arrangements were made for their rehabilitation and restructuring to take place “without publicity”, under the financial and administrative responsibility of the Hellenic Industrial Development Bank (ETVA), a state bank. (G. Arsenis, 1985: 34). These forty-four firms and a few others included in later years³ became officially classified

³ Larco and Owens, both of the Bodosakis Group, were listed as problematics in 1987 and so was Mekka SA in 1988. But by that time a number of changes had occurred, that shall be mentioned later, both in the problematics' status and the Law itself.

as problematics. Formally speaking, then, the classification 'problematic' applies to those firms which are under the auspices of Law 1386 and state jurisdiction through the OAE. We shall henceforth use the term accordingly, and deal only with those particular companies. However, these companies do not exhaust the number of ailing firms that are being run directly by state controlled financial institutions (mainly the National Bank of Greece), which, being their major creditors, have also become the owners of a large part of their shares (OECD, 1987: 54). Such firms are generally referred to as "overdebted" (*yperhreomenes*).

Until their submission to the OAE the problematics operated as private⁴ companies, owned for the most part by domestic capital. In certain cases foreign capital participated with a minority equity — for example, Owens (U.S.A), Athens Paper Mill (Italy), and Hellenic Brewery ('Carlsberg' Luxemburg); in the case of the Thessalian Pulp and Paper Industry, the major shareholders were U.S. investors and the firm was, therefore, classified as a foreign subsidiary (see A. Gregorogiannis, 1980: 181).

Several of the problematic enterprises are listed among the fifty largest — both in terms of assets and number of employees — manufacturing firms based in Greece (cf Appendix I). However, for several years they had been operating with a high degree of capacity underutilization. By 1986 they had accumulated losses of Drs 236 billion; their outstanding liabilities, mostly with domestic state banks, were about Drs 350 billion⁵, exceeding by far their total assets (see Table 5.1).

In 1985, when the most significant lay-offs started to occur, problematic firms employed close to 31,000 people. These represented one fifteenth of the total number of salaried employees in the whole of the manufacturing sector (Statistical Yearbook of Greece, 1985: 69). The majority of them, about 12,000 people, were employed in textiles firms which constitute nearly one third of total problematics,

⁴ Three exceptions have already been mentioned: Aget Heracles, Larco and Pyrkal which had come under public management in 1982-83 before being brought under the Law's protection in 1986-87.

⁵ Only Drs 40 billion was with foreign creditors (OECD, 1987: 36).

TABLE 5.1
PROBLEMATIC FIRMS
(in billion Drs)

	1981	1983	1984	1985	1986
<i>Total number of firms</i>	44	16	38	43	44
<i>Total employed (thousand)</i>	(33.0)	(30.9)	(30.3)	(30.9)	(28.0)
Net sales	63.8	78.2	85.2	120.8	145.3
Gross profit margin	11.1	7.5	9.1	14.4	24.5
Net income (loss)	-8.3	-48.1	-52.4	-55.7	-48.9
Accumulated losses	18.6	79.0	131.4	187.1	236.0
Total liabilities	115.3	201.9	263.1	342.9	349.6
Total assets	116.2	146.9	157.7	181.9	219.1
Fixed assets	71.5	104.5	106.8	112.3	100.7
	23	viable	firms	(end of	1986)
<i>Total employed (thousand)</i>	(27.0)	(26.7)	(26.7)	(27.1)	(26.1)
Net sales	56.0	71.5	80.8	112.7	136.4
Gross profit margin	10.0	8.0	9.9	14.7	24.8
Net income (loss)	-5.6	-31.7	-37.1	-43.1	-33.6
Accumulated losses	11.0	48.0	85.1	128.2	161.8
Total liabilities	85.3	147.8	195.1	258.3	250.7
Total assets	88.9	117.7	130.1	150.1	188.6
Fixed assets	57.2	86.8	89.7	94.8	83.1
	21	non-viable	firms	(end of	1986)
<i>Total employed (thousand)</i>	(6.0)	(4.2)	(3.6)	(3.8)	(1.9)
Net sales	7.8	6.7	4.3	8.1	9.0
Gross profit margin	1.1	-0.5	-0.8	-0.3	0.3
Net income (loss)	-2.7	-16.4	-15.3	-12.6	-15.3
Accumulated losses	7.6	31.0	46.3	58.9	74.2
Total liabilities	30.0	54.2	68.0	84.7	98.9
Total assets	27.2	29.2	27.6	31.8	30.5
Fixed assets	14.3	17.7	17.1	17.5	17.6

Source: OAE (OECD, Economic Survey of Greece: 1987, p. 35).

followed by firms in metal products and paper. Another aspect contributing to the firms' importance for the national economy was their strong export orientation; more than one quarter of their sales (in terms of value) were abroad (OECD, 1987: 36).

The OAE's president, Mr I. Mantagos, understands the OAE as "an interventionist organization for confronting the problems of Greek industry at large" (I. Mantagos as interviewed in *Oikonomikos Tahydromos* no 32, 1988: 28), since some of these firms are most vital for the industrial sector in terms of production and employment.⁶ In intervening to protect their operation, the primary targets were:

- (a) to avoid an abrupt increase in unemployment,
- (b) to withhold and oppose the tendency of de-industrialization evident during the past decade, and
- (c) to support exports.

According to the facts Mr Mantagos provides, if problematics were left to phase out, the Greek industry would lose 13 per cent of its established power. The cement industry, in particular, would loose 44 per cent of its capacity, 43 per cent of its production output, and 45 per cent of its exports. Losses in the paper industry would be even greater: 63, 55 and 77 per cent respectively. (I. Mantagos, 1988: 28-31).

Their maintenance in 'life', therefore, restrained the deindustrialization process evident in Greece since 1973 and allowed Drs 140 billion worth of industrial production to continue, the phasing out of which would have caused an increase of imports and the further deterioration of our trade deficit. (I. Mantagos, 1988: 31).

All problematic firms share a number of interrelated problems in common. These account for their bad economic performance — some to a lesser and others to a higher degree:

⁶ Mr Mantagos has further claimed that the OAE is not a "Greek invention" and that its functions are similar to those of INI of Spain, IRI of Italy, SNI of Belgium, OIAG of Austria, and others (I. Mantagos, 1988: 28).

TABLE 5.2
VIABLE PROBLEMATICS UNDER OAE (1986)

1.	PIRAIKI-PATRAIKI COTTON MFG INC.	textiles
3.	MIHAILIDIS SA. and its three subsidiaries:	textiles
4.	TEXTILIA SA.	textiles
5.	ARISTON SA.	textiles
6.	MINION SA.	trade
7.	VELKA SA.	textiles
8.	ATHINA SA.	textiles
9.	DOURIDAS SA.	textiles
10.	POURNARAS SA.	textiles
11.	ATHENS PAPER MILL CO. SA.	paper
12.	THESSALIAN PULP AND PAPER IND. LTD	paper
13.	MEL SA. (of LADOPOULOS SA)	paper
	The following three of the SKALISTIRIS GROUP:	
14.	ETAIRIA EPIHEIRISEON SA	metal products
15.	MAKEDONIKOI LEFKOLITHOI	metallic minerals
16.	VOXITES ELEFSINOS	metallic minerals
17.	MAK-METAL SA.	metals
18.	GREEK POWDER AND CARTRIDGE CO. SA (PYRKAL)	metal-ammunition
19.	HERACLES CENERAL CEMENT CO. SA (AGET HERACLES)	cement
20.	PLASTIKA KAVALAS SA.	plastics
21.	SOTIROPOULOI EPAS SA.	wood
22.	KERAFINA SA.	ceramic hardware
23.	ELINDA SA.	electrical appliances
24.	TEMEA	technical constructions

TABLE 5.3
NON-VIABLE PROBLEMATICS
(1986, unless otherwise stated)

1.	VOLOS CLOTHING INDUSTRY	garments
2.	PERFIL	textiles
3.	ILIOS SA.	textiles
4.	VIONYL SA.	textiles
5.	ETOUAL	footwear
6.	ELVISSAK SA.	sacks
7.	FANESTROPOULOS SA.	metal products
8.	PROFILE ALUMINIUM SA.	metal products
9.	SUNLIGHT SA.	batteries
10.	KOUPPAS SA.	machine equipment
11.	SKAPANEAS SA.	technical constructions
12.	NTAIMS SA.	pharmaceutical
13.	VIOVALVE SA.	metal products
	and its subsidiary:	
14.	SINDOS SA.	metal products
15.	EGA LADOPOULOS	paper
16.	AIGION PAPER MILL	paper
17.	VEKO SA.	canned food
18.	HELLENIC BREWERY-WINERY SA (ALFA).	drinks
19.	HELLENIC BREWERY (CARLSGERG).	drinks
20.	FIX SA.	drinks
21.	OUZO TYRNAVOS.	drinks
22.	LARCO SA. (1987)	metal products
23.	OWENS SA. (1987)	glassware
24.	MEKKA SA. (1988)	textiles
25.	ATHINA SA. (1988) (no8 in Table 2)	textiles
26.	MAK-METAL SA. (1988) (no17 in Table 2)	metal products

(a) Heavy reliance on external financing (in most cases complete lack of self-financing) and, as a result, overborrowing.

(b) Highly restricted availability of cash capital. Some companies had been borrowing just in order to be able to meet the interest payments of their old loans. In certain cases lack of cash had resulted in the firm's inability to purchase the primary materials necessary for production.

(c) Unproductive investments : emphasis on **short term profits rather than long term investment planning** — what is referred to as the “speculative” nature of industrial investments.

(d) Outdated technology, therefore need for large scale investments, a need that could not be met due to the lack of capital.

(e) Administrative, managerial and organizational inefficiencies, such as excess personnel, unsuitable (non-scientific and non-specialized) administrative and managerial staff. In the majority of cases, owners had preferred to entrust their own family members with positions of responsibility rather than suitably qualified professionals. (Mr Leventis, of the Secretariat of Problematic Enterprises, as interviewed by L. Nicolaou-Smokovitis, 1987: 107; also, L. Nicolaou-Smokovitis and S. Bruyn, 1984: 99-108; G.Arsenis, 1985: 31-32).

None of the above problematic features is unique to the cases under study here; in fact, they are characteristic of a large part of the country's industrial investments and are indicative of many Greek investors' mentality and outlook. In the case of problematics, the combination of these factors produced financially disastrous results for the companies in question. These problems the OAE was expected to deal with and provide solutions for. How, then, did the OAE go about handling the firms' problematic situation?

Between 1983 and 1986, the OAE restricted itself to the role of general administrator. During this three-year period, the ownership status of the problematic firms did not alter, but the OAE assumed their management and ultimate control through the appointment of a new Board of Directors in each firm. These Boards

were to be temporary (not to exceed a three-year period) while the OAE was assessing the economic prospects of each enterprise and working out a rehabilitation plan for each case. The Minister of National Economy at the time, G. Arsenis, to whom Law 1386 bestowed ultimate control over all decision-making, describes the nature and responsibilities of the new administration :

... [T]he new Directors appointed to the Boards were technocrats who had knowledge of the market. About 60 per cent of the Boards' members were specialized technicians, engineers or economists, 18 per cent were workers' representatives, and the rest had specific commercial or industrial experience. 55 per cent of the members of the old Boards of Directors did not have higher experience and very few of them were specialized in matters of industrial development and modern accountancy. (G. Arsenis, 1987: 116).

The task of the new Boards of Directors was twofold: to maintain or restore production to the extent that company sales could cover operational expenses and to prepare middle-term plans for the rehabilitation of the enterprise which should include the arrangement of the old debts. (G. Arsenis, 1987: 120).

Between 1983 and 1986, the OAE did manage, in respect to the problematics, to increase their net sales by 85 per cent, their exports by 72 per cent, and their gross profits threefold (I. Mantagos, 1988: 28). The period of temporary administration by the OAE ended in 1986. The Organization, having assessed the situation in cooperation with the new Directors, came up with rehabilitation plans for each individual case. The forty-four firms were generally classified into two categories: the "viable" ones and the "non-viable" ones (see Tables 5.2 and 5.3). It was decided that twenty-three of the problematics were "economically viable", that is, these enterprises could potentially become profitable, albeit currently in need of major internal restructuring. The remaining twenty-one firms were defined as "non-viable", meaning that according to the OAE's evaluations these firms could not survive in the competitive market and if so, it would be at the "expense of the national economy" (G. Arsenis, 1985: 34).

The OAE's assessments and propositions for each individual case were presented to the firm's owners and creditors. The negotiations, agreements or disagree-

ments that went on between the OAE and the owners⁷ are not specifically known and have not been announced explicitly or in any detail.

In the case of those firms judged as non-viable, it seems that their owners did not accept the terms of the rehabilitation plans and agreed that the OAE should proceed with closing them down. (G. Kraloglou, 1986a: 22). The OAE decided that the companies would be liquidated and then sold in auction to private entrepreneurs, domestic or foreign. A liquidation period was set, therefore, for each firm during which production would be minimized and the labour force reduced. Already, by the end of 1986, employment in these firms had decreased to half their 1985 level (see Table 5.1). In certain cases, such as those of Larco, Owens, and Perfil for instance, it was decided that production and other operations would continue throughout the liquidation and auction periods. The foreign multinational Citycorp was given the job to evaluate these companies and assess their domestic market value. According to regulations, the first auction starts at an initial price (reserve price) which is determined in court and which is usually half the firm's 'objective' value. After each unsuccessful auction the price falls, usually by 15 to 20 per cent, and this is the reserve price at which the next auction starts. In other words, the firms can be purchased at prices extremely far below their actual value.

The original plan was that all non-viables would be sold within 1987, but only a few had been brought to auction by the end of the year. The liquidation-auction process "has been proven complex and time-consuming" (To Vima, 19-2-1989) because of the long legal and administrative-bureaucratic procedures involved (Oikonomikos Tahydromos no. 23, 1989: 78). In some cases the parties concerned — i.e., ex-owners, creditors, and the OAE as the liquidator — have not been able to agree on a reserve price (To Vima, 19-2-1989). But the main reason for the delay seems to be, simply, lack of interest on the private investors' part. Although overall private sector investment activity showed some revival in 1988, businessmen seem

⁷ As mentioned, the firms' major creditors are state-controlled banks, so 'agreements' must have been easier to reach in their case.

reluctant to invest in the companies on offer, at least not with the prices at which they are currently available. Many auctions, therefore, were unsuccessful since no buyers showed up. They had to be postponed, in most cases more than once, and the price reduced even further. Between October 1987 and February 1988, only three non-viables had been auctioned successfully, yet they were not sold to private entrepreneurs as was the intention: The pharmaceutical Ntains SA was sold in its first auction to EBNY SA, a subsidiary of the National Pharmaceutical Industry, a public company. The Aigion Paper Mills was sold in its fifth auction; the buyer was the OAE itself. The OAE was also the buyer of the third firm, EGA Ladopoulos, a paper manufacturing industry. (Eleftheros Typos, 2-7-1987; Mesimvrini, 23-2-1988; To Vima, 6-3-1988; I. Mantagos, 1988: 29).

The following are some of the cases that have been proven difficult to settle. Perfil SA (textiles), for example, came under 'liquidation-while-in-operation' in October 1986. Its first auction did not take place until April 1988 with the reserve price set at Drs 1.450 billion; it was unsuccessful. Its second auction was scheduled for March 1989 at a reserve price 35 per cent lower than the initial one. In the case of the Hellenic Brewery SA (Carlsberg) liquidation did not start until May 1987. Its first auction in July 1988 (price set at Drs 2.100 billion) was not successful. Until March 1989 no new reserve price had been set for the second auction. (To Vima, 19-2-1989; Oikonomikos Tahydromos no. 9, 1989: 73). The liquidations of Elvissak SA (sacks) and Etoual (footwear) also took a much longer time than what was initially expected; their first auctions did not take place until November 1988. They were, however, successful and the two companies were sold for Drs 21.7 million and 155 million respectively. (Eleftheros Typos, 4-11-1988). On the 14th of December 1988, Larco SA (ferronickel) underwent its third auction sale; no private investors showed interest (Eleftheros Typos, 17-12-1988; To Vima, 15-1-1989).

Auctions are still under way (To Vima, 15-1-1989). Relieved from their debts, with no liabilities, and with great reductions in their labour force, non-viables are being offered to the private sector at what are being described as "bargain prices"

(Oikonomikos Tahydromos no. 28, 1988: 57). Until private entrepreneurs show interest in purchasing them, the state remains responsible for their maintenance and their financial costs (operational, legal, liquidation expenses, etc).

In the case of the viable problematics, on the other hand, their owners either did not agree with the OAE's proposals for rehabilitation or showed no particular interest. This case, however, concerned firms which, for a number of reasons pertaining to their key position within Greek industry mentioned previously, the government could not possibly afford to close down. These firms accounted for approximately 4/5 of the total labour force of the problematics, 2/3 of their total fixed assets, and 8/10 of their net sales (see Table 5.1). The OAE's ex-president, Mr A. Hrysis, had stated:

We followed faithfully the Law [1386/83] advanced by the government and the directions of the economic policy. We believe that those enterprises that are viable should be saved. We asked their old shareholders to save them on the basis of a programme considered necessary for their rehabilitation. **Nobody showed any interest.** We then found the most efficient way to treat a serious wound of the economy. (To Vima, 17-8-1986, my emphasis).

In December 1986 the OAE, exercising its full authorities, decided the compulsory increase of these firms' capital through debt capitalization. In other words, part of the firms' debts to public institutions (i.e., the state, state-controlled banks and the OAE itself) was transformed into shares. Through this process the ownership status of the firms altered, with the OAE and other public financial institutions, in particular the National Bank of Greece, becoming the biggest shareholders. In most cases the major shareholder is the OAE which retains overall control and monitors the firms concerned. (OECD, 1987: 34-36).

Thus the viable problematics in effect came, and have since been, under state ownership. It was, however, decided that once capitalization was completed, the firms would cease to be under the protection of the Law and "would be left to operate as free competition private enterprises" (G. Kraloglou, 1986b: 36). The

OAE proceeded with the implementation of major restructuring plans aiming at each firm's rehabilitation, and in June 1987 it appointed new Boards of Directors in all viables. The prospects for the viable problematics are not, however, for them to remain under state ownership.

Various announcements were made and at times it was believed that various policies would be implemented concerning the problematics' status. Initially, while the whole issue of ailing firms was still "under study", the government promoted socialization as the 'solution' to all problematic companies, with the final objective of establishing self-management. And, in fact, during the period of temporary administration, workers' representatives were participating in the new Boards of Directors after the resignation of the old ones. Most notable are the cases of self-management in Ladopoulos SA, Fix SA, and Velka SA (see L. Nicolaou-Smokovitis and S. Bruyn, 1984: 99-101, 104-105, 107-108). Following what has been described as the 'right-wing turn' of PASOK's overall economic policy, this scheme was eventually abandoned. In 1985-1986 the Deputy Minister of Industry, Mrs V. Papandreou, presented the following plan: Viable problematics would be returned to the private sector, but **not** to their previous owners. However, certain firms which were of "strategic importance" for the Greek industry would remain under state ownership. These firms were :

1. Piraiki-Patraiki Cotton MFG INC.,
2. Athens Paper Mill Co, SA,
3. Greek Powder & Cartridge Co (Pyrkal),
4. Heracles General Cement Co, SA (Aget Heracles),
5. Makedonikoi Lefkolithoi SA (of the Skalistiris Group),
6. Voxites Elefsinos SA (of the Skalistiris Group),
7. Etairia Epiheiriseon SA (of the Skalistiris Group).

(To Vima, 12-8-1986 and 7-12-1986; G. Kraloglou, 1986b: 36). These firms are among the largest manufacturing industries in Greece (see Appendix I).

Even this scheme concerning "strategic" firms, however, in time became less definite. Although no official announcements have been made, press releases since 1987 tend to suggest that state ownership of all viable firms should be considered temporary and that the ground remains open for negotiations. It has been disclosed that both the OAE's and the National Bank's shares are available to be sold or transferred, at least in part, to private entrepreneurs, domestic or foreign, ex-owners not necessarily excluded, in short, to whoever shows interest in having them. (*Oikonomikos Tahydromos* no. 39, 1987: 13; *To Vima*, 28-6-1987; *Akropolis*, 23-8-1987; *Rizospastis*, 20-9-1987). The only probable exception might be *Pyrkal*, which may remain in the public sector because it complements other armament manufacturing units, which are also state-owned.

All enterprises are available for negotiation. Even in the case of those which have been or will be characterized of strategic importance, the prospect of transfer of a small or large part of their shares — not, however, of the majority — over to private owners will be examined. (*D. Stergiou*, 1988: 86).

In fact, it seems that as far as the largest of the companies are concerned, the general orientation is towards joint ventures with the OAE or state banks retaining part of the shares. This would suit private investors as

Nobody in the private business circles seems to believe that these enterprises may operate autonomously, that is without the OAE's economic protection. This is the crucial point as to whether the private sector will show any interest in buying these enterprises. (*G. Kraloglou*, 1986a: 22).

The government's seeming 'change of policy' with respect to the viable problematics may be attributed to several reasons. It is most probable that the size of the project and of "the required adjustment" in the restructuring process has been, as an OECD report has suggested, underestimated (*OECD*, 1987: 87). The financial costs, especially, have become very pressing. Although several firms have been able to maintain and to largely improve their conditions of operation, they continue to present a heavy burden on the public budget. This is at a time when public deficit has become a major and persistent economic problem for which the

government is under continuous criticism both from the parliamentary opposition as well as international institutions like the OECD and the IMF.

Another reason may be the fact that the private sector has in fact shown interest for the purchase of certain viables. Offers remain secret; it is, however, reported that “the revival, recently, of private investors’ interest is expressed in respectable — as it has become known — [price] offers which cannot be ignored” (Oikonomikos Tahydromos no. 46, 1988: 74). As disclosed, bids have already been made and negotiated for the textiles firms Mihailidis SA, Velka SA, and Pournaras SA and for Sotiropoulos Epas SA (wood). West German enterprises have shown interest in joint ventures with the state in the case of the Skalistiris Group companies (mineral-metallurgical). Joint ventures have also attracted the interest of Swiss, French, and British (Blue Circle) firms, which all bid for Halkis Cement SA. The same firm, Blue Circle, was interested in purchasing another two cement firms, Aget Heracles and Titan, but price negotiations failed. (Kathimerini, 21/22-2-1988; Oikonomikos Tahydromos no. 46, 1988: 74 and no. 23: 1989: 78; To Vima, 26-2-1989). Finally, the strategic firms Aget Heracles (cement) and Piraiki-Patraiki (textiles) consider the prospect of allowing certain of their subsidiary companies to enter the stock exchange market; these are bound to attract private purchasers as they are not classified as problematics.

The transfer of viable firms to the private sector has currently become a more pressing issue as the Greek state’s overall policy of subsidization needs to be revised. The policy is not in line with EC regulations; if not altogether abandoned, its form and methods need therefore to be changed. Specifically, the practice of debt capitalization initiated in December 1986 had to be discontinued in October 1987 because of EC intervention. By then, the EC Council, which had been examining the legality of the OAE’s practices case since June 1986, reached the decision that the particular measure of transforming outstanding debts into capital constituted a case of preferential treatment and overprotection. They claimed that this damaged free competition and was against EC regulations as these are provided by articles

92 and 93 (on state aids) of the EC Treaty. It was demanded that the whole legal framework of coping with the problematics, through state intervention and subsidization, should be changed because it violates the rules of free competition and that Law 1386 should, therefore, be amended accordingly. Furthermore, individual reports were advanced for specific companies. We already discussed the cases of Aget Heracles and Halkis Cement; similar complaints were advanced for Metallurgiki Halyps (metal products) and Hropei (pharmaceutical). The Law is, thus, currently under study by a state committee set up for this purpose and is expected to be revised. The whole issue of state subsidies is under negotiation with the EC Commission and has yet to be settled. (N. Tavoularis, 1987: 11; Akropolis, 23-8-1987; Oikonomikos Tahydromos no. 28, 1988: 57, no. 43, 1988: 24 and no. 23, 1989: 78).

The Law has, however, already served its purpose in more ways than one: First of all, by the time capitalization stopped, the greatest part of the firm's debts, Drs 256 billion, had already been transformed to equity. Secondly, some viables had in fact already started to come out of the Law's special protection scheme⁸ since, as mentioned previously, the intention was to present these enterprises as free competition, private ones in order to attract private investors. Since the OAE is a main shareholder and retains overall control, they are still under state protection and have relatively easier access to financing. Thirdly, the Law is still in force concerning aspects that do not pertain to capitalization. For example, Larco SA and Owens in 1987 and Mekka SA in 1988 have come under Law 1386 protection, and the OAE has decided to proceed with their liquidation and auction sale (Eleftheros Typos, 15-3-1987; Eleftherotypia, 28-6-1987; Mesimvrini, 12-7-1988). On the other hand, in cases where an overdebted company is judged as a 'viable problematic', capitalization may still go on when considered vital for the firm's survival without the company's submission to the OAE, if its creditor banks agree to it. In that case, the banks responsible take over the firm's management and may become its major

⁸ Piraiki-Patraiki was the first enterprise to do so, in 1986.

shareholders, as indeed has been the case with a number of other ailing firms. In other words, capitalization is no longer being enforced by the OAE, but it is still an active practice. This is the type of arrangement that has been sought by the OAE since 1987 for "overdebted" companies such as Halkis Cement Co., Metallurgiki Halyps SA, Hropei, and Thermis (Kathimerini, 21/21-2-1988; Eleftherotypia, 12-1-1988; Oikonomikos Tahydromos no. 24, 1988: 97; To Vima, 26-2-1989).

'Problematic' firms may cease to exist legally (that is, as a legal category), but in any actual significant use of the term they are still part of the reality of Greek industry. Many of the viables themselves, inspite of their 'preferential treatment' have not been performing very well. Companies such as those of the Skalistiris Group, Pyrkal and Piraiki-Patraiki for example, are still overdebted and they still present significant losses — a total of around Drs 30 billion (Eleftherotypia, 23-7-1989; To Vima, 6-8-1989; Oikonomikos Tahydromos no. 23, 1989: 78). In 1988, it was in fact decided that two of the firms originally assessed as viable (Athina SA and Mak-Metal SA) should come under liquidation while continuing their operations and then sold in auction. Indeed, the Deputy Minister of Industry, Mr Papanagiotou, had stated at one point that "the viability of a company is a matter of continuous assessment" (Eleftherotypia, 12-12-1987), meaning that the possibility of some 'viables' being liquidated in the future should not be ruled out. Meanwhile the state has undertaken all responsibility and all costs for the restructuring of these firms. About Drs 300 billion have so far been provided by the Public Budget, in other words, by the people, for the restructuring and rehabilitation of the problematics, so that they can be returned to private capital once profitable again. Mr Arsenis himself has admitted that the essence of the policy — popularly described as 'the problematic policy for problematic enterprises' — was that "... the tax payer necessarily had to pay. There was no other solution. The only thing was that the cost could be distributed over a longer period of time in such a way as not to become a heavy burden". (G. Arsenis, 1987: 112). The OAE itself, running

suspended debts of Drs 50 billion, (Avriani, 12-12-1987; Mesimvrini, 18-1-1988) is now in danger of becoming itself a problematic !

As non-viables seem not to be wanted by the private sector and many viables are not performing exceptionally well at the moment, many advocates of free competition economy believe that the overall solutions to the problematics have failed. Along these lines, N. Tavoularis has argued that the reasons why they failed, is that they were solutions aiming at the rehabilitation of the whole of the economy disregarding each single firm's competition potential and free-market position. (N. Tavoularis, 1987: 11). It is in fact a widespread opinion that the viability of each company was determined on the basis of social and general economic criteria rather than on the basis of its true financial situation — a policy which Mr Mantagos's and Mr Arsenis's statements, as cited previously, implicitly admit to. These views, advanced as a criticism of the state and governmental policy, actually support our argument: In an attempt to regulate the crisis of overaccumulation at a national level in favour of private capital, the Greek state has written off capitalist losses, socialized (i.e., transferred to the people) costs, and immersed itself in the detailed restructuring of capital. In the following sections we shall attempt to trace these processes concretely through the case studies of two problematic enterprises.

5.2 Cases of Problematic Firms

For the purpose of investigating the specific problems facing 'problematic' enterprises and the actual procedures and decisions involved in their restructuring, we have chosen to study the specific cases of two firms, one classified as viable and the other as non-viable.

For the case study of a viable problematic we chose Piraiki-Patraiki SA because of a combination of features it displays which render it a most outstanding

case among the viables. Piraiki-Patraiki, a domestic investment, is one of the country's largest manufacturing firms both in terms of total assets (it ranked sixth in the ICAP list for 1984) and number of employees (its workforce of more than seven thousand is the largest employed by any single private company). It is one of the oldest firms and definitely the most prominent one in the textiles industry. This is an industry with a long tradition in Greece, but is currently facing severe problems and is in need of major reorganization (S. Koufalis, 1988 and 1989); about one third of problematics are in the textiles sector. Piraiki-Patraiki was among the seven firms classified as "of strategic importance" for the national industry and economy. It was, furthermore, the first viable firm to come out of Law 1386 protection and attempt to re-establish its position as a 'free market enterprise'. Finally, in size and orientation (i.e., 'economy of scale', employment of modern technology, export oriented) Piraiki-Patraiki was the type of firm that in the 1950s and 1960s it was believed to guarantee a most promising future for the country's industrial development.

The non-viable firm, Sunlight SA, presents, as expected, a very different case than Piraiki-Patraiki. Our choice in this case was more a matter of accessibility. The non-viable firms are under liquidation procedures; in some cases production has altogether ceased. They, therefore, operate under peculiar conditions, often with no official managerial personnel, which restricts accessibility to these firms. Sunlight is a fairly recent investment (established in 1978). It is one of the companies of the Skalistiris Group of Enterprises, a domestic investment (Skalistiris is the owner of the Group). Other subsidiary companies of the Group have been classified as "strategically important viables". In this sense, it is interesting to look at how the investment of such a prominent group of enterprises came to survive, to quote Arsenis's statement once again, "at the expense of the national economy". A second aspect adding to our interest in this case is Sunlight's location in one of the country's 'peripheral regions'. Due to its location the investment was entitled to maximum state indirect subsidization on the basis of the regional development policy. At least

financially, therefore, Sunlight was already in a privileged position with respect to other firms. This extra financial advantage initially suggests that the firm could have been expected to cope better with its economic problems.

Each case of problematic firms is an individual one in that the specificities of each company's restructuring prospects reveal different needs and require separate assessments and individual planning. **In this sense**, the two firms under study here cannot be considered or treated as typical/representative of all the firms in their 'categories' (i.e., viables and non-viables). The two firms are presented as concrete and illustrative examples of the general processes involving problematic firms that have been previously discussed. The aim of these presentations is three-fold: (a) to show concretely the ways in which the state has intervened through the OAE to assist the reorganization of these firms, whether this involves rehabilitation (Piraiki-Patraiki) or liquidation (Sunlight), (b) to highlight some of the reasons that brought problematics, or ailing firms in general, to their present state, and (c) to look at the extent to which the international conditions of/in their branch of production affect the firms' performance and influence their restructuring prospects and decisions.

5.2.1 The Case of a Non-Viable Problematic : Sunlight SA

The four companies belonging to Skalistiris's Group of Enterprises were listed as problematics in 1984. Three of these are metallurgical companies engaged in the mining and refining of metallic minerals (see Table 5.2). The fourth one, Sunlight, is engaged in a different kind of production, the manufacturing of 'ordinary' dry element batteries. Sunlight stands out among the Group's firms for another reason as well. It is the only one that was eventually assessed as non-viable.

Sunlight was the Group's most recent venture. It was established in 1978. Within six months of its establishment, construction of the factory site was completed and the production of batteries commenced. Production is to a large extent based on imported materials, coming mainly from Japan and Western Europe (FR

Germany, France, the U.K.). The cost of imported primary materials and spare battery parts accounts for 50 to 55 per cent of the total value of a finished battery. The manager brought the example of a seemingly simple item, the battery's metallic lid, to indicate the extent to which they have to rely on imports. None of the domestic firms that they tried was able to manufacture this exact item, as it requires a more advanced technology than what its simple appearance initially suggests; the metallic lid is imported from a Japanese firm. One of the basic raw materials utilized, however, is manganese, and this is supplied by the Group's manganese mines located in the neighbouring county. In fact, the whole Sunlight investment was planned for the purpose of absorbing part of the production of the already existing mines. Manganese is a mineral with limited market demand (R. Pollin, 1980: 36). The utilization of manganese as an element in battery production was, therefore, an important commercial outlet for the mines' production.

The general construction of the factory was undertaken by the German enterprise Varta which provided the technological know-how, sent its own technicians over, and was responsible for the training of the specialists. It also undertook the supply of machinery and the responsibility for its maintenance.

In the beginning, Varta also showed interest in participating in the company's equity, but the owner [i.e., Skalistiris] turned down the offer because at the time the immediate prospects seemed quite good for the firm. On the one hand, there was a five-year agreement with Varta to buy Drs 5 million worth of batteries per year, which at the time represented about 20 per cent of the annual production output. On the other hand, there immediately came a ten-year agreement with the Greek Army to buy another 20 per cent of the annual production. Finally, there were also some prospects for exports. ... So the firm's market prospects seemed favourable.

It is interesting to note that the particular investment occurred at a time when Greek industry was already in crisis, overall investments in the manufacturing sector were slowing down, and the government was revising and reinforcing the development laws in order to provide more "incentives for private initiative", that is, heavier subsidization. Because of the geographical location of the factory, the

investment was heavily subsidized by the state on the basis of the existing development laws which the company made full use of. The land was bought from the local municipality at a very low price ("an extremely conventional price" as management put it). The company also followed a policy of heavy reliance on borrowing rather than own finance: by 1987 the amount of its debts was about equal to the amount of its fixed assets (Drs 600-700 million). Its debts were mostly with the National Bank.

"For a period of five years, from 1978 to 1983, things were going relatively well"— that is, the company was realizing the amount of sales necessary to at least maintain its operations. This period coincided with Varta's five-year agreement to absorb part of Sunlight's production, which had guaranteed a steady annual income for the firm. This agreement was apparently Varta's offer in exchange for Sunlight's opting for it as its constructor company and machine supplier. After the five-year 'obligation' period was over, orders from Varta stopped completely. Overall sales started also to decline as it became increasingly difficult for the firm to compete with cheaper or better quality batteries available in the market. This resulted in the firm's loss-making and its being unable to meet debt repayments.

As financial problems became most pressing, the investment started to manifest its shortcomings. The overall investment proved badly planned and inefficiently organized. According to management, mistakes were made with respect to the marketing of the product as well as the administration of the company. Advertizing was not well planned:

It took place **before** the product actually came into the market, before even production started; by the time it did, consumers had forgotten what they were supposed to buy. ... A bad market basis was established, in general. It had to do with bad programming.

Management and control were extremely centralized. The owner had retained all administrative power and was the center of all decision-making. But, "Skalistiris has several enterprises. He was visiting here only occasionally. ... He was not in the factory." A "factory boss" was, therefore, missing. What is suggested, is that

extremely centralized control, concentrated in the hands of one person alone, is not effective when that person is not actually present in the factory. What we see here is a situation where a 'family enterprise' mentality and approach to management is retained in the case of an enterprise, in fact a whole group of enterprises, whose scale and form of operation goes well beyond the 'family' type. This is one aspect of the administrative and managerial inefficiencies of problematic firms, mentioned previously, and of the more general problem of lack of application of 'scientific' managerial skills in the majority of Greek firms (K. Kanellopoulos, 1986; I. Mantagos, 1988: 28).

A third problem cited by management is the performance of the factory's workforce. "Workers are not familiar with and suitable for industrial work", and the factory thereby suffers from low productivity. The company employed 150 people in the factory, divided over two to three shifts, and 25 people in its headquarter offices in Athens. The factory personnel included four scientists who during the liquidation period have also in practice resumed managerial responsibilities. Very few of the factory workers could be considered as skilled. In fact very few of the workers had ever worked in a factory before coming to Sunlight. Both these characteristics of the labour force were viewed as problematic by management. But this was clearly a problem mostly related to the factory's location in a basically agricultural region where the establishment of manufacturing industry is a relatively recent phenomenon.

The decision as to its location was most probably a combination of two considerations. One was the factory's proximity to the manganese mines, situated as mentioned in the neighbouring county. The other was the high state subsidization which industries located in this region were entitled to. But, precisely because of this 'advantageous' location, Sunlight faced two 'disadvantages' concerning the labour force. These disadvantages are shared by all manufacturing industries in the region. These are (a) highly restricted availability of skilled labour and (b) the existence of a semi-proletarianized, agro-industrial labour force. This means that

the majority of industrial workers are also small private farmers, or are members of a farmer's household, viewing their employment in the factory as secondary to their farming activities simply adding a supplement to their farming income. Many of these workers, therefore, are not simply unskilled but are also quite unfamiliar with the factory environment and, as most managers and factory owners in the region are quick to pinpoint, they lack discipline and "industrial consciousness". It is their farms — which are, after all, their own or their family's property — which tend to be more important for them. Their factory employment is of secondary concern and as such absenteeism levels are high, and it is not very uncommon for someone to leave the factory because of unexpected demands of the farm. There exist few "conscientious" Sunlight workers, then, in management's view. They are those few who had previous factory experience or those locals who used to work at the Varta factories in FR Germany as immigrants and who decided to return once they found out that this particular factory was to open and jobs would be available.

The particularities of the workforce as such, however, are not the crucial factor determining firm performance. Other companies in the region face the same problems with respect to what they refer to as the "local labour mentality". Even though they all consider it a serious problem, it does not by itself critically affect the overall status of the firm. In combination with other shortcomings, however, as those displayed by Sunlight, it certainly aggravates overall problems.

The basic reason for the company's 'bad performance' and 'bad market prospects', and the one that essentially renders it non-viable is, as it was put by the factory's scientific personnel, that "there is no future in the production of this particular kind of batteries". There are two essential problems that Sunlight was facing in respect to this. First, the dry element batteries, commonly called 'ordinary' batteries, are now considered outdated technology. The more modern and of a higher quality batteries are alkalic, nickel-cadmium, or of even more advanced technology (lithium and others).

In the domestic market alone, **one** alkalic battery displaces **ten** ordinary ones, and one nickel-cadmium battery displaces **one hundred** ordinary ones. ... Even multinational companies, such as Yukar, specializing in the production of this type of battery, face severe problems due to technological innovations in this field.

Ordinary batteries could have one advantage over the more modern ones, and this is that they are cheaper. This brings us to the second problem the firm was confronted with. Even where production of this particular type of batteries is concerned, the technology utilized by Sunlight is considered outdated. As a result, the batteries produced are not of high quality and in fact some orders have been cancelled because of this. Also, parts of the production process are semi- or non-automated. For example, the feeding of manganese and other raw materials to the machines is done manually; so is packaging. As such, the cost of labour represents a high proportion of the total cost of production. In this respect, then, the firm faces severe competition from East Asian countries, such as Taiwan, which provide much cheaper prices due to the much cheaper cost of labour.

The whole Sunlight investment was based on short-sighted and narrow-minded planning. The investment's prospects seemed initially good, but only on the basis of short term considerations: the five-year agreement with Varta, the deal with the Greek army, some first export sales agreed upon, the state subsidization benefits due to its location, easy access to borrowing, stable supply from the manganese mines. The long term prospects of the company were not really considered, nor were its real market prospects. There was no evaluation of what competitive advantages, if any, Sunlight could have over its competitors. The conditions and direction of the branch's development nationally and internationally were not seriously assessed. Such an assessment would have showed what later on became evident in practice, i.e., that the technological breakthroughs in battery production and the cheaper price at which the ordinary batteries are available in the market by other firms, could not have allowed Sunlight's market survival, let alone its prosperity. Sunlight, thus, manifests the characteristics of the type of investment described as "speculative".

The emphasis was on the short term profits the company could realize and its immediate advantage of absorbing part of the Group's mining production.

Sunlight was classified as problematic in 1984. It then came under the general management of the OAE. Debt and interest payments were suspended and rescheduled, and the factory continued its operation with OAE funds. The OAE eventually assessed the firm as economically and productively non-viable and announced that it would have to proceed with its liquidation. October 1986 until July 1987 was set as the liquidation period, after the end of which the factory was to cease its operations and the firm's premises would come into auction sale. During this period the OAE would continue to finance operating expenses while trying to negotiate with the owner the terms of auction. The reserve price, for example, would have to be agreed on before the court of appeal passed the final decision. By May 1987 negotiations were still under way, but the general scheme was believed to be the following.

Once the firm was sold, the OAE would repay the debts to the National Bank. If sold at a higher price than what is necessary for the repayment of debts, the ex-owner will receive the excess as profit. If it is sold for less, then the ex-owner will still owe the remaining amount.

The German enterprise Friwo was at the time (May 1987) widely held to be interested in buying Sunlight as part of a deal with the Greek Army: The Army was to buy some equipment from Friwo and in exchange Friwo would buy two problematic enterprises. Negotiations with the firm's owner proved to be a non-trivial matter; the reserve price was finally set in January 1989 at Drs 715 million. An auction date was yet to be set. (To Vima, 19-2-1989).

During the liquidation period the factory continued to operate well below its full production capacity, as sales were minimal and orders almost non-existent. Exports were directed mainly to Arab countries, but these have become rare, especially after an unsuccessful export to Algeria when the whole shipment was returned because the customers were not satisfied with the batteries' quality. In recent years only one export order materialized — from the Portuguese Army. In the domestic

market sales have also fallen rapidly and the Army remains Sunlight's most important customer.

As the factory was operating below its capacity, the OAE decided that redundancies were necessary. In October 1986, it was announced that 50 workers, one third of the workforce, would have to be dismissed. The rest would remain in employment until July 1987 when the factory would cease its operations. To avoid problems, management decided to let the trade union choose the workers to be dismissed and suggested that since there were 25 married couples in the workforce, one of the spouses should leave so that no single household would remain without income.

The trade union, on the other hand, had expected that government intervention in 1984 to save the firm from bankruptcy had been intended to secure the factory's operations and their jobs — or so it should have. The workers' response was to present management with the ultimatum "either none or all will go". The OAE insisted that redundancies had to take place, and the workers decided unanimously to go on strike. For three months the factory had to withhold completely its operations while the workers had occupied the region's Local Unions Federation Offices in protest. Their banner outside the Offices read: "NO to unemployment, YES to development". The incident was quite unique in the region's short industrial history. Here were the "agro-industrial" workers criticized for "lack of industrial consciousness" displaying strong signs of "proletarian consciousness". It was not expected that the workers would display such strong solidarity; it was even less expected that they could display it for such a length of time. The locals themselves mentioned two factors contributing to their solidarity during the strike. To begin with, most of the workers come from the nearby village and therefore know each other well. Community ties, possibly stronger in an agricultural community like this one, provided great social support and kept the workers close during their strike. Secondly, the workers share a strong feeling of resentment about the factory conditions: working with manganese is very unhealthy. This shared experience of working

together under bad conditions brings about a sense of solidarity at the workplace, which contributed to the unity of the workers during their strike. Another factor we may add to the above is the workers' dual engagement: their farming income most probably enabled them to continue with their strike for a longer period of time than would otherwise have been possible.

Management tried to recruit the labour force needed by sending personally addressed invitations to certain workers in an effort to tempt them back to work. The invitations were rejected in the beginning. In January, however, some workers eventually showed up and by the end of the month production re-commenced. By May 1987 the factory was employing about 100 workers, which is as many as they had wanted to keep in the first place. It was agreed that they would have to leave in July when the factory was to terminate its operations before coming into auction. It was expected that the firm would be sold and the whole issue 'settled' by the end of 1987, according to the OAE's plans for all non-viable problematics. But this was one case where OAE plans concerning Sunlight were not fulfilled.

Two years later, the OAE is still seeking a buyer for the firm whose management and operation it is still responsible for, financially and otherwise. According to the manager's report, the factory is currently operating at 1/15 of its production capacity (it produces 7 thousand batteries as opposed to a capacity of 150 thousand) and with the "minimum possible number of workers". Production continues mostly for purposes of machine maintainance. Its only customer is the Greek Army; in fact, it is only because of the existing agreement with the Army that it has been possible for production to continue at all. The company's future : "It is uncertain if it has any future at all". Having succeeded with 'liquidating' the firm, that is, dismissing workers and debts alike, the state, through the OAE and ... the Greek Army, continues to finance this high underutilization of capacity while in search of private investors and with the hope that 'private initiative' will eventually take over.

5.2.2 The Case of a Viable Problematic : Piraiki-Patraiki SA

The 'dualism' of Greek industry, i.e., the existence of small-scale, low-technology, family businesses alongside large, high-technology manufacturing complexes, is most typically manifested in the textiles and garment industry. This sector is numerically dominated by a plethora of small and medium-sized manufacturing units, each employing anything from 5 to 70 people. There exist, however, few large vertically integrated firms which account for the largest part of domestic production and make a most prominent presence in the domestic market. Piraiki-Patraiki Cotton Manufacturing Incorporation (hereafter PP for short), with 7,147 employees, almost Drs 30 billion worth of fixed assets and 11 distinct factory sites, is by far the largest of these firms. It is not a small firm by any standards, but in the Greek textiles industry PP stands out as colossal. PP is one of more than 400 textile manufacturing companies, garment producing industries excluded. However, its investments (fixed assets alone) represent more than one sixth of total investments and its workforce more than one seventh of total employment in textiles. It produces about 35 per cent, that is, more than one third of the total textile production of the country (M. Malios, 1986: 82).

PP is a fully vertically integrated company. The production process starts with the processing of cotton and various synthetic materials into weaving and knitting yarns. These are used for the fabrication of woven or knitted, unbleached or dyed fabrics. These are in turn used for the manufacturing of a whole range of finished mass-consumer products — from ready-made garments, sportswear, and ready-tailored house furnishings (curtains, tablecloths, towels, etc.) to tents, sails and special fabric materials for army uniforms. The main raw material used is cotton, 60 per cent of which comes from the domestic market. PP buys annually about Drs 35 million worth of domestically produced cotton (Akropolis, 27-9-1987), which renders it into a major and regular customer of cotton producing farmers. The rest is imported mainly from the United States and Pakistan.

TABLE 5.4

Piraiki-Patraiki Factory Sites and Product Specialization

Factory Site	Type of Product	Employment
1. Patra	Yarns, Unbleached fabrics	2,839
2. Nea Peramos	Yarns (weaving, knitting)	637
3. Neo Faliro	Yarns, Knit fabrics	617
4. Halkida	Unbleached fabrics	503
5. Filiates	Unbleached fabrics	485
6. Volos	Ready-made garments	318
7. Karpenissi	Cotton weaving yarns	269
8. Nea Ionia	Fabrics	224
9. Nea Ionia II	Cotton yarns	217
10. Samos	Yarns (weaving, knitting)	195
11. Syros	Weaving yarns (blend fabric)	95
12. Athens	Headquarter Offices	748
TOTAL		7,147

Each PP factory specializes in the production of specific items (see Table 5.4). The factories are dispersed in various geographical locations. As we shall see later on, this spatial division has to do with the way the firm has expanded over the years through mergers and take-overs. The factories specializing in 'downstream' operations (i.e., production of yarns) supply the ones manufacturing fabrics and finished items.

In addition to being used for 'inside consumption' (i.e., inter-factory supplies) intermediary products (yarns and fabrics) are sold to other textiles and garment manufacturing companies in Greece as well as abroad. PP has strong linkages with a number of small, domestic manufacturing units which do not have integrated production and which specialize in certain stages of the production process — knitting, weaving or garments and other end-products. These firms depend on PP for

supplies of intermediary products. There is also a large number of 'home-employed' or free-lance labourers, or groups of labourers organized as small manufacturing firms (see A. Georgiadis *et al*, 1985: 110-112), who also rely to a large extent on PP for manufacturing orders. This is because PP utilizes putting-out production during peak periods of market demand. When factory production is not enough to fully meet the firm's delivery deadlines, PP subcontracts such individual producers for the sewing of house furnishing materials and for the manufacturing of knitted fabrics. The firm, therefore, occupies a key position in the Greek textiles sector.

Another main factor contributing to the firm's importance for the industry is its strong export orientation. For the past ten years, company exports have been steadily increasing, following the general increase of textile/garment exports, which in the 1980s have surpassed in quantity all other commodity exports of the country. Today, about 40 per cent of PP's annual sales are being exported, mainly to Western European countries and Israel. EC countries alone, which are the main importers of Greek textiles in general, absorb about 80 per cent of PP's total exports. From this point of view,

Greece's membership in the EC has positively influenced the firm's position [i.e., in W. Europe] as it has provided it with more opportunities to create openings in the large European market.

PP also shares an overall significant proportion of the domestic market, which is different for each type of product.

PP is not only the largest, but also one of the oldest firms in the textiles sector. In many respects, therefore, its history exemplifies the major characteristics of industrial development in Greece as they have been highlighted in previous chapters. In November 1919, Patraiki Commercial & Industrial Company was founded in Patra by two friends, H. Katsabas and S. Stratos. The investment totalled Drs 150,000. In 1925, Patraiki became a Limited Liability (SA) company with Drs 10,000,000 equity capital. By that time the company included a small dyeing shop, a sock-weaving unit, a cloth-printer, and a carpet-making unit which operated 35 manual looms.

In 1932, the National Bank's Governor, I. Drosopoulos, offered the administration of Piraiki Enterprises SA, which was comprised of two small weaving factories located in Piraeus and Kallithea, to Katsabas and Stratos; thus emerged the scheme and name [i.e., Piraiki-Patraiki] which today predominates in the industrial sector of Greece.

Between 1933 and 1938 PP bought a number of small spinning mills and thus increased its production capacity. Expansion plans were halted due to the war and production was minimized during the occupation. Although the firm's expansion during the pre-war period was quite impressive for that time, its factories were all still very small units relying mostly on manual labour, in certain cases rather handicraft in form.

The breakthrough in the firm's development came after the war. The firm started to strongly orient its activities towards full vertical integration through expanding and modernizing yarn production (spinning mills) and to transform from a labour-intensive, mostly manual production to a modern technology, machine-intensive industry. In 1948, PP ordered modern machinery from West Germany to equip its new spinning mill in Nea Peramo. The factory had a capacity of 15,000 spindles. This was actually, the first factory established in Greece after the war. Its operation commenced in 1951. In 1958, the company's spinning mill in Megalo Pefko was enlarged and mechanized. Another new unit, including a modern weaving mill, a modern dyeing shop, and a cloth finishing unit, was established in Patra. The Patra site thus expanded to include five individual plants. In 1962-63 the Patra plants were enlarged and unified into a large fully integrated industrial complex including a variety of basic and ancillary units, such as spinning mills, weaving and knitting mills, dyeing and fabric finishing shops.

After 1963 and until 1980 the company's development entered a new phase. These years must be considered as the period during which the PP **completed** its plans [for vertical integration] through expansions, new investments and new purchases; PP's industrial ventures are completed with the Syros, Halkida, Samos, Karpenissi, Nea Ionia and Neo Faliro factories.

Whereas during the previous period the emphasis was on the creation of new factories and the enlargement and technological modernization of the old ones, after 1963 PP followed a policy of expansion based on take-overs, mergers, and equity participation in other firms. During this period, the company established only one new plant, the spinning mill in Karpenissi. It bought, however, two spinning mills in Syros and Halkida respectively, 51 per cent of the shares of Filiata Spinning & Weaving Mills SA, and took over five private firms through merging : Hellenic Cotton Industry, Halkida Spinning & Weaving Mills, Moutalaski SA (spinning mill), Gabriel SA (spinning and weaving mills), and Samos Spinning Mills SA (cf Table 5.4). PP also turned into marketing and trading its own products and established two companies for that purpose, EEE Fabrics Trade SA and Kronos Ready Garments SA. Furthermore, as part of overall business expansion, it entered into joint investment ventures with a number of companies, some of which are not directly related to the textiles industry. Today, it participates by various percentages in the equity of the following companies : Mekka SA (carpets), Aspioti ELKA SA, Bianka SA (textiles), Stegi Ellinikis Viomihantias SA (industrial exhibitions), Naval and Tourist of Samos SA, C.M.A.T. SA, BIEEX SA (industrial constructions), IntraCo SA (telecommunications). Over this period PP also became increasingly oriented towards exports — “... the first of all other Greek [textiles] industries to realize exports on a regular basis and with impressive results”. PP’s last expansion project took place in 1981:

[The company] made the big leap into the European market by purchasing the factory ...(including a spinning mill, a weaving mill, a dyeing shop and a fabric-finishing unit)... of the Van-Delden company in Ochtrup, West Germany; thus, Piraiki- Patraiki Van Delden AG was established as a PP subsidiary abroad.

Just three years after this most notable achievement, PP became officially classified as problematic and came under OAE administration and management on the basis of Law 1386. The corporation was financially unable to maintain on its own its operations. Its continuous expansion in the 1960s and 1970s had been financed by heavy borrowing and this had resulted in large deficits. For several years the

company had been borrowing just in order to be able to pay the interest of the previous loans. It was thus recording losses and was unable to meet further debt and interest payments. Its equity had been completely wiped out. In fact, due to high debts, the majority of its shares had already passed over to the National Bank. The bank, however, had allowed the Katsabas-Stratos families (left with 8-9 per cent of the shares) to retain the firm's administration. (K. Sougioutzoglou, 1986: 57).

When the company came under the OAE, debt payments were suspended and capital was provided so that the factories could continue operating. During the two year period (1984-1986) that PP remained under the protection scheme of Law 1386, the OAE assessed it as economically viable. The firm's importance as a big employer, as exporter, as a main cotton customer, and as a main supplier of intermediary textiles products to a number of other firms apparently left no doubt that the phasing out of PP would cause a big shrinkage in the domestic textiles industry. At a time when it is generally believed that the future of Greek industry is in 'medium technique' and highly export oriented branches such as textiles, the overall effects would have been very negative indeed. The following statement by PP's state appointed president, Mr Giannis Tseklenis, reflects the situation we have just described.

PP is no longer the affair of PP, not even the people's affair; it is the persistent affair of Greek textiles and of Greek industry in general. (G. Tseklenis, as interviewed in Akropolis, 27-9-1987).

In 1986, the OAE proceeded with the first step towards rehabilitation, which was the capitalization of part of the firm's debts. Drs 33.5 billion of debts to the National Bank and the OAE⁹, out of a total of Drs 45 billion outstanding liabilities, were transformed into equity. As a result of this arrangement, ownership changed, with the OAE and the National Bank becoming PP's main shareholders

⁹ Debts to the OAE amounted to Drs 3 billion and had occurred between 1984 and 1986.

TABLE 5.5

Piraiki-Patraiki Subsidiary Companies

- | | |
|-----|---|
| 1. | Piraiki-Patraiki Patra Spinning and Weaving Mills SA |
| 2. | Piraiki-Patraiki Nea Peramos Spinning Mill SA |
| 3. | Piraiki-Patraiki Neo Faliro Spinning-Weaving Mill SA (former Gabriel) |
| 4. | Piraiki-Patraiki Halkida Weaving Mill SA |
| 5. | Filiata Spinning and Weaving Mills SA |
| 6. | Piraiki-Patraiki Volos Ready-made Garment Industry SA |
| 7. | Piraiki-Patraiki Karpenissi Spinning Mill (former Moutalaski) SA |
| 8. | Piraiki-Patraiki Nea Ionia Spinning-Weaving Mill SA |
| 9. | Piraiki-Patraiki Samos Spinning Mill SA |
| 10. | Piraiki-Patraiki Syros Spinning Mill SA |

with approximately 70 and 30 per cent of the shares respectively. Since 1986, therefore, PP has been, in essence, under state ownership. Whether it will remain so or not is yet an unsettled issue. As it is, PP is not included formally in the public sector since it has come off Law 1386 protection. The OAE, however, operates on public funds and it is the public budget which currently carries the burden of PP's operations, especially as the firm is yet to register net profits. Since 1986, a major restructuring project has been undertaken by the OAE which has already brought significant changes in the company.

The first major changes pertained to the firm's organizational structure. In 1986, PP was divided into ten smaller subsidiary companies. The criteria taken into account were the geographical location and product specialization of each factory, so that, with the exception of the Nea Ionia factory II, each factory site became one separate company (see Table 5.5; compare with Table 5.4)

Thus, under state ownership a policy opposite to the one followed by the company during the 1960s and 1970s (with the numerous mergers and take overs) was introduced, directed towards organizational and administrative decentralization.

All ten companies are being monitored by the 'mother' company, Piraiki-Patraiki Cotton Manufacturing Incorporation, which is also responsible for marketing, sales, and the supply of raw materials. Overall control is exercised by the OAE.

Once this re-organization took place, the firm proceeded with a Drs 2 billion investment plan to be carried out in those units with the most problematic performance. This mostly involved the modernization of equipment. These first steps towards the factories' re-organization and technological modernization necessitated a decrease in the labour force. It was assessed that the firm had an overcapacity of 1,000 workers. Following arrangements with the unions' Coordinating Committee,¹⁰ the workers were offered financial incentives. Some of them did take advantage of the redundancies on offer between October 1986 and March 1987.¹¹ Excess personnel, however, is still one of the firm's problems according to management, especially as more machinery investments are planned for the future.

The technology employed is not very modern. During the last few years technological development in the textiles industry has been tremendous. ... [PP] has been unable to keep up with the most recent technological developments in textiles. ... One of the firm's main aims is to launch a [technological modernization] investment programme which, even though it cannot but be of a limited extent, is absolutely necessary if the firm is to retain its established position within the European market... [In this respect] the urgent problems the firm is confronted with today are (a) restricted cash availability, (b) low productivity, (c) the necessity to improve product quality, and (d) the necessity to modernize technologically.

Machinery and technological know-how are imported from a number of countries, mainly from West Germany, Switzerland, Italy, the U.K. and the U.S. In the 1960s

¹⁰ Each factory has its own trade union, as does the headquarter offices in Athens. Each trade union elects its own board of representatives. Each board may bargain over wages and other matters and decide on policies, such as strike action, independently of the other factories' trade unions. However, there also exists a Central Coordinating Committee which all boards participate in. It deals with matters of common concern, joint action, and general problems.

¹¹ According to Greek law (1387/83) private firms are not allowed to proceed with annual lay-offs exceeding 2-3 per cent of their labour-force — in this case, not more than 150 workers — unless these are "voluntary" (ETVA, 1988: 88).

TABLE 5.6

Piraiiki-Patraiki: Distribution of Finance

Balance Sheet of 31-12-1987

Equity capital :	Drs 30,555,820,000
Fixed assets :	Drs 29,148,284,637
Borrowed capital :	Drs 29,009,000,000
of which	
Long term debts :	Drs 9,497,000,000
Short term debts :	Drs 19,514,000,000

and 1970s, PP was, by European standards, one of the technologically most modern industries of its kind (M Malios, 1986: 82). In the 1980s technological development in the textiles industry of the industrially advanced countries has continued at an even faster pace as part of the industry's global restructuring. PP has been financially unable to keep up with the pace of change. As it is, the company's credit liabilities are very high. Its equity capital is, in fact, borrowed capital and it just about equals the amount of its fixed assets. (Table 5.6).

The firm's Administrative Councillor, Mr N. Nasofidis, has himself stated that financially "PP is currently operating at its limits" (To Vima, 20-9-1987). The firm is facing restraints on the amount of capital it can raise to purchase new machinery and technological know-how. This is why management stated that modernization "cannot but be of a limited extent". It is being financed by more loans (mostly from the OAE and the National Bank) which further increase the firm's credit liabilities and add to its historical legacy of debt.

The firm's legacy of debt is mainly due to the particular policy followed of heavy reliance on bank credit, a policy common to the majority of Greek manufacturing firms. This particular private investment strategy coupled with the banks' policy of easy accessibility to loans worked out well in the past, when the overall economic conditions were good. It started reaching its limits with the recession. (G. Arsenis, 1985). In the past, especially in the 1960s and early 1970s, the PP

had been able to take advantage of both easy access to credit as a resource of financing technological investments as well as the cheaper, in comparison to Western European countries, cost of labour. Since then, however, the international crisis in the traditional branches of industry and the global restructuring it has necessitated have rapidly changed the framework within which PP, and the Greek textiles sector in general, have to operate. The underlying problems that PP is facing today are critically linked to the changes in the world textiles industry.

Competition has been hard in the international as well as in the domestic market, from both the industrially advanced as well as the newly industrializing countries. The first have the advantage in the use of more advanced technology and the latter in the availability of cheaper labour. PP and possibly Greek textiles as a whole were caught in the middle of this evolving process. However, as it has been argued by Mody and Wheeler, this middle is gradually vanishing and an international restructuring is evident in the textiles and garment industry in recent years : The industrially more advanced countries, such as the United States and the Western European countries, tend to specialize in the **fashion** section of apparel industry and retain those parts of textile production where the use of highly advanced, automated technology is considered more advantageous than labour intensive techniques in terms of cost saving. On the other hand, those parts of production where the use of non- or semi-automated techniques , when combined with a very cheap cost of labour, is more profitable, that is, cost saving, are being located in the NICs. This has led to what Mody and Wheeler call “joint production arrangements” between firms in different locations and different countries. Such arrangements, they claim, are more cost-competitive than integrated production at one site. This process does not necessarily involve subsidiary firms or foreign investments in NICs. (A. Mody and D. Wheeler, 1987). We shall come accross examples of such arrangements involving domestic companies in the section on Xanthi.

Generally speaking, Greek textiles firms — the majority of which are labour intensive — may not be able to compete internationally on the basis of cheap labour alone :

According to the reports and data we have, if the index of the cost of labour were 100 in the United States, it would be 40 in Greece, but only 2-10 in the countries of the Far East. You can imagine the required volume of investments in modern technological equipment that would replace human labour, so that we [i.e., PP] and Greek textiles in general could confront satisfactorily the comparative advantages of these countries. (Statement by PP's Councillor, N. Nasofidis, in To Vima, 20-9-1987).

Still Greece has several important advantages, in particular with respect to the EC market: The cost of labour in Greece is one of the lowest in Western Europe. This becomes quite important in connection with two other advantages, i.e., the geographical proximity to the other European countries and participation in the EEC (low tariffs, etc.). Also Greece is the largest producer of exceptionally good quality cotton in Europe. (K. Sougioutzoglou, 1986: 58).

Different textile firms in Greece, therefore, need to face different decisions with respect to international restructuring, depending on their size, product specialization, market position, level of integration, etc. If PP is to exploit its productive potential, it has to opt for the 'northern' solution. It is clear from management's statements quoted above that, despite the financial restraints, the choice has already been made towards the implementation of advanced technology. Another indication that this is the solution opted for is the firm's re-orientation towards the establishment of fashion design and the promotion of market research and advertizing. In this sense, it seems that the firm's new state-appointed Chairman, Mr Giannis Tseklenis, was a firm step in this direction. Tseklenis is a well-known fashion designer and is himself the owner of a successful fashion-apparel business.

Following his appointment in June 1987, a major investment materialized for the planning and establishment of a Center of Product Promotion and Design. It started operating in spring 1988. Through it the firm intends to apply professional marketing methods and develop fashion tendencies and ideas for new products and designs. (Oikonomikos Tahydromos no. 14, 1988: 78).

Today, PP produces large quantities with no knowledge of what exactly are the predispositions of the end consumer.... Up to now,

PP spent a large amount of capital in buying designs from abroad, so that it could copy them.... Although the company was vertically integrated, there did not exist a real designs unit. (Statement by PP's Chairman, G. Tseklenis, in To Vima, 20-9-1987).

One of Mr Tseklenis's main aims along these lines is the establishment of a *brand-system*, that is, the manufacturing of fashion products with registered 'names' (brands) the marketing of which shall strongly rely on advertizing — 'Benetton' or 'Jeffrey Rogers', for example, are successful cases of the *brand-system* policy. As Mr Tsekelenis argues:

... the Greek textiles industry, which at periods profits billions, is anonymous and ready to disappear... It exports finished products all over the world which don't even have the label 'made in Greece' on: Last year, Drs 1 billion worth of Greek fabrics and garments were sold in the international market; it is doubtful whether Drs 5 million worth of them were actually 'signed'. (Eleftherotypia, 27-6-1987)

Today, PP few people actually know that PP fabrics are exported to some of the largest fashion garments 'houses'. (To Vima, 20-9-1987)

Our basic aim is what foreign corporations do in marketing their products. [We want] to change the Greek consumer's mentality towards Greek brands through advertizing. About 25 per cent of the non-retail price of foreign commodities represents the cost of advertizing. (Akropolis, 27-9-1987).

PP's restructuring plan is still under way. There are speculations about the possible closing down of some production units, further redundancies, and the possibility of limiting production to only certain types of products (Mesimvrini, 18-1-1988). Further changes in the firm's orientation and overall policy are scheduled for the near future. As we have seen, PP does have the potential to re-emerge as a healthy firm in the textiles sector along the lines dictated by the sector's global restructuring, and serious attempts are being made to actualize this potential. As it is, where production as such is concerned the company is doing well. PP's factories operate to their full capacity of three to four shifts a day. Demand is high and so are sales, most importantly export sales. PP's output and export capacity have been on the increase in recent years.

The company operates at one of the highest **gross** profit rates in European textiles, which surpasses 31 per cent while the international 'standard' is around 28 per cent. Unfortunately, however, due to accumulated past deficits which burden it with immense financial expenses, **net** profits are minimal to non-existent. ... Credit liabilities alone amount to 70 per cent of gross profits. (Statement by PP's Administrative Counsellor, N. Nasofidis, in Akropolis 27-9-1987, my emphasis).

For these reasons, despite optimism to the contrary, the company has continued to run losses: Drs 2.5 billion in 1987 (Kathimerini, 25-2-1988), 5.6 million in 1988 (Eleftheros Typos, 23-7-1989), and 13 billion forecasted accumulated deficits for 1989 (Eleftheros Typos, 27-7-1989).

PP was the first problematic to come under the special protection scheme of Law 1386. It was, therefore, in a sense looked at as an experiment which, if proven successful, "could show the path towards a solution of the problematics case" (To Vima, 20-9-1987). The "experiment" so far has neither succeeded nor failed. It has certainly not produced any ready made formulas. What it has produced is an immense attempt towards the firm's detailed capitalist restructuring. This has taken place on the basis of public financial resources and along lines determined by the global changes and tendencies of the textiles-garments sector. **In this respect**, the two very different cases of Piraiki-Patraiki and Sunlight are subject to the same aims of governmental policy towards the problematic enterprises which :

Targets the rehabilitations of these enterprises in a way so that they may be maintained and develop for the benefit of the National Economy, and the broader social whole. Rehabilitation, of course, follows different options and methods depending on the nature of the enterprise, its economic situation, the forecasted developments of the market in Greece and internationally, the firm's degree of penetration into foreign markets, the firm's position in the country's productive capacity, its strategic or not significance, etc. (Statement by the Deputy Minister of Industry, K. Papanagiotou, in Mesimvrini, 23-2-1988).

Chapter 6

PUBLIC SECTOR EXPANSION IN MANUFACTURING INDUSTRY

6.1 New Tendencies in Public Sector Investment Policy: The State as Industrial Investor

Another major expedient of sustaining industrial restructuring through public sector intervention has been the sector's expansion to include direct investments in manufacturing industry. As it has been discussed in previous chapters, with the exception of basic infrastructure enterprises (such as the PPC), manufacturing industry at the peak of its development had been seen as the domain of **private** initiative. Throughout the period of the "economic miracle", the presence of the state as industrial investor was minimal. Governmental efforts were primarily concentrated in providing economic motives for the promotion of private investments. The more frequent case of state participation in industrial investments was through state banks, mainly the National Bank of Greece. But even this indirect form of intervention was aimed at promoting private investments (K. Vaitzos, 1984: 50) and was subordinate to private initiative investment decisions, rather than constituting in its own right part of a more encompassing state industrial development programme with specific production orientations.

Since 1975, the state has considerably expanded its entrepreneurial activities in various spheres of the economy in order to substitute for private capital

economic activity and maintain certain levels of investments and employment. Nevertheless, the public sector's direct presence in the manufacturing industry remains relatively low in comparison to its presence in other spheres of production and services, such as the infrastructure industry, construction, the banking sector, and insurance. (KEDE, 1986: 112-113).

In spite of this, there has been a marked tendency away from the previous policy, and state investment in the manufacturing sector both direct and indirect has increasingly expanded. This qualitative change in actual state practice with respect to the manufacturing industry began in the second half of the 1970s, although at the time it was not propagated as a consciously-formed governmental policy, being 'inconsistent' with the conservative (New Democracy Party) government's ideological commitments to a free-market/private-initiative economy. In the 1980s, state intervention in the manufacturing sector increased due to the accentuation of the industrial crisis, as well as found its ideological justification in PASOK's socialist rubric of a 'mixed economy'; It thus gradually developed into a more consistently planned, centrally administered, and consciously pursued policy. In reviewing the development of public enterprise in Greece, Kostis Simitis, who served as Minister of National Economy under PASOK, pointed out the fact that, from an official/governmental point of view, the role and aim of public enterprises was for decades considered as **complementary** and **ancillary** to the development of private entrepreneurial activity. He notes that in actual fact, however, public enterprises attained increasing economic importance throughout the post-war period, and that in recent years they are gradually assuming a **leading** role in the development not only of the private sector, but of the whole of national economy. (K. Simitis, 1986: 8-10).

The following statement from the Center of Public Enterprises (KEDE)¹ three-year Report summarises the situation in the manufacturing sector as this was experienced and presented by the newly-elected PASOK government in 1982.

¹ An affiliate of the European Center of Public Enterprises (CEEP).

In the preliminaries of the Five-Year Programme for Economic and Social Development, attention is drawn to the fact that the basis of the manufacturing sector in Greece is wholly relying on private, domestic and foreign, initiative, with the exception of that part which is controlled by the state banks. In its essence the role of the state-as-producer in Greek manufacturing is small; as a result, key activities are absent from the industrial capacity because private initiative either was not able or was not interested in developing them. (KEDE, 1986: 119).

Public sector expansion in the manufacturing sector thus became an attempt:

- (a) to fill production and investment gaps left by private initiative and thereby restrain **disinvestment**.
- (b) to programme/regulate industrial development at a national level, by undertaking certain key production activities that private entrepreneurs, domestic or foreign, either abandon or have never been interested in (see K. Vaitos, 1984: 50).

Faced with an increasingly accentuated problem of disinvestment and deindustrialization, the state has been driven to assume a more intense and active entrepreneurial role in industry. In doing so, it has moved towards providing some form of central national industrial planning, especially as most of its efforts seem to concentrate in specific sectors of production.

The case of the problematic firms, discussed in the previous chapter, has in fact been one instance in the forementioned process. Although problematics as such are not considered public firms in the strictly legal sense, the OAE, which acts as a type of holding company, is a public corporation, established on the basis of public budget funds. In effect, these companies' submission to the OAE signifies direct state management and control. Their directors and top managerial personnel are government-appointed.

Problematics are a distinct case in that, as we have argued, they have impelled a distinct institutional framework of public sector intervention, i.e. Law 1386 and the OAE, enacted for the purpose of saving these firms from closure and bankruptcy as well as securing the financial interests of their owners by relinquishing

their debts. This is furthermore a case of, allegedly, **temporary** public sector intervention to 'revitalize' these companies so that they can be returned to private ownership as soon as private enterprise shows interest in re-investing in them.

Apart from the problematic companies, that is outside the OAE framework, public sector investment expansion in the manufacturing industry has been realized in two basic forms:

- (a) The taking over of already existing private manufacturing units. This process usually concerns firms of the type that have been described as 'ailing', that is, severely affected by the crisis and no longer profitable for the private capitalist. In the majority of these cases the owners have not been interested in holding on to the companies.
- (b) The realization of new investments, i.e., the establishment of new industrial units.

In both cases, the industries involved have been considered of such key importance for the country's industrial development, as to require state investment initiative. This initiative involves the taking over or establishment of specific enterprises in specific branches of production which are in need of restructuring and/or which are believed to have a dynamic potential and stimulative effect on the development of the industrial sector as a whole. Like in the problematics' case, the factors in consideration are the nature of the industry's production (for example, links with other types of industries or the country's natural resources), the size of the investment involved (in terms of employment of capital as well as labour), or the level and significance of exports. The prospect cannot be ruled out, of course, that these industries might in the future be sold back to private entrepreneurs. However, unlike the problematics' case, no such intentions have been made known, explicitly or implicitly. Currently, such firms are established in the state sector, either directly, constituting public budget investments, or indirectly, their ownership resting with state banks. They are part of state industrial investment activity, directed to substitute for "private initiative" and promote industrial development on a national

scale. Through sustaining the development of these key sectors and enterprises, the state attempts to regulate the re-orientation and stimulate the expansion of entrepreneurial activity in the industrial sector at large.

6.2 Attempts at Industrial Planning and Restructuring: The Post- 1975 Practice

In their working paper to be used for the new draft bill concerning the functions and mode of operation of Public Enterprises, A. Daskalaki and G. Kypourgos note that the rapid increase of state participation in entrepreneurial activities has been one of the basic forms of the public sector's investment expansion since 1975 (DEKO-GS, 1986: 1). In respect to its expansion in manufacturing industry in particular, we detect two prominent periods : 1975–1979, considered as the “second phase of public enterprise development, after the first post-war phase which concerned mostly the traditional public utilities sectors” (KEDE, 1985: 111), and the period after 1982.

6.2.1 Breaking with the Post-War Tradition

The breakthrough in public sector expansion came in 1975 with the transfer of the Commercial Bank of Greece Group of Enterprises, most commonly known after its founder and main shareholder as the Andreadis Group of Enterprises, over to public sector ownership. Through the Group's nationalization, a process completed by 1978, seventeen enterprises (see Table 6.1) came under state ownership and control.² The most important was the Commercial Bank itself, which acted as the holding company for fourteen of the enterprises and which along with the National Bank, is one of the two largest financial establishments in Greece.

² For more information on the enterprises as they existed before 1978, see S. Andreadis's pamphlet of 1986. On the Commercial Bank Group of Enterprises as it exists today, see *Oikonomikos Tahydromos* no. 4, 1987: 35-55.

TABLE 6.1

The Stratis Andreadis Group of Enterprises

1. COMMERCIAL BANK OF GREECE (established in 1952),
acting as the Holding Company of the following firms (no 2-15) :
 2. IONIAN AND POPULAR BANK OF GREECE.
 3. BANK OF ATTICA.
 4. BANK OF PIRAEUS.
 5. INVESTMENT BANK.
 6. "THE IONIAN" INSURANCE COMPANY SA.
 7. "PHOENIX" GENERAL INSURANCE COMPANY SA.
 8. GENERAL INSURANCE OF GREECE (merged with "PHOENIX" in 1978).
 9. "THE IONIAN" HOTEL ENTERPRISES SA.
 10. "GERANOS" TECHNICAL & COMMERCIAL COMPANY SA.
 11. PHOSPHORIC FERTILIZERS INDUSTRY LTD.
 12. HELLENIC INDUSTRY OF SACKS AND PLASTIC MATERIALS SA.
 13. ELEUSIS SHIPYARDS SA (shipbuilding).
 14. HELLENIC GENERAL ENTERPRISES COMPANY SA (repairs shipyard).
 15. HELLENIC INDUSTRY OF CANS AND BEVERAGES SA.
 16. HELLENIC CAPITAL COMPANY SA.
 17. HELLENIC ELECTRICAL RAILWAYS, (re-named to : Electrical Railways of Athens
and Piraeus).
-

The importance of the take over of the Andreadis Group lies foremost in the fact that, through it, the state extended its presence in the national banking sector, of which it came to have almost complete control (KEDE, 1985: 111). But its presence in manufacturing industry also expanded most significantly through the take over of five big industrial companies (Table 6.1), the most prominent of which are the Phosphoric Fertilizers Industry Ltd and the Eleusis Shipyards SA.

The Eleusis Shipyards is the second largest of the four big companies that constitute the backbone of the shipbuilding sector in Greece. Established in 1962, it is capable of manufacturing ships of a capacity up to 150,000 tons d.w. and ship-repairing of all types (S. Andreadis, 1986: 31). Its acquisition was the initial step in a process that was to be completed in the post-1982 phase of public sector expansion, whereby those four companies, that is, the bulk of the country's shipbuilding capacity eventually came under state ownership.

The Phosphoric Fertilizers Industry, on the other hand, is the second largest chemical fertilizers plant in the country. The whole project of its establishment was originally conceived in 1961 by the Organization for Industrial Development (OBA), ETVA's predecessor. The OBA, conforming to the imperative of free private economy, tendered out the project to Andreadis's Commercial Bank, which retained ownership of the company (S. Andreadis, 1986: 27). Through its acquisition in 1975 the public sector started making a strong presence in the chemical fertilizers industry, which furthermore sustains strong links with the petrochemicals industry, another state-penetrated sector. The chemical fertilizers branch is overall comprised of five companies, the other four being the Chemical Industry of Northern Greece, the Hellenic Chemicals-Petroleum and Fertilizers SA, the Nitrogenic Fertilizers Industry (AEVAL), and Esso (DPK, 1984: 96). Of these, Esso became public with the acquisition in 1984 of the Esso-Pappas Chemicals Group, and AEVAL is an ETVA subsidiary, that is, a state venture.

The fertilizers industry is of vital importance for the country's agricultural sector. The substitution of imported with domestically manufactured fertilizers re-

duces considerably the cost of agricultural production for the individual farmer, even if in some cases the raw materials have to be imported. In 1984, for example, crude fertilizers (almost 380 tons) to be used for final processing in Greece were imported at an average price of five thousand Drs per ton. That same year, each ton of imported manufactured fertilizers (275 tons altogether) cost on average twice as much. (See NSSG, 1985: 304-305). This is an indication of the agricultural cost savings that domestic production of fertilizers entails. Being under state control, the production of fertilizers can also be subsidized. This is the case with certain types of fertilizers whose average cost of production domestically is higher than their international market price due to differences and fluctuations in the price of imported machinery and raw materials, or due to antiquated technology and production methods. It is the function of SYNEL, a public corporation which mediates the market distribution of fertilizers, to subsidize both the industries involved as well as the farmers' purchases (D. Mariatos, 1986: 34).

In the 1980s, Phosphoric Fertilizers underwent major technological and production restructuring. A modernization project was launched in 1982. Completed three years later, it included the establishment of two new production units (a sulphuric acid unit and an ammonia one). The project increased the company's overall output capacity so that, today, its production covers one-fourth of the needs of domestic agriculture. Technological modernization reduced its cost of production and as a result, improved the competitiveness of its products in the domestic as well as international markets. Exports directed to a number of countries in Europe, North America, Africa and the Far East doubled between 1984 and 1985. (Oikonomikos Tahydromos no. 4, 1987: 47).

The company hosts on its premises another Commercial Bank subsidiary, the Hellenic Industry of Sacks and Plastic Materials SA (Table 6.1), which was established in 1965 as ancillary to the Phosphoric Fertilizers Industry. Its function was to provide the Phosphoric Fertilizers with packing items. In 1983, this company also started to expand its production and modernize its technology in order to keep

up with the increasing needs of the fertilizers sector. Technology and know-how were provided by the ICI, new assembly lines were introduced, and productive capacity increased to an annual output of 26 million sacks. Today, the firm fully covers the Phosphoric Fertilizers Industry's needs in packing equipment and has furthermore turned into a major supplier of the other domestic chemical fertilizers companies. (*Oikonomikos Tahydromos* no. 4, 1987: 48).

The incorporation of the Commercial Bank Group's five manufacturing firms in the public sector was furthermore significant because it marked the break with the previous situation whereby the few state-owned manufacturing firms were mostly established in the food and beverages industries (being mostly subsidiaries of the Agricultural Bank of Greece), engaged mainly in the production of sugar, milk and other dairy products. This qualitative change in the state's investment orientation became most profound in the 1980s.

Another governmental step in 1975 that is indicative of this change of orientation was the decision to resume state ownership of the Hellenic Aspropyrgos Refinery SA. The Hellenic Aspropyrgos is the largest and oldest of the four oil-refineries that exist in Greece. It has been in operation since 1958. Its construction was a state project financed from the public budget, but it was in fact never operated as a public company. Once again the decision was in line with the private initiative imperative of the state policy characteristic of that period. The refinery was initially leased to the Entrepreneurial Group of the Greek shipowner Niarhos under a highly privileged agreement which allowed Niarhos to retain 90 per cent of the company's profits.³ When the agreement expired in 1970, the colonels' government renewed it granting to the Niarhos Group co-ownership of the company by two-thirds of its capital investment. (A. Gregorogiannis, 1980: 105-106). In 1975, the state invalidated the agreement and resumed the management and control of

³ For more information on the particular agreement and the scandals related to the company's leasing, as well as on other privileged agreements between the state and the other three private oil refineries, see A. Gregorogiannis, 1980, pp. 105-112.

the company, which now enjoys public status.

It is most probable that the particular decision did not violate Niarhos's vital interests. By 1975, Aspropyrgos was a technologically outdated plant and the company's competitive status in the internal market was rapidly deteriorating. The establishment of two new and very modern oil refineries in the early 1970s, Petrola and Motor Oil, owned by another two well-known shipowners, Latsis and Vardiniogiannis respectively, intensified domestic market competition. Although a major technological modernization investment project was launched as soon as the company became public (it was completed in 1979 and cost \$7.5 million), Aspropyrgos is still not considered a modern refinery. It enjoys a much lesser oil-refining and storage capacity than its two private competitors, and due to outdated equipment production often runs into difficulties. However, it does produce a wide range of oil products and by-products, whereas the Petrola plant specializes only in fundamental processing of crude oil, and Motor Oil produces mainly fertilizers and gasoline. (M. Nikolaou *et al.*, 1982: 145-146). The company's position improved after a second modernization project which was carried out between 1984 and 1988. New production units were established, output increased (the firm currently covers 60 per cent of domestic fuel demand), and the quality of gasolines improved. In 1988, for the first time in many years the firms presented Drs 1.5 billion profits (To Vima, 2-4-1989).

The third major step in public sector industrial expansion during the 1975-1979 period was the opening up of an almost completely new branch of manufacturing industry, a yet unexploited area in Greece — arms production (P. Vasilopoulos, 1986). Due to the nature of production and the specific utility of its products, the armaments industry (whose capitalist-economic — but hardly humane — advantages Vasilopoulos attributes to the “stable and definitely undiminishing demand for its products” and the “peculiarity of its operation” which necessitates technological progress) proves most withstanding in overaccumulation crisis conditions.⁴

⁴ In this respect, armaments have similar effects on production-for-growth

Of course, Greece's arms production is and can only be of a different magnitude and capacity than that of the industrially more advanced countries: It cannot but specialize in middle and low range technology. Machinery and other equipment as well as spare parts need to a large extent to be imported, rendering the industry highly dependent. (A. Mitsotakis, 1989: 58). Nevertheless, under conditions of crisis and disinvestment it does serve to sustain employment, as well as investment and export activities (see the European Parliament Report in *Oikonomikos Tahydromos* no. 9, 1989: 23-24). The industry also enjoys strong inter-sectoral links with the chemical, metallic-mineral, and metallurgical industries of the country, and in many cases domestic firms act as subcontractors of multinational corporations (S. Tsolakidis, 1986: 74). In fact, there are many who believe that the development of the arms industry can become a moving force for the industrial and technological development of the national economy on the whole (P. Vasilopoulos, 1986; S. Tsolakidis, 1986; the New Democracy Party Plan for the Development of the Armaments Industry in *Eleftheros Typos*, 27 April 1989).

There are two more facts that need to be considered in accounting for the state's decision to invest in and pivot the development of this new branch of production. First, in the late 1970s, there was a worldwide 'favourable market configuration' for the arms industry due to a series of war outbreaks throughout the globe. And second, Greece did always maintain high 'defence expenses'. In fact, since 1975, Greece's expenditure in defense as a percentage of its GNP has been

as planned obsolescence and wastage; all three are forms of destruction built into the production process (see H. Lefebvre, 1976: 109-110). On the role of arms production and expenditure in the capitalist economy see M. Kidron, 1968 and 1974. Although some of the general issues that Kidron raises are fruitful insights into the nature of the armaments industry, his overall thesis of a "permanent arms economy" is not directly applicable to the socio-historical context of our discussion, because (a) his thesis is an attempt towards explaining economic affluence, stability and high employment — as those enjoyed by Western countries in the 50s and 60s — and not conditions of industrial and economic crisis, and (b) his argument relates to industrially and technologically advanced and autocentrally developed economies, primarily the U.S., that enjoy high hegemonic status in the world economy.

the highest of all EC member-countries and around the same levels as that of the USA.⁵ The Greek state took the lead in this field, therefore, and realized big public budget investments for the establishment of two of the largest manufacturing firms in Greece (see Appendix I), the Hellenic Aerospace Industry (EAV, established in 1976) and the Hellenic Arms Industry (EVO, established in 1977). As we shall see in the following section, the sector has since developed most dynamically.

Between 1979 and 1982, there was no notable enlargement of the public sector through the establishment of new enterprises or the purchase of private ones (KEDE, 1986: 111). However, public investments continued to rise overall as well as in the manufacturing sector. During this four-year period, public gross fixed capital investments were increasing by an annual average of 3.3 per cent. Their increase contributed to slowing down the rate of decline of total gross fixed capital investments, whose rate (in constant prices) dropped from 8.8 per cent in 1979 to -9.4 per cent in 1980, was -8.4 per cent in 1981 and -1 per cent in 1982. By 1982, the public sector actually accounted for close to one third of total gross fixed capital formation: Its contribution increased considerably from 10.7 per cent in 1979 to 27.3 per cent in 1982, or 29.7 per cent if we exclude the agricultural sector. (KEDE, 1986: 110, 113). In the manufacturing sector in particular, public investments nearly doubled, rising from Drs 2 billion in 1979 to Drs 3.7 billion in 1982 (National Accounts of Greece, cited in KEDE, 1986: 122).

After 1982, public sector expansion has continued along the lines of the 1975-1979 period, and the state has been making its presence prominent in branches of production it had not participated in before the crisis. These concern units of heavy industry, necessitating large-scale investments for their establishment or

⁵ An average of 6.7 per cent for the period 1975 to 1987, as compared to an average of 6.4 per cent for the USA. Among the EC countries, the highest defense expenses during the most recent period 1984-1987 were maintained by Greece, spending on average 6.8 per cent of its GNP, the UK in second place with an average of 5 per cent, and France in third place with 4 per cent. The USA average for the same period was 6.7 per cent. (Oikonomikos Tahydromos no. 6, 1987: 87 and no. 22, 1988: 64).

for technological modernization. Private capital seems unwilling to venture such schemes either in view of the magnitude of capital required and/or because they are not expected to render the desirable amount of profits. They pertain mainly to the armaments, petrochemicals, shipbuilding, and mining-metallurgical industries. In 1984, Kostis Vaitzos, then Deputy Minister of National Economy, was stating:

Today, our economy faces severe structural problems. The need for industrial modernization, for technological upgrading, and for the creation of new productive activities is foremost and pressing. The degree and complexity of the problem require three modes of action on the part of the public sector :

- (a) upgrading and modernization of the state mechanism,
- (b) programming,
- (c) specific investment initiative. (K. Vaitzos, 1984: 50).

With respect to state initiative, Vaitzos notes that the basic target is “to undertake investments that are of a large scale, require the employment of high technology, or are highly risky, in new branches which private initiative today avoids” (1984: 50).

6.2.2 Armaments Industry

Having already taken investment initiative in the **armaments** industry with the establishment of EAV and EVO, in the 1980s the public sector expanded to dominate the whole sector. The Greek Powder & Cartridge Company (Pyrkal) was one of the three big industrial complexes that came under state ownership in 1982-83. The other two were Aget Heracles (cement) and Larco (ferronickel). At the time of its take-over the company, which along with Larco belonged to the powerful Bodosakis Group, was burdened with Drs 4 billion of cumulative losses and its borrowed capital exceeded its turnover capital by 50 per cent. Eventually, these three firms became classified as problematics, but Pyrkal is possibly the only one that might remain under state ownership, in order to complement the other arms and arms-related state-owned firms.⁶

⁶ See the interview of Pyrkal's Chairman, Mr A. Velis, in Dimosios Tomeas no. 9, 1986: 32-34. One of his statements was that “Pyrkal definitely belongs — and it makes sense, I think, for it to belong — to the public sector.” (1986: 33).

In March 1988, Steyer-Daimler-Puch Hellas (re-named to Hellenic Vehicles Industry — ELVO, for short) also came under public sector ownership. Established in 1972, this subsidiary of the Austrian Steyer was basically producing tractor equipment and civilian vans. Since the late 1970s, the company had increasingly been producing means of transport and tanks for the Greek Army. The first step towards the company's transfer over to the public sector occurred in 1979, when the majority of its shares went over to public corporations (30 per cent to the ETVA, 20 per cent to the General Bank, and 10 per cent to the Greek Airforce). Steyer remained the largest single shareholder maintaining 32 per cent, but in 1988 it transferred all its shares to the Greek state. The public sector was, thus, left to cope with the company's needs for re-organization, production re-orientation, and technological modernization. Moving towards the solution of these problems, the ETVA increased the company's equity capital (Drs 757 million) by two billion Drs and launched a five-year modernization plan to "prepare the company for the 1992 challenge". The aim is to make ELVO competitive at a Common Market level. In the meantime, the firm completely re-oriented its production from civilian to a mainly army-market orientation. The company, now wholly publicly owned, constitutes one of the basic firms of the armaments sector. It still cooperates with Steyer as well as with Mercedes-Benz for the production of trucks, jeeps and tanks, and is the Greek Army's main supplier of transport equipment. It has recently launched a new project for the production of a Greek-designed tank ('Leonidas'). (Oikonomikos Tahydromos no. 24, 1988: 47; To Vima, 11-9-1988). In 1988, the firm presented an impressive figure of Drs 261.5 million gross profits, which however are counter-balanced by the costs of its financial obligations, that is, loan repayments and purchases of supplies (Oikonomikos Tahydromos no. 23, 1989: 21).

These four state-owned firms that we have mentioned — EAV, EVO, Pyrkal and ELVO — currently dominate the arms industry in Greece. At present, it constitutes the second largest manufacturing branch in the country (investments-wise), after the petrochemicals industry. If we also include in this list the Hellenic Ship-

yards Company and Eleusis Shipyards which maintain merchant as well as warship yards, then the assets of these five state-owned companies amount to Drs 134 billion and comprise **one fifth** of the assets of the 200 largest manufacturing industries of the country (P. Vasilopoulos, 1986: 72).

The restructuring of the Greek arms industry from powder works to arms manufacturing involved a number of significant technological innovations — albeit of a limited range —, so that the branch now appears to be one of the most dynamic in the production of domestic technology (P. Vasilopoulos, 1986: 71; A. Mitsotakis, 1989: 58). The 'Leonidas' project initiated by ELVO is one example. The construction of the Greek-designed air-defence system 'Artemis-30' by EVO, a project that was launched in 1980 and is scheduled to be completed by the end of the decade, although it has raised big disputes (see S. Haikalis, 1987: 28-31), it is, nevertheless, another important indication of the industry's new direction. In parallel to its own technological initiatives, the industry is also engaged in subcontracting for transnational corporations. ELVO, for example, has always been subcontracted by Steyer, while EAV has been since 1987 producing F-16 parts for General Dynamics (A. Marangakis in *Oikonomikos Tahydromos* no. 9, 1989: 31-32).

What is perhaps even more important, given that the boosting of exports is a basic target of all aspects of state industrial policy, is that the branch has increasingly become export-oriented (G. Marinos, 1984: 5-6; P. Linardos-Rylmon, 1987: 52). The exports are directed to Arab and other 'Third World' countries. The 'breakthrough' came in the late 1970s; between 1977 and 1981 Greece's arms exports increased 40 times over! The increase continued in the 1980s, so that the 1986 sales were eight times higher their 1981 level (see Table 6.2).⁷The 1980s increase of exports is highly attributable to the Iran-Iraq war. Shortly after the 'Irangate' scandal broke out in the U.S., Greece's role in supplying arms to both sides of the Gulf was also revealed. (A. Mitsotakis, 1989: 59 ; *To Vima*, 2-4-1989).

⁷ The low figure recorded for the year 1987 is due to a change in classification. Since then, most of the arms exports have been classified as confidential information.

TABLE 6.2
Greek Arms Exports

Year	Amount in drs
1977	33,000,000
1978	157,000,000
1979	94,000,000
1980	300,000,000
1981	1,380,000,000
1982	1,100,000,000
1983	3,300,000,000
1984	4,600,000,000
1985	1,600,000,000
1986	11,000,000,000
1987	195,162,000

Sources: NSSG in A. Mitsotakis, 1989: 60-61.

A recent study in the European Parliament reports that in the Gulf war Greek firms acted as suppliers of domestically produced arms or as intermediary distributors of foreign firms (in *Oikonomikos Tahydromos* no. 9, 1989: 34-35).

6.2.3 Petrochemicals

Another sector which has attracted public investments in the post-1982 period has been the **petrochemicals** industry. Unlike armaments, whose development was pioneered by the state in the mid 1970s, petrochemicals was one of the leading industries of the 1960s boom and was established in the private sector. Since 1984, two other, formerly private, companies have been complementing the activities of the Hellenic Aspropyrgos Refinery. These are the Esso-Pappas Chemicals Industry

(established in 1964), now re-named to EKO Chemicals SA, which is composed of a petrochemicals complex and a number of other ancillary units, and its sister company, the Thessaloniki Oil Refinery. They were both subsidiaries of Esso, which is a satellite of Exxon, and operated on the basis of privileged agreements with the state (see A. Gregorogiannis, 1980: 19-21). The agreements were renewed in 1976, and again in 1980 for a three-year period. During that period, Esso started negotiating the companies' sale to the Greek state. Esso was at the time confronted with an over-capacity of its oil refineries in Western Europe. It was therefore no longer interested in maintaining its Greek subsidiary with its old installations, outdated technology, and high public debts — the amount of royalties owed by Esso to the Greek state exceeded the value of the companies' installations. (M. Nicolaou *et al.*, 1982: 201; M. Nikolaou, 1983: 19-21, 33).

The two companies were thus sold to the state in 1984. Along with EKO-AVEE, which deals with the trade of petrochemical products, they now comprise the EKO Chemicals Group of Enterprises (Table 6.3), a public corporation. Since 1985, the EKO Group along with the Hellenic Aspropyrgos Refinery have become subsidiaries of the Public Petroleum Corporation (DEP, see Table 6.3). DEP was founded in 1975 in order "to promote the development of a national petroleum industry under the auspices of a unified state agent". In comparison to Petrola and Motor Oil, the two public oil-refineries are the least modern ones. The state has been accused of deliberately avoiding modernizing the plants in order to protect Latsis's and Vardinogiannis's interests, that is, so that the two private companies may enjoy less competition in the internal market (M. Nicolaou, 1983: 23-24). Still, these two public companies produce a wide variety of oil products and by-products and they make a substantial presence in a sector which concentrates the majority of the Greek industry's fixed capital investments. The EKO Chemicals is furthermore the only fully integrated petrochemical plant in Greece.

TABLE 6.3

Recently Established Public Groups of Enterprises

EKO CHEMICALS GROUP OF ENTERPRISES (1984)

1. THESSALONIKI OIL REFINERY SA.
2. EKO CHEMICALS SA.
3. EKO-AVEE.

DEP GROUP (PUBLIC PETROLEUM CORPORATION) (1975)

1. HELLENIC ASPROPYRGOS REFINERY SA. (ELDA), and its subsidiaries:
 - 2.1 ASPROFOS (technical constructions).
 - 3.1 ELDA-E INTERNATIONAL TRADING CO. (1988).
4. EKO CHEMICALS GROUP (1984).
5. DEP-EKY (1986).
6. DEPA (PUBLIC GAS CORPORATION) (1988).

EVO GROUP OF ENTERPRISES (HELLENIC ARMS INDUSTRY) (1977)

1. EVO SA (comprised of EVO-Lavrion and EVO-Aigion).
2. MBH (METALLURGICAL INUSTRY OF EPIRUS SA).
3. GENERAL ENGINEERING COMPANY LTD.

ELEVME (HELLENIC INDUSTRIAL & METALLURGICAL INVESTMENTS CO) (1975)

Subsidiary Companies :

1. HELLENIC METALLURGICAL & MINING CO. OF LAVRION SA.
 2. HELLENIC FERROALLOYS SA.
 3. AIGION METALLURGICAL INDUSTRY SA.
 4. GREEK PETROCHEMICALS SA (1981).
 5. MESSOLONGI SALTWORKS SA.
 6. HELLENIC-SCANDINAVIAN INDUSTRIAL INVESTMENTS CO. SA.
-

6.2.4 Shipbuilding

As we have already mentioned in a previous section, another major industry during the 1960s, in the sense of being new, dynamic and fast developing, was **shipbuilding**. Like the petrochemicals industry, shipbuilding was a sector that attracted investments mostly from that fraction of capital whose legacy still has strong effects on Greek society and which — in spite of its post-war engagement with various industrial activities — still remains predominantly merchant-marine capital.

Up to 1975, shipbuilding was an exclusively 'private capital sector' with four companies standing out: Eleusis, Hellenic, Syros, and Khalkis Shipyards. Between them they employed about 8,000 people in 1984, that is 45 per cent of the total workforce in the industry. There also exist seven small shipyards specializing in small-scale shipbuilding which employ about 2,000 people and another thirty-two small repair and minor construction yards which employ about 1,000 workers. Another 500 small enterprises employing altogether 7,000 to 15,000 workers and performing repairing and ancillary manufacturing jobs have direct or indirect links with the sector. With the exception of the four companies mentioned above which comprise the sector's main shipbuilding capacity, the industry is predominantly specializing in repairing jobs and low-technology assembling of parts. Designs, models, and the majority of equipment have to be imported. The domestically manufactured ships are types that do not require the employment of high technology — such as freighters and certain types of tankers. (DPK, 1984: 83-83).

Since 1975, the international shipbuilding industry and in particular that of the EC countries (the UK, FR Germany, France, Italy, Netherlands) has been undergoing an increasingly severe crisis. This has been caused by a combination of factors, mainly a decline in international market demand, an overcapacity of the existing units, and the escalation of competition with Japan which since the mid 1960s has emerged as the major shipbuilding nation worldwide. As a result, the

EC-based shipbuilding companies' share of the international market dropped from 50 per cent in 1960 to 22 per cent in 1975. This has necessitated a number of steps. Between 1975 and 1980 the workforce was reduced by 43 per cent, the shipyards' productive capacity was cut by one-fourth, and production output dropped by half. By 1985, shipbuilding activity had dropped by 58 per cent and production output by 78 per cent. The states in a number of countries, notably France and FR Germany (and the UK until recently — see *The Guardian*, 4-3-1988), have proceeded to subsidize vital shipyards, assisting them in their restructuring and technological modernization. As dictated by the EC Commission (Directive 81/363), such steps are necessary if the companies are to minimize their cost of production and be able to withstand Japanese and American competition. (DPK, 1984: 36-39; P. Linardos-Rylmon, 1987: 8). To regulate intra-EC competition, the Commission has set the maximum level of state subsidy for shipbuilding at 28 per cent of the firms' capital investment (*The Guardian*, 11-3-1988).

The shipbuilding industry in Greece was affected in similar ways by the overall conditions in the sector. An additional and most determinant factor, however, was that many shipyards of Western Europe, in cutting down their productive capacity, started to re-orient their activities towards repairing. As this was predominantly the traditional area of 'Greek specialization', the sector was hit most severely. Greece enjoys one advantage over its Northern European competitors: the lower cost of labour. This, however, was outweighed by the low productivity of the Greek firms due to their lack of modern technology. A number of small shops went out of business while others continued to operate well below their capacity. By 1981, the industry's labour force had dropped by half. Between 1981 and 1986 another 31 per cent of the employed workforce was made redundant. (DPK, 1984: 85; P. Linardos-Rylmon, 1987: 8).

Greek shipbuilding firms were assisted by the state in a number of indirect ways. They enjoyed easy access to bank loans like all other ailing firms. Some

foreign orders were secured for them through inter-state agreements. State orders, mainly for army purposes, increased. In fact, more and more firms rely on army or public corporations' orders (from the PPC, OSE, oil refineries, and others) to maintain operation. (P. Linardos-Rylmon, 1987: 8). Overall, however, the Greek state did not formulate a cohesive strategy and did not take any collective measures to handle the problems of the industry as a whole. It did concern itself, however, with the problems of the largest of the shipbuilding companies, all four of which are now under the ownership of state banks.

The Eleusis Shipyards SA, along with the Hellenic General Enterprises, a small repair yard, was the first of the big shipyards to be incorporated into the public sector with the whole Group of the Commercial Bank. In the following years the firm's situation deteriorated rapidly due to the general crisis of the sector as well as a number of specific problems the individual company was facing: high degree of borrowing, high interest rates, hence inability for further investments — a typical combination of factors, encountered, as we have seen, in the majority of ailing firms cases. In 1982, the Bank's management decided to bring the firm's mode of operation under review. A triple objective was set: rehabilitation – modernization – growth.

These objectives were incorporated in the working out of a strategy whose first aim was the Shipyards' survival, followed by the preparation of a functional business plan for the Shipyards' growth on the basis of modernized mentality, high degree of professionalism, and modern technology. (A. Boubis, Governor of the Commercial Bank, interviewed in *Oikonomikos Tahydromos* no. 12, 1987: 90).

Emphasis has been placed on decision-decentralization, the employment of professional managerial personnel, and modern-skill training of the technical personnel. Alternative production possibilities for the future are also being explored, as management has increasingly become aware that “it is dangerous, business-wise, for the Shipyards to be relying on ship-repairing, an activity with highly irregular business cycles” (A. Boubis, 1987: 90). The firm's restructuring process is still under way. Mr Andreas Boubis, Governor of the Commercial Bank, has stated that the Eleusis

Shipyards are today "at a critical turning point" in their development and that if the above-mentioned restructuring steps do not render good results, then the shipyards will have to close down (Oikonomikos Tahydromos no. 12, 1987: 89, 90).

The second shipbuilding company to be transferred to the public sector was Neorion Shipyards Syros SA. The firm was established in 1969 by Goulandris, another well-known family in the merchant-fleet business. The firm employed 1,300 people and specialized in ship repairs. In 1979, due to overborrowing it came under the financial control of the National Bank. "It was not very successful in business, so in 1979 the Goulandris brothers abandoned it and the company dissolved", leaving 100 people to maintain the machinery (L. Nicolaou-Smokovitis *et al.*, 1984: 106). Eventually the state intervened through the Hellenic and ETVA banks, and the shipyard resumed its operations. It currently employs about 1,000 workers, but its capacity is highly underutilized.

In 1985, the Hellenic Shipyards SA, which is the largest shipbuilding firm in Greece and one of the most modern within the EC, followed a similar process. The Skaramanga shipyards, as they are commonly referred to, were established in 1956 and belonged to the well-known Greek shipowner Niarhos. By 1985, the company was presenting big losses and was in high debt. Management decided to proceed with the dismissal of 800 workers (out of a total workforce of 4,600 — see Table 2 in Appendix I) considered as 'excess personnel', in order to cut down the yards' 'overcapacity'. State approval for the dismissal was not granted,⁸ so the Niarhos Group of Enterprises announced its decision to close the shipyards down. The ETVA, then, bought the company on behalf of the Greek Public, which is the Bank's exclusive shareholder. It was a governmental decision aimed at maintaining, allegedly, the capacity of a crucial productive sector of the Greek economy. The ETVA acquired the firm for \$13 million, which was advertised as a fair price since

⁸ By Greek law state approval is required for lay-offs exceeding 2-3 per cent of the labour-force, for enterprises employing more than 50 people. Public enterprises are exempted. (ETVA, 1988: 88).

its actual value was estimated much higher. On the other hand, however, it should be considered that this was — and still is — a loss-making company and that in addition to that amount the ETVA assumed the liability of \$12 million of overdue foreign debts.

Overall, the issue at stake seems not to have been employment considerations for the 800 workers to be dismissed, as it was initially implied. This is proven by the fact that between September 1985 (when the company restarted operation under public management) and December 1986 the number of lay-offs amounted to 2,000 — a much more radical reduction of the workforce than what the firm's old ownership had originally proposed. Furthermore, the firm still suffers from bad organization, administrative as well as productive, and low productivity. In 1986 and 1987 its annual losses were around \$25 million, reaching \$41.2 million in 1988. Its cumulative losses, in other words, its overall debts amount to \$ 174.1 million. (See *Oikonomikos Tahydromos* no. 7, 1987: 3, no. 8, 1988: 13, and no. 2, 1989: 20). On the whole, the transaction has primarily benefited Niarhos's interests who most certainly got a better deal by selling the company than closing it down. Referring to the transaction, Mr Gerasimos Arsenis who was Minister of National Economy at the time, but eventually resigned to form his own political party (the Greek Socialist Party), states :

I was and remain opposed to the buying of loss-making private enterprises by the Public. In that particular case I also disagreed for the additional reason that the terms of the acquisition included the shareholders' essential dismissal from any civil and criminal charges for legal transgressions that might have been discovered later [i.e., after the transaction was completed]. (G. Arsenis, 1987: 110)

The firm's current problematic situation is acknowledged by the ETVA management (*To Vima*, 29-1-1989). Contrary to Mr Arsenis, however, Mr Mihalis Sallas, the ETVA's Governor (interviewed in *Oikonomikos Tahydromos* no. 20, 1988: 28-34), believes that in judging the firm's viability emphasis should be placed not on the strictly financial factors, but on the company's future prospects and

position within the shipbuilding industry both at a national and EC level. While acknowledging its problematic performance, he claims that,

On the other hand, the crisis caused by the firm's loss-making, does not invalidate the fact that the Hellenic Shipyards' installations are the most fully integrated, and therefore constitute the best units, within the EC. The shipbuilding and ship-repairing sector is of a strategic importance and, even though it has become internationally problematic in recent years, most of the Community countries have sustained it by reduction of its capacity and support for its maintenance. (Oikonomikos Tahydromos no. 20, 1988: 32).

Consistent with this objective, that is sustaining the industry or, at least, some of the industry's most important private firms, the ETVA bought another loss-making shipbuilding company, the Khalkis Shipyard SA. The firm was established in 1971 and was owned by the shipowner Karras (DPK, 1984: 82). By the mid 1980s, it had become an ailing firm. It was operating mainly as a repair-yard and was wholly dependent upon bank loans which it became evident, it would never be able to repay. With its capacity heavily underutilized, making big losses and being highly in debt, its owner decided to close the company down. The ETVA bought it in 1987, allegedly so that it could resume its operation. Yet, the firm remains closed at present. Possibly the biggest change in the company's status that came out of this transaction is that, instead of Karras, it is the ETVA which now needs to cope with the problem. It is currently trying to sell or at least lease the shipyard.

Thus, by 1987, the bulk of the shipbuilding industry had come under the ownership of public banks. The shift took place with the private owners' concession. Through this arrangement the financial losses of these companies have been transferred to the state, that is to the public. The state has also undertaken the responsibility for the re-organization and possible re-orientation of the industry.

6.2.5 The Mining-Metallurgical Industry

In the post-1975 period, therefore, and especially in the 1980s, the state has had a prominent presence in the petrochemicals industry, it has pivoted the

development of the armaments industry, and has taken over the most problematic industrial sector, that of shipbuilding. Another sector where governmental efforts for industrial planning have taken place in recent years is the **metallurgical** industry. This industry differs from the other three. It relies basically on the existing rich mineral resources of the country (most of which remain still highly unexploited) and it is the sector in which the majority of multinational capital direct investments have been concentrated.

The metallurgical industry is considered a 'strategic' sector for national industrial development. Its products are fundamental to industrial production at large (production of machinery, primary materials for basic consumer industries, construction). Its direct linkages with numerous other sectors render it crucial to the formation of a nationally integrated industry and can act as an accelerator of industrial development. (D. Batsis, 1947: 27-28, 103-104).

The metallurgical sector as it developed in Greece after the war did not have such a profound effect on the nationally-based industry. One reason is that most of the existing metallurgical companies are subsidiaries of multinational corporations. Their operation is designed to meet the needs of the mother companies and of the international market, rather than fulfill any national development goals. In many cases, domestic capital, private or state-banking, participates in these investments (see A. Gregorogiannis, 1980: 170-171). But given multinational capital control of the industry's international market and the absence of any state central production planning in Greece, this form of equity participation cannot affect the multinationals' control over these companies. In fact, enterprises with transnational production sites often tend to prefer this form of corporative development as part of their general strategy of 'localisation'. In the 1960s and 1970s, multinational corporations in the metallurgical industry (especially in the iron ores and bauxite-aluminum, which are also the main branches of the Greek metallurgical sector), responding to the emergence of state-owned firms in Third World countries have increasingly accepted

and favoured equity participation, joint ventures, and non-integrated production to full ownership and vertical integration across national borders (R. Vernon and B. Levy, 1982; D. Rodrik, 1982).

The second reason, which is related to the former, is that most existing units are not fully integrated. They engage with the first stages of production: mining, preliminary processing and/or refining. The semi-finished or intermediary products are then exported for fabrication. This is the case, for example, with Aluminium de Grece, a Pechiney subsidiary, which processes bauxite deposits to alumina, a midway product for the production of aluminum. It is also the case with those companies that produce intermediary steel products through scrap processing: Hellenic Steel, Metallurgiki Halyps, Halyvourgiki, and Sidenor Steel are the largest of these firms and are all strongly oriented towards the external market.

Lack of vertical integration and strong international market orientation are not exclusive characteristics of foreign subsidiaries. Similar patterns of production and exchange are evident in companies that constitute domestic capital investments. Larco, for example, processes ferroalloys for the production of ferronickel. All its output is exported to West European steel corporations. The Skalistiris Group of Enterprises which mines and processes bauxites, manganese and magnesite, is another example. Although Greece has rich resources of bauxite deposits, which are exploited and processed by a number of domestic as well as foreign firms, it still lacks an aluminum production unit. The country also possesses all the basic mineral resources necessary for the production of stainless steel, but no such unit exists. The intermediary industries processing these resources are supplying some of the largest multinationals abroad. (S. Antoniou, 1986: 47).

The industry therefore is highly extravert and has very weak inter- and intra-sectoral links at a national level. A series of markets of buyers and sellers mediate various stages of the production process. Types of products which are exported by a nationally-based company may be imported by another as primary material.

For example, Halyvourgiki SA, a German (Thyssen) and Greek joint investment, exports H/R coils to a number of countries; on the other hand, the Hellenic Steel Company SA, a joint investment of French, Italian, German, Greek, and Japanese corporations⁹ imports H/R coils as primary material for the fabrication of slabs.¹⁰

The way the metallurgical sector emerged and developed in the 1960s and 1970s, a case in point of what Amin describes as “disarticulation” of production (S. Amin, 1976: 237-238), is expected to have long-lasting effects on its future development. Any foreseen or programmed structural changes cannot bring about immediate radical transformations. Yet, changing international circumstances set for it new prospects and considerations which the state seems to be prepared to take advantage of, if private capital will not. With the country’s accession to the EC, the prospects of the metallurgical industry in Greece are believed to have broadened. Although no definite trends are yet evident, the structure of the industry is expected to change as the metallurgical industries of other EC countries re-orient their activities.

So far, the EC North has been largely dependent on the import of raw or semi-processed minerals from the Lome countries. With its southern enlargement in the 1980s, the Community has incorporated three countries, Greece, Spain and Portugal, which have very rich mineral resources — to a large extent still unexploited — and which have developed considerably their mineral–metallurgical sectors (iron ores, chromium, nickel, aluminum, manganese — to mention the most important ones). These countries along with Italy are favouring the formulation of a Common Mining Policy, which is believed to enhance the development of their metallurgical

⁹ Until recently, the foreign shareholders maintained the majority of shares, with the Japanese C.ITOH leading with 48 per cent and the two state controlled banks, ETVA and ETEVA, participating with 14 per cent each (D. Kazis and A. Vlisidis, 1986: 27). After a restructuring of share capital in 1988, the ETVA and the Japanese C.ITOH currently hold the majority of shares with 36.2 and 26.4 per cent respectively (Okonomikos Tahydromos no. 24, 1988: 49).

¹⁰ On the difference in price and cost of production between domestic and imported H/R coils, see D. Kazis and A. Vlisidis, 1986: 56-58.

sectors. On the other hand, the EC North is having to reconsider its policy because of certain advantages that the development of the industry **within** the Community would have as such (due to the free movement of capital and labour, low cost of transportation, unified market), but also in view of the changing circumstances in the international mineral industry as a result of the increasingly unstable political conditions in Third World countries (see R. Pollin, 1980). A new EC mining policy is believed to have positive effects on the Greek mining-metallurgical industry. (K. Papavasileiou, 1988: 56-57). The Director of Greece's Institute for Geological and Mining Research (IGME) has stated:

We believe that the circumstances are now ripe for forwarding and formulating such a policy [i.e., Common Mining Policy]. Such a policy will be especially beneficial for Greece, as [the country] contains in its subsoil significant — relative to [its] size — and strategically important mineral resources, and a significantly developed metallic-mineral industry which, however, is in need of modernization and, in certain sectors, of expansion. (K. Papavasileiou, 1988: 56).

On such a basis, and in anticipation of future developments, the state has proceeded to sustain and modernize the industry in two ways: (a) through its investment with the problematic and other ailing metallurgical firms, and (b) by undertaking “specific investment initiative”, to use Vaitzos's term, in this field as well, that is, exploring new productive potentials and opening up new branches of production and exploitation of the country's metallic-mineral resources.

The principal step in this direction was the establishment of the Hellenic Industrial & Mining Investment Company (HIMIC or ELEVME, by its Greek initials) in 1975, and its commission since 1985 as the main investments agent in the area of mineral resources and mineral processing industries. It is a public enterprise, owned by the National Bank of Greece. It currently acts as the holding company of a number of recently established mining and metallurgical industries (see Table 6.3) petrochemicals unit, namely Greek Petrochemicals SA. Certain of these new units are still at the stage of construction.

One of ELEVME's most important investments was the establishment of the Hellenic Ferroalloys SA (HFA or ELSI, by its Greek initials) in 1981. The company was initially owned by ELEVME, with a minority equity participation of 4 per cent shared equally between four state banks: the National Bank, National Mortgage Bank, ETVA and ETEVA. In 1985 the shares were re-distributed. The Greek Public acquired 53 per cent, the ELEVME, which still acts as holding company, retained 27 per cent and the Banks increased their share to 7, 4, 7 and 2 per cent respectively. The ELSI engages with the mining of chrome ore and its processing into ferrochrome and certain types of chromite products. According to the Greek Geological Association, "the ELSI was established with the purpose of exploiting the Greek chromite deposits, which the private sector had showed no interest for" (GGA, 1988: 18). It is comprised of three underground, fully mechanized mines, two open pits, a mineral dressing plant, a palletizing plant, and one smelting complex of 40,000 mt annual output capacity which also includes porting facilities. A number of other projects are under development: new mines, another dressing plant, and the expansion of the smelting capacity to 100,000 mt. The company utilises the most modern machinery and techniques, and employes computerized quality and process control. Engineering services and know-how for the company's establishment were provided by the Japanese firm Outokumpu-ou.

The establishment of ELSI is of major significance for the country's mining-metallurgical industry. First of all, it constitutes a major advance in the exploitation of the country's chromite deposits. Not only has it expanded the overall mining capacity, but most importantly, it has made possible the processing of domestically produced chrome ore into ferrochrome. The ELSI owns the only palleting and smelting plants that exist in Greece. It is, furthermore, the only integrated (that is, mining **and** smelting) company of its kind in the EC (GGA, 1988: 18). The production of ferrochrome has opened up new possibilities for the industry's future. The creation of a stainless steel factory in Greece has now become a realistic project,

and discussions for its establishment are under way. Such a factory will fill a very basic production gap in Greece's industrial structure. The two basic primary materials necessary for the production of stainless steel, ferrochrome and ferronickel, are domestically available by ELSI and Larco respectively. The two companies are currently exporting their products to some of the largest stainless steel corporations, such as Krupp and Thyssen of FR Germany, Usine of France, Terminos of Italy, British Steel, and various other U.S. and Japanese firms.

As Greece is one of the few countries worldwide that possesses large quantities and good quality of both chromite and nickel deposits, the advantages of the establishment of a stainless steel factory are obvious. Such a unit would take advantage of the productive capacity of Larco and ELSI, and would thus also enhance Larco's rehabilitation programme. Furthermore, stainless steel as an end market product has high added value. Its price is three times higher than the market price of its nickel and chromium components.¹¹ Between 1983 and 1986, ETVA, ELEVME, and Larco undertook a study concerning the specificities and practicalities of such a venture. The investment has been judged as both feasible and worthwhile. (D. Papamantelos and S. Angelopoulos, 1989: 82).

The decision for the establishment of a stainless steel unit in Greece, however, transcends national boundaries and nationalist development goals. The international steel industry, and in particular that of the EC, has been undergoing a severe overproduction crisis for the past fifteen years, during which it had to considerably reduce its capacity. The ECSC has tried to cope with the problem through the implementation of the Davignon Plan in 1977 and its strict enforcement since 1980. The Plan aims at reducing output and regulating competition within and among EC member countries through the setting up of production quotas per individual

¹¹ Although the greatest "cost differentials" occur mainly at the mining stage, "... it is processing, not mining, that generates most of the **total** value of refined metal product — roughly 70 per cent of the value added in a prefabricated metal bar". (R. Pollin, 1980: 34).

firms, minimum sales prices, subsidization restrictions, and protectionist measures against steel imports from Third World and COMECON countries (T. Giannitsis, 1988: 41-43). Even though by the end of 1985, the crisis was thought to have passed its peak, the EC steel industry still suffers from at least 15 million tonnes of spare capacity (I. Barnes and J. Preston, 1988: 96-97). The establishment of a new stainless steel factory, therefore, is considered a threat for the EC steel giants mentioned above, especially as former suppliers, such as ELSI and Larco, are to turn into competitors. British Steel, for example, has in the past openly declared that "it will try to hinder by any means every attempt at the creation of a stainless steel factory in Greece" (DPK, 1984: 88). The ECSC has already indirectly expressed its objection to the formation of such a unit (T. Giannitsis, 1988: 65-66), and the EC Commission, which has pledged to restrict competition within the EC steel industry, does have the power to prohibit "excessive investments" (I. Barnes and J. Preston, 1988: 93, 96). For the time being the future of the Greek stainless steel project is uncertain. But it is obvious by all accounts that, not only the factors determining the decisions, but the actual centers of decision-making will not be just nationally based.

Finally, another metallurgical factory that is currently under construction and is not expected to start operating before 1992, is the long awaited alumina unit. After years of debating the issue, planning and programming, the Hellenic Alumina Industry SA (ELVA) was founded in October 1987. It is a public enterprise, registered as ETVA's subsidiary — a \$455 million scheme that will produce 600,000 tons of alumina annually. It is expected to be one of the most vital units in the country's manufacturing industry (Oikonomikos Tahydromos no. 11, 1989: 66; Eleftherotypia, 19-2-1989), and it will be utilizing domestically produced bauxites, of which Greece has some of the richest resources.

6.3 The Role of State Investments

Public sector expansion in manufacturing industry in Greece over the past decade-and-a-half has increasingly been a means of planning and enhancing industrial development. State **direct** investments in the manufacturing sector remain a relatively small percentage of the sector's overall investments. **Indirect** investments through the banks and other public institutions (e.g., the OAE) and public corporation subsidiaries (formally classified as 'private') have brought under state control about half of the country's industrial production (A. Deligiannis, 1986: 32). The role and qualitative effects of these investments on the changing structure of Greek industry have attained crucial significance. Especially in the 1980s, under the initiative of the PASOK government, public sector investment activity has constituted the backbone for restructuring and re-orienting industrial production at a national level. The basic aim is pictured clearly in the KEDE report, according to which:

One of the main aims of the present government is **the activation of the public sector in industrial development**, both with the **planning of a long term industrial policy** and the materialization of all those measures which will guarantee its actualization, and with the **participation of the state as producer in specific industrial branches and activities**. (KEDE, 1986: 119, emphasis added).

Our account of the specific investment steps undertaken since the recession shows that the state has assumed a leading role in developing specific industries, in a conscious attempt to set the basis and define the direction for industrial development at large. As part of a "long term industrial policy", these investment decisions are informed by considerations pertaining to the domestic **potentials** as well as the **actual possibilities** for industrial development. In other words, the aim is to determine how these potentials can be exploited given the **international** production and market conditions of specific industrial branches and given, also, the country's overall position in and relation with the international setting, most notably its integration with the EC and the forthcoming market unification.

Within this new framework of international competition, the Greek economy and, especially, the industry are asked to quickly overcome whatever weaknesses they may have. In recent years, the government pursues a policy of structural changes of/within the industry with the aim to modernize the industrial structure. (Statement by the Deputy Minister, Mr K. Papanagiotou, as interviewed in Mesimvrini, 23-2-1988).

In assisting the nationally-based industry to re-adjust to the changing international conditions, it is hoped that the basis and the prospects can be set for industrial entrepreneurial activity to resume its momentum. As in the cases of the problematic firms, the aim of public sector intervention is not to **replace** but to **substitute for** private industrial investments. In combination with the policy of subsidization of capitalist production costs, this intervention is intended to provide an overall favourable framework within which capital can restructure and take advantage of future prospects for profitable investments.

PART III

**RESTRUCTURING AS REGIONAL DEVELOPMENT
ON THE BASIS OF
STATE SUBSIDIES FOR PRIVATE CAPITAL**

Chapter 7

INDUSTRIAL DEVELOPMENT, THE REGION, AND THE STATE

Our study of state intervention in sustaining industrial restructuring cannot be complete without reference to a more subtle but equally significant form of intervention, namely, the subsidization of the private firm through state "incentives". In our discussion of the Greek state's industrial policy with respect to private investments, we indicated that increasingly since the early 1970s the particular policy has been formulated on the basis of regional development aims. Regional subsidies have come to add to other forms of private capital (foreign or domestic) subsidization, which are still in force to date. They have done so to an increasing extent over the past fifteen years.

The subsidization system for industries established in less developed regions emerged as a response to the problems of unequal development caused by the spatial particularities of industrial development in Greece. The particular policy has accelerated the process of unification and integration of the domestic market and has managed to boost economic and industrial activity in some of the peripheral regions of Greece. All studies on the subject generally agree that, to the extent that the particular policy has aimed at a more even distribution of manufacturing industry within the national territory of Greece and at alleviating or drastically minimizing the country's regional problem, it has evidently failed (see OECD, 1982; G. Kafkalas, 1984; E. Andrikopoulos and G. Kafkalas, 1985; M. Negreponi Delivani, 1986: 112-113; A. Kintis, 1982: 111-134; E. Kourliouros, 1987). The Athens-Piraeus area (or what is described as the "Greater Athens" area by the NSSG) still concentrates almost half of the country's industrial capacity.

It is not our purpose in this work to examine the effects of regional subsidization policy in developing industrially the basically agricultural and thinly populated peripheral regions of Greece. Such an endeavour has already been the focus of academic research (see G. Stathakis, 1983). In fact, it is not our intention to look at and treat regional subsidization as a regional development policy **as such**. Our scope is to look at it as one form of state subsidization — and for that matter, an extremely high one — of the private firm. We therefore adopt a slightly different angle in trying to understand the functions of the particular policy, which is not to be looking at what the policy has failed to do for the regions but what it is doing for the manufacturing firms established there. It is our purpose to examine the effects and functions of these subsidies for the individual manufacturing unit and how they shape the way this unit structures its relations with its broader national and international environment. In this sense we will be looking at the way in which the Greek industry explores the potentials of regional development in responding to its need for restructuring and readjustment. These issues are examined concretely with respect to the industry based in one particular region, that of Xanthi. The Xanthi region has been chosen as an appropriate case study for two main reasons: (a) It is one of the regions classified as least developed and, therefore, entitled to the highest subsidies available. (b) It concentrates the majority of industrial investments that have been directed to this category of regions and has therefore undergone the most rapid process of industrialization.

7.1 Industrial Development and the Spatial Distribution of Industry

In our discussion of the state industrial development policy we have highlighted some aspects of the state's attitude towards regional development in relation to its "incentives" policy. Regional development in Greece is to a large extent based on the state's financial provisions for private capital; it is heavily dependent on state subsidization. It is, furthermore, one of the basic problems of industrial development

that Greece is facing today, so that any attempt at promoting economic development on a national scale becomes an integral part of the regional development policy.

There are specific reasons pertaining to Greece's particularities in its industrialization that account for such a problem. During industrialization Greece developed a very distinct spatial distribution of industry and population which in its basic aspects persists to date. This distribution entails the concentration of industry and population in few urban centers, Athens-Piraeus primarily and Thessaloniki secondarily, with the rest of the country retaining either agriculture (in the mainland) or tourism (in most islands) as their basic economic and productive activities.

There is a number of inter-related processes that account for this particular form of spatial development. The Athens-Piraeus area attracted the majority of the first industrial investments, services and population as early as the 1930s due to the extreme centralization of the state administration and state service and banking sectors there. Also, this area's vitality as an arterial center and its geographical position as a commercial center were important as was the lack of appropriate infrastructure in the greatest part of the countryside. (T. Fotopoulos, 1985: 113-114). These forces transformed the Athens-Piraeus area into the major urban center of the country and a major pole of attraction for the population leaving the countryside. As the infrastructure developed, i.e., transport, energy and communications, industrial activity expanded in certain other regions during the 1960s and 1970s. Large cities which also enjoyed favourable geographic positions (mainly due to their ports) and had developed tertiary sectors, such as Thessaloniki, Patra, Halkida and Volos, became also industrial locations. But with the exception of those few urban centers, the majority of the countryside remained basically agricultural.

Within this framework, labour was attracted to the places where industrial plants were established rather than vice versa. However, Greek cities never really became inflated by the mass of jobless proletarianized peasants that constitute an extremely cheap and easily available labour force for industrial capital in the majority of "underdeveloped" or "newly industrializing" countries. In Greece emigration

acted as a safety-valve against such developments (G. Kafkalas, 1984: 70). The mechanization of the Greek agricultural sector in the 1950s and 1960s did release a vast number of agrarian population which could not have been all absorbed by the Greek industrial sector just forming at the time. The post-war agrarian exodus in Greece, however, coincided with the post-war industrial boom in the Western European countries and their need for cheaply available extra labour force. The geographical proximity of Greece to these countries provided the incentive for a massive transfer out of the agrarian countryside of Greece and out of the country altogether. The proletarianized Greek peasants were thus absorbed by the industrial centers of Western Europe.

Both emigration as well as internal urbanization mainly to the Athens region, stripped vast areas of the Greek countryside from the majority of their population, their youngest and most vital. The effect was circular.¹ When industrial development was well under way, the consumers' market expanded, the infrastructure improved, and industrialists could possibly consider establishing their plants outside urban areas, the Greek countryside reserved no pole of attraction for an inflow of investments. The exceptions were industries whose location was strongly linked with and determined by their production orientation — i.e., extraction industries, mineral processing and food processing. Industries located outside the main urban centers still had to reckon with the high centralization of the state service sector (including banking) and of the tertiary sector in general. What is most important, as we shall see in the case of Xanthi, the peripheral regions reserved a semi-agrarian labour force which had no industrial background or training and no manufacturing or other professional or technical skills. Furthermore, no industry existed there that could support and/or complement the activities of newly established plants in forming a local coherent industrial structure.

¹ As T. Fotopoulos claims, "The high concentration of economic and social activities which usually characterizes the capital city and one or two other urban centers of dependent countries is accompanied by a counterpoising tendency in their peripheral regions". (T. Fotopoulos, 1985: 113).

Still today, and in spite of the efforts meanwhile, the Greater Athens region concentrates about 50 per cent of the country's industry in terms of investments and productive capacity and about 40 per cent of the total population. It is understandable, therefore, that any effort towards national economic and industrial development and any effort towards national and international (i.e., EC) economic integration for Greece cannot but be also an effort at regional development. It is also evident from the above that the uneven development in terms of the spatial distribution of industry that Greece displays is of a qualitatively different kind than the regional divides evident in Northern European countries. There, the economic decline of certain regions is associated with the decline of certain industrial branches with a long established tradition in these regions, such as steel and iron, shipbuilding and textiles, and the general shift of investment activity to the tertiary sector or other types of manufacturing (high technology, electronics) and different methods of production (e.g., open-cast coal mining, the relocation of textiles production to newly industrializing countries). So, the regional problems in countries like the U.K. (see for example D. Massey, 1984), Belgium or FR Germany (see J. Grahl, 1983: 133-135) are associated with processes of de-industrialization and capitalist restructuring. We are here talking about the industrial decline in and of regions that had previously constituted strong footholds of industrial development. (Cf Commission of the European Communities, 1987: 1-3).

The regional problem in Greece, on the other hand, is mostly identified with the kind that dependent and peripheral formations face (T. Fotopoulos, 1985: 112-114). Regional development in Greece still pertains primarily to the question of industrialization, that is the transition of regional/local economies from agricultural to industrial ones. It is, however, strongly connected with the problems of deindustrialization and investments abstinence evident on a national scale (a) insofar as these processes affect the kind of investment initiative, or lack of it, in the regions (see G. Kafkalas, 1984: 92-93), (b) insofar as the state implements its policy of subsidization of regional development also as a means to combat the deindustrial-

ization process and to promote overall investment activity through the provision of “incentives”, (c) in as much as these “incentives” constitute means which industrial capital uses and crucially relies on to improve its competitive position, maintain or increase its margin of profit, and reorient its productive activities.

It is in this latter sense, i.e., the exploitation of state subsidization by the industrial firm, that the restructuring process of Greek industry has assumed a regional orientation since the mid 1970s. It is also in this sense that the effects of the Greek state’s regional development policy — or its lack of effectiveness — can be better assessed and the policy’s mode of implementation better understood. As E. Kourliouros argues, there is a paradox in the way that the Greek state intervened in the development process with respect to “the spatial distribution of material and human forces”:

As a rule, the [state’s] ‘presence’ has been characterized by the contradictory co-existence of, on the one hand, certain intentions for the implementation of regional policy and, on the other hand, an impressive absence of holistic and applied spatial planning. (E. Kourliouros, 1987: 40).

The most fruitful insight as to where the answer to this apparent contradiction should be sought is offered in the concluding remark of A. Andrikopoulos’s and G. Kafkalas’s excellent study of regional development in Greece:

What generally becomes evident from this analysis is that the regional policy **is not an intervention for the diminution of regional inequalities and the confrontation of regional problems**, as it [i.e., the policy itself] often alleges. It is more of an intervention which **partially** seeks to confront specific problems in specific areas (not all problems in all areas), but **mainly aims at the creation of and preservation of those conditions which allow the continuation of accumulation** concerning both **high returns of capital operation** in the various regions and the conditions of reproduction of the labour force offered in these regions. (A. Andrikopoulos and G. Kafkalas, 1985: 257-258, emphasis added).

7.2 Regional Aspects of the State Subsidization Policy for Industrial Development

The first systematic attempts in formulating a regional development policy occurred, as we have previously mentioned in the early 1970s. Before then, there did exist certain measures aiming at stimulating regional economic development, but these were directed mainly to the "border areas" of Greece. By the end of the 1960s, the deterioration of certain regions in Greece, especially in the North and West, presented itself as a most serious problem. Law 147 of 1967 which we have discussed in connection with "investment incentives" in general did draw attention to the regional problem. It did claim that its provisions were aimed primarily at stimulating investments and assisting enterprises that would not have been otherwise, that is without the state subsidies, able to proceed with these investments (K. Mangelis, ministerial mimeo, no date: 84). This obviously included small enterprises with low rates of profit in less developed regions. Yet, the law did not make specific provisions for specific areas. All power on how investments could be realized, that is which applications should be approved for which regions, rested with the Committee responsible for the Law's implementation.

The above arrangements concerning the provision of state subsidies in actual practice proved incomplete, since in fact enterprises were granted these subsidies for the realization of investments in A and B regions [urban centers] and, therefore, did not essentially contribute towards providing a stimulus for regional development. (K. Mangelis, ministerial mimeo, no date: 83).

An explicit framework on how the state would subsidize regional development was provided during 1971–1973 with a series of laws (LD 1378/71 and 1312/72 as amended by LD 1377/73) that were to provide specific guidelines. First of all, the areas in need of economic development were specified in a hierarchical order. The country was divided into three Zones, A, B, and C, according to the degree of industrial concentration in them. Zone A was the one that concentrated the majority of manufacturing enterprises. This was the Greater Athens area with the exception of the Lavrion municipality. Thessaloniki, Halkida, Corinth, Viotia and the Lavrion

municipality constituted Zone B. The rest of the country was included in Zone C. A Ministerial Committee Act (number 45 of the 10th-11th of April 1973) further established a Zone D, which defined those areas within C designated for industry, referred to as "industrial zones". These were sites close to but outside residential areas, where ETVA was financing the construction of infrastructure (water and energy supply, telephone networks, waste collection, etc) and where the land for the establishment of the factory site could be bought or rented at cheap rates (ETVA, 1988). The same Act summarized the motives behind the 1971-73 legislation and the aim of the state's regional policy as follows:

Considering the need for the realization of a broad redistribution of industrial activities in the Greek territory in order to, among other things:

- retain the population of certain problematic regions of the country, which decreases because of the lack of economic activities locally,
- reinforce the traditional sectors of Greek industry which are labour intensive,
- increase the availability of labour force for the industry by channelizing to it the local excess labour force. (Government Gazette vol. A no. 80, 7-4-1973)

So, by the early 1970s the Greek industry was in a position to absorb the "excess labour force", in fact, it was **in need** of labour force. This was especially true for the domestic capital investments which were concentrating in the 'traditional', labour-intensive sectors of industry: textiles, garments, food and beverages. These sectors, as we have already discussed were revived and expanding with the economic boom of the 1960s. If industry at large was to continue developing, a geographical redistribution of it was necessary as the routes of emigration to Western Europe had by then become a tradition in the localities of Northern and Western Greece. Industrial investors, on the other hand, did not seem prepared or willing for a move towards non-urban centers given the general shortcomings we mentioned previously. In line with the long established tradition of "incentives", the state intervened through a series of subsidies intended to considerably reduce their costs and, thus, counterbalance the effects of the peripheral regions' shortcomings.

It is important to note that the legislation defined a series of economic advantages for private industrial investments in **all** areas. All Zones enjoyed some benefits, so all enterprises wishing to proceed with new investments were subsidized to a lesser or greater extent. In this respect, the policy was simultaneously aiming to promote industrial expansion in general as well as in the peripheral regions in particular, and here its aims as part of the general state incentives policy as discussed in chapter three become clear. The advantages were getting progressively higher, however, moving from Zone A, which was getting the least, to Zones C and D which were getting the highest subsidies. They concerned "the establishment of new or the expansion or modernization of already existing units" as well as those enterprises **transferring** their units from the more to the lesser developed areas, i.e., from Zone A to B or C or D, from Zone B to C or D, from C to D (Government Gazette vol. A no. 232, 22-12-1972).

For that period (1971–1973) the motives related to the enterprises' fixed assets, that is, the construction or extension or transfer to another Zone of a plant, machinery, buildings, etc. They were mainly tax exemptions, grants, easy access to finance, i.e. loans, and subsidization of the interest rate. The enterprise would be exempt from tax on a certain amount of its net profits. This amount was 50 per cent of the amount of total investment for Zone B enterprises and 100 per cent for Zones C and D. So, if a company or a particular individual wished to proceed with a Drs 10 million worth investment, which was the minimum amount, in Zone B, then the first Drs 5 million of the company's or the individual's net profits would remain untaxed. For Zones C and D, this amount would be equal to the total investment, in our example, Drs 10 million. For the construction of buildings in particular, the exemptions applied would start off at 25 per cent of the value of the building investment for Zone A and would reach 200 per cent for Zones C and D.

The Law Decree 1377 of 1973 and Law 289 of 1976 amending LD 1312 of 1972 defined a fifth (E) Zone, which in certain cases was to receive even higher subsidies. Zone E included the department of Thraki, composed of the Xanthi, Rodopi,

and Evros districts, the Dodecanese department (a group of twelve islands in the East Aegean), and the islands of Lesbos, Chios, and Samos. Where state direct grants and interest subsidization were concerned, these areas, considered the least developed of the country, were to receive the highest possible benefits. Enterprises established or transferred to Zone D, which was the "industrial zone" for Zone C areas, were entitled to receive a free state grant equal to 25 per cent of the total investment. As compared to that, for the Zone E areas this amount was equal to 40 per cent. The subsidization of the interest rate, on the other hand, which was 2 per cent for Zones A and B, ranged from 2.5 to 4 per cent in C, and between 3.5 and 7 per cent in D and E. This form of subsidization pertained to loans received from domestic banks only, with the exception of enterprises established in Zones C, D, and E. Such enterprises would be entitled to receive the interest rate subsidy even for foreign loans.

The above forms of direct or indirect subsidization were available to entrepreneurs with one precondition only: that they would be able to cover part of the investment with their own funds, their "own capital". This could well be borrowed capital as long as the entrepreneur had negotiated its acquisition privately, in which case the interest rate was not entitled to subsidization. This amount of capital had to be at least 40 per cent of the total new investment for enterprises in Zones A and B, 30 per cent in Zone C, and only 25 per cent for Zones D and E. So, an enterprise located in or transferring to Zones D or E could proceed with a new investment having secured the financing of just one-fourth of its total value.

The 1971-73 legislation relating to regional development has been amended a number of times since. The most notable pieces of legislation were issued in 1976 (Law 289, Government Gazette vol. A no. 76, 3-4-1976), in 1978 (Law 849, Government Gazette vol. A no. 232, 22-12-1978) and in 1981 (Law 1116, Government Gazette vol. A no. 8, 14-1-1981) during the period of the post-dictatorial conservative government (the New Democracy Party), and in 1982 (Law 1262, Government Gazette vol. A no. 70, 16-6-1982) by the PASOK government. In essence, the subsi-

dization policy for regional industrial development has not changed. The legislation has been adjusted to changing circumstances. What this re-adjustment entails is the introduction of certain new forms of subsidization and increases in the quantity of already existing ones. But the qualitative aspects of the regional development policy have not been altered, and this is because its alleged aim has been, as we mentioned previously, only partially achieved. It is true that during the 1970s it did promote industrial and economic activity in some of the least developed areas of the country to such an extent that the physiognomy of those areas has drastically changed. But it is not only that comparisons at a national scale suggest that the main characteristics of the spatial distribution of industry still persist and that some of these areas still remain among the least developed of the country. It is also that the 'industrialization' of those areas eventually caught up, especially during the 1980s, with the general 'de-industrialization' process evident in the country.

Regional development policy, as argued in chapter three, has become part of the state's response to the changing context of industrial development and the new problems and pressures facing the Greek-based industry. The aim is primarily to promote industrial investments and secondarily to secure their realization in the least developed regions. The regional industrial development policy has become part and parcel of the overall state policy to overcome the industrial crisis by subsidizing private investments in industry. Subsidization remains higher in the industrially least developed regions. So, the restructuring of Greek industry entails certain regional aspects, primarily in the sense that, as we shall see concretely in the next chapter, the high subsidization of costs enables the improvement of the firm's competitive position nationally and internationally and in that the securing of this subsidization has become a crucial part of the planning strategies of the private firms located there.

What were then the quantitative changes of the post-1975 regional development legislation? First of all, Zone E was acknowledged as the least developed region of the country. It included Thraki, the North-Eastern part of the Greek mainland,

and the islands of Dodecanese, Samos, Chios and Lesbos. Law 289 of 1976 related only to these areas and highly increased the subsidies that firms in these areas were entitled to receive. The requirement of covering the investment with "own capital" was reduced to 15 per cent for those firms. Tax exemption was increased to apply to net profits equal to 175 per cent of the amount of the new investment. Interest rates would be subsidized for up to seven units or by one unit less than the rate, whichever was more. For example, if a firm borrowed money at an interest rate of 10 per cent, it would actually have to pay only 1 per cent; the rest would be paid by the state. If the interest rate was 7 per cent or less, it would be all undertaken by the state, which in effect amounted to non-interest credit for the firm. The state would also provide direct grants equal to up to 40 per cent of the total value of the new investments.

The subsidies were provided for **all** productive activities: manufacturing, mining, and agricultural. For tourist enterprises the subsidies were restricted to tax exemptions. The data for up to 1980, however, indicate that the majority of the new investments in these areas on the basis of Law 289 of 1976 and 849 of 1978, in fact 75 per cent of them, were directed to the manufacturing sector. Another 18 per cent was directed to the tourist sector. A further distinction in the direction of the investments concerns their actual regional distribution: 68 per cent of the total were directed in the department of Thraki (K. Mangelis, ministerial mimeo, no date; cf A. Andrikopoulos and G. Kafkalas, 1985: 264). The Xanthi region, in particular, attracted the majority of industrial investments (see Table 7.1). So, the productive activity promoted in Thraki on the basis of the development laws related almost exclusively to the manufacturing sector, even though this was a basically agricultural area. In the islands, on the other hand, which due to their geophysical advantages were growing into major poles of tourist attraction, the investment inflow was almost equally shared between the productive and tourist sectors. In all future legislation Zone E, renamed to Zone D with the most recent Law 1116 of 1982, remained the one receiving the highest subsidies.

TABLE 7.1

Law 289/76 and Law 849/78 Approved and Actual Investments in Zone E
(in mill. Drs — 1976 to 31-3-1980)

Zone E Regions	Investments Approved	Investments Actualized
1. Xanthi	4,607,068	3,202,944
2. Rodopi	2,074,082	580,046
3. Evros	1,934,082	1,064,800
4. Lesvos	1,360,000	813,600
5. Chios	348,652	141,200
6. Samos	772,833	480,400
7. Dodecanese	1,960,838	886,260
TOTAL	13,057,899	7,170,250

Source: K. Mangelis, Ministerial Mimeo, no date.

The next major piece of legislation came in 1978. It was Law 849 “pertaining to investments for the promotion of the regional and economic development of the country” (Government Gazette vol. A no. 232, 22-12-1978). This was the first law indicative of the change in the role that state incentives are now expected to play in industrial development. Facing the signs of a well under-way industrial crisis, already manifesting itself as private capital’s abstention from manufacturing investments, the government increased highly the amounts of subsidies. Even Zone A enterprises, which on the basis of the 1971–73 laws were receiving the minimum forms of subsidies (mainly tax discounts) in the minimum amounts, were now granted more benefits and in higher quantities. It, thus, becomes apparent, since the problem of the spatial concentration of industry had hardly been resolved, that regional policy turned into an instrument of a more general state policy aiming to assist the industrial firm in coping with the worsening economic conditions and in re-adjusting its position within a national and international industrial environment

undergoing intense re-orientation and restructuring. It is interesting to note that, for the first time there was specific reference to and special provisions for firms wanting to modernize technologically, increase their productivity, increase their export activities, economize on energy, maintain high levels of employment, and train their labour force.

These themes were more explicitly stated in Law 1116 of 1981, which introduced free state grants for all the above cases as well as for the establishment of research laboratories and the maintenance of high levels of employment and increase in productivity through the employment of four shifts (i.e., continuous operation of the factory). (Government Gazette vol. A no. 8, 14-1-1981). All these are direct means employed by capital in its attempt to reduce its costs of reproduction, increase its margin of profit, and improve its competitive position in the market. They necessitate capital investments which are in this case highly subsidized by the state at a firm level. Such subsidies were increased even more with the most recent Development Law 1262 (Government Gazette vol.A no.70, 16-6-1982) issued by the PASOK government in 1982. They applied to all Zones at progressively increasing amounts. So, for example, an industrial firm established in Zone D (i.e., the previous Zone E of the Thraki and East Aegean regions), expanding or transferring there and planning an investment of Drs 20 million, may receive Drs 10 million as a **free** state grant. If it can justify that part of its investment is also directed at economizing on energy (particularly oil), minimizing pollution, applied on industrial research, or including highly advanced technology, then it is entitled to receive an additional Drs 3 million (15 per cent) free grant. Free grants apply to investments for up to Drs 400 million, without any obligation of the firm towards the state. For investments exceeding this amount, part of the grant takes the form of state participation in the company's share capital, i.e., a joint-venture investment.

If during 1971-1973, the 'state incentives' policy, that is, the policy of subsidizing the operations of private capital at a firm level, had attained a new dimension, that of assisting the expansion of industrial capital in certain less developed regions

of the country, the regional development policy has increasingly since the late 1970s become a means of assisting the industrial firm to survive and restructure in increasingly worsening competitive conditions. In such conditions, whether the firm is able to reduce the cost of production is not just a matter of increasing its profit, but a matter of market survival. How such a process is realized and the extent to which it is influenced by the afore-mentioned state policies will be illustrated in our next chapter through our case study of the industrial formation in the Xanthi region of the highest subsidized Zone D. In the following section we shall trace Xanthi's industrialization process, examine the morphology of its industrial structure and look at the way in which the 1980s disinvestment trend is manifest in the region.

7.3 The Case Study of a Region: Industrialization and Deindustrialization in Xanthi

7.3.1 Xanthi's Peripherality as an Agricultural Region.

Xanthi is a mainly agricultural region in the North-East of the Greek mainland. According to the most recent national census of 1981, its population totals 88,777. It is part of the broader geographical region of Thraki,² which is today classified as one of the economically least developed regions within the EC: It has the lowest per capita GNP among one hundred and sixty EC regions classified as peripheral ("level II") by the European Commission. (Federation of Enterprises of the Thraki and East Aegean Border Areas – AKRITAS, 1988; European Parliament, 1988).

Xanthi's economic decline started during the post-war period. In the past, the region had enjoyed great prosperity as a world-market producer of tobacco, Greece's main export product up to the 1950s, and because of its crucial geograph-

² Greece is divided administratively into (a) "geographical regions", (b) "departments" within regions, (c) "districts" within each department, and (d) "municipalities" and "communities" which are the actual residential areas.

ical position. As part of the Ottoman empire, Xanthi was situated on the main trade route linking the Balkans and Thessaloniki (a major commercial and shipping centre) with Istanbul. The particular trade route lost its importance with the complete disintegration of the Ottoman empire in the early 1920s. Furthermore, after the Asia Minor War, Greece's main trade links remained with Western Europe and Thraki's importance as the mainland passage to the East declined. Nevertheless, Xanthi continued to prosper during the interwar period as *basma*, the unique type of tobacco crop grown in the area, continued to be in high world demand.

The effects of post-war agricultural and industrial restructuring along mass production/mass consumption lines soon made themselves felt in the area. The first negative results came with the mechanisation of agricultural production which, however, is not compatible with the economy of small farming units. The employment of machinery in agricultural production is effectively profitable, i.e. cost-saving, only in large-scale cultivations. Small-scale farming was a predominant characteristic of the agricultural formation in Greece, and Xanthi was no exception. Land distribution was (and still is) characterized by very small and fragmented farms. Agriculture, therefore, dropped to subsistence level. This was linked to another factor that equally upset the local economy: the rapid decline in the world-market demand of *basma* tobacco and for the "oriental types" of tobacco in general. This decline was itself the result of major changes in the cigarette manufacturing industry of Western countries. After the war, the industry reoriented its production towards cheaper and more "commercial" types of tobacco, such as *burley* and *virginia*, produced in Asia, Africa, and Latin America and used for the manufacturing of 'American Blend' type of cigarettes. Such types have the "commercial advantage" of being susceptible to technical — and therefore industrially exploitable — as opposed to natural methods of processing. The *basma* crop needs, for example, to be exposed to natural climatic conditions in order to 'dry', 'mature', and 're-moisturise' before actually being processed; otherwise, it is spoiled. This implies dependence on un-controllable climatic and seasonal variations as well as inability to intervene with the time-span of the

TABLE 7.2
Xanthi Population Statistics

Year	Total	Urban	Semi-Urban	Rural
1951	89,891	27,283	3,188	59,420
1961	89,594	27,802	3,269	58,523
1971	82,917	27,040	3,236	52,645
1981	88,777	33,897	13,131	41,749

NSSG categorization:

1. Urban Areas = 10,000 inhabitants and more
2. Semi-Urban Areas = 2,000–9,999 inhabitants
3. Rural Areas = less than 2,000 inhabitants

Source: NSSG, 1986.

process, which is a crucial factor in mass commodity production. So, although *basma* retained its fame as one of the best quality and most expensive types of tobacco worldwide, its demand fell rapidly. Today, it is faced with the limitations of a luxury products market.

The deterioration of agriculture is reflected in the region's population composition (Table 7.2). In spite of the natural rates of increase, the region's population appears stable for the period 1951–1961 while it underwent a significant decrease of 7.5 per cent between 1961–1971. Categorisation into urban, semi-urban, and rural population shows that the migrating population came primarily from the rural areas which underwent an absolute population decline of 10.4 per cent over the 1960s decade. During that period Xanthi became a labour reserve for the industrial centres of Western Europe, mainly FR Germany. To a lesser extent, the decline was the result of internal migration to the industrially developing urban centres of Greece, mainly Thessaloniki and Athens.

Throughout the 1970s decade, agricultural subsidies were provided which assisted farmers in modernizing production and partially reorganizing it by substituting fruits and vegetables for tobacco (although tobacco remains to date Xanthi's

main agricultural product). On the other hand, industrial development incentives stimulated the establishment of small food processing units locally, which the region's agricultural production could be closely linked with and benefit from. Nevertheless, these changes were not sufficient to completely withhold the sector's deterioration, especially as modernization could not but be of a limited scale due to the fragmentation of land into tiny farms. In fact, modernization and mechanization resulted in an additional release of labour from the rural areas. The agrarian exodus continued at twice as high a rate as in the previous period (1960s) and the already thinly populated countryside lost another fourth of its inhabitants.

This time, however, the exodus had a different direction. During the 1970s, the rate of external migration progressively declined and, in fact, a reverse trend became evident — the repatriation of migrant workers from Europe. The majority of the 'excess' agrarian population remained within the region, so that by 1981 Xanthi nearly re-attained its 1950s' population size. However, this was now a population forming semi-urban residencies and gathering around the region's main urban centre and administrative capital, the city of Xanthi. The city contains more than one third of the region's total number of inhabitants (see Table 7.2) and it is its administrative, commercial, financial, and communications center.³ This spatial reorganisation of residential settlements, although initiated by changes within the agricultural sector and the resulting migration from the countryside, reflected the rapid transformation that the local economy underwent during the 1970s. This transformation involved the intense commercialization of economic activity and, linked with this, the beginning of a process of industrialization.

Before turning to look at the region's industrial sector as it has been developing since the early 1970s, it is important to stress that Xanthi remains to date an essentially agricultural area. Although the region's general physiognomy has altered

³ Although Xanthi contains 38 per cent of the region's population and is the region's only residential area classified as "urban" according to NSSG standards, it ranks low in population size among department capital cities and is not considered to be one of the country's urban agglomerations (NSSG, 1986).

significantly due to the development of industrial activity,⁴ the agricultural sector still predominates. More than half of Xanthi's economically active population engages in farming activities (53 per cent) as compared to the national average of 27.5 per cent. Only one fourth of the economically active population is classified as engaged in manufacturing industry (8.841 people; see Table 7.3). Even so, a considerable number of them are self-employed craftsmen, so that the industrial labour force proper (including quarrying and construction workers) is about 5,000. (Industry Department of the Xanthi Prefecture, 1987).

Attention should also be drawn on the effect that the predominance of the agricultural sector has on the region's industrial formation. It is revealed in certain particularities that Xanthi's industrial structure and labour market display which are to be found in other peripheral regions as well (the rest of Thraki, for example). The first such particularity has to do with the strong direct links between the local industry and the local primary sector. One aspect is the industry's production orientation — the comparatively high number of food processing units established in the region for the purpose of processing locally produced (that is, produced in Xanthi or neighbouring regions) farm products. The same applies for the tobacco processing industries. (Cf Table 7.4 which we shall elaborate on later). The second aspect pertains to ownership. Several industrial enterprises in the region, especially of the above kind, are owned by farmers' cooperatives. In other words, they have been established by farmers cooperative organizations, usually with the participation and support of the Agricultural Bank of Greece, to provide outlets for farming products. These firms make a prominent presence in the region's industrial sector. The largest food industries in Xanthi are, in fact, cooperative subsidiaries: Xanthi Milk Industry Rodopi SA, SEVATH SA (tomato puree), SEPEK SA (meat processing), Dimitra Thrakis SA (animal food). Other large cooperative subsidiaries are established in related sectors: SEKAP SA

⁴ A. Andrikopoulos and G. Kafkalas consider Thraki one of the few cases where state regional policy has been successful in this respect (1985: 257).

TABLE 7.3

Economically Active Population (EAP) by Branch of Economic Activity (1981)

Branch of Activity	Xanthi (EAP)	Xanthi %	National %
1. Professional, technical, related workers	1,727	4.9	9.4
2. Administrative, executive, and managerial workers	166	0.6	1.8
3. Clerical and related workers	1,508	4.3	9.5
4. Tradesmen and sales workers	1,535	4.3	8.5
5. Service workers	1,866	5.3	7.8
6. Farmers, loggers and related workers (including livestock, forestry, fishing) Agriculture alone:	18,673	52.9 (47.0)	27.5
7. Craftsmen and labourers (non-agriculture) and operators of transport means	8,841	25.1	31.5
8. Workers not classified by occupation	924	2.6	4.0
TOTAL	35,240	100.0	100.0

Source: NSSG, 1986.

(cigarettes), SEKE SA (tobacco processing), Nestos SA (pesticides), AGREX SA (refrigerators for industrial usage).

The second particularity due to the interlinkages of the primary and sec-

ondary sectors has to do with the nature of the labour force. A great part of it is described as “agro-industrial”. That is, industrial workers are also owners of small farms or belong to farming households and, therefore, engage in both farming activities and factory work. Their farming activities, even when income is not sufficient — hence the factory work as a supplement — retain primary importance in their lives. As discussed in the case of Sunlight SA, this affects their performance in, attitude towards, and degree of adaptation to the factory environment.

Related to the above is another characteristic of the local labour market — demand for seasonal labour. This is not only a characteristic of farming. The kinds of industries described above (food and tobacco processing) rely on the supply of primary materials from the agricultural sector and follow more or less the sector’s seasonal variations. They operate on full capacity during the summer and autumn months while operations cease almost completely during the winter. SEVATH SA, for example, a food processing firm, employs a total of about 850 people during the three summer months when it operates 24-hours per day, on a 7-day per week basis. This number drops to half during the rest of the year. SEKE SA, a *basma* tobacco processing firm, employs 180 to 200 people between June and October each year. The rest of the time there are only 15 people in the factory responsible for administrative work and machine maintenance. This time pattern of demand for labour further reinforces the mentality of considering factory work as temporary and supplementary to farming. Its other effect is that it increases the average unemployment rate. According to the Industry Department of the Xanthi Prefecture Report, during the peak season the total labour force registered amounts to 20,000 people.

This number of people is engaged during the summer and autumn months due to the seasonal operations of big industrial units, such as the Greek Sugar Industry SA, SEVATH SA, the various tobacco processing units, as well as smaller units of storing and packaging. During the winter period the terms are reversed and the big number of registered unemployed appears which amounts to 2,000 people. It should be noted that not all unemployed register with the Manpower Employment Organization (OAED), so that we can

say that the number of unemployed is double that or maybe more.⁵
(Industry Department of the Xanthi Prefecture, 31 March 1987:6).

7.3.2 The Development of Industry in Xanthi

Before the 1970s, an industrial sector was almost non-existent in Xanthi. The 51 manufacturing units reported in 1970 employed between them a total of 834 persons and had a total capacity of 3,722 HP (P. Sioutis, 1981). They were mostly craftshops or food and tobacco processing shops employing little machinery. The region's industrial sector started to develop in the early 1970s. The first major investments were realized in 1971-72. They coincided and, indeed, made full use of the first regional development incentives for peripheral areas advanced then. According to the region's Industry Department (Xanthi Prefecture, 1987) investment activity reached a peak between 1974 and 1976. Following the general trend evident at a national level, the rate of industrial investments declined during the late 1970s, even though more incentives were provided with the 1978 legislation. Overall economic activity, however, did not lose its momentum as the establishment of manufacturing industry had a chain effect on other sectors of the region's economy: Construction industry boomed as there was a fever of building activity, commerce, transport and banking services developed rapidly, public infrastructure works expanded (telecommunications, electricity supply networks, road construction). A number of other productive activities developed as ancillary to the industrial sector (machine and other types of repair shops, engineering services, etc) which provided self-employment for a number of individuals with technical skills.

By the year 1980 the number of manufacturing units established and/or operating on the basis of the "development" laws amounted to 74. The vast majority of them were established in the food and clothing sectors (see Table 7.4) which

⁵ The number of unemployed for the whole of the Thraki area is calculated at around 33 per cent, which is more than threefold the national unemployment rate. (AKRITAS Report, 1988).

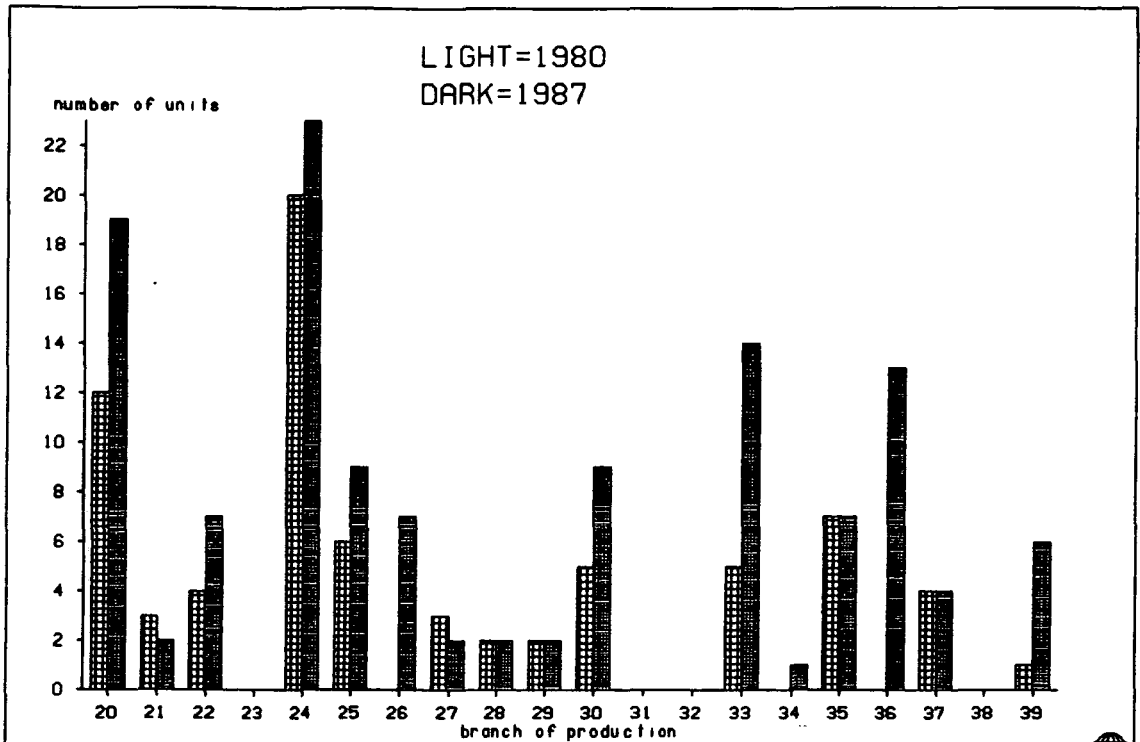
also concentrated more than half of the industrial labour force (see Table 7.5).⁶ The general structure of industrial investments has remained the same in its main aspects during the 1980s. The majority of firms are established in the “traditional”, labour-intensive light-consumer sectors of (a) food and beverages (codes 20, 21), (b) footwear and textiles — which in the case of Xanthi pertain mainly to the garments industry — (codes 23, 24) to which we may also add the related leather-products industry (29) as it is mainly oriented towards clothing and footwear, (c) the two related sectors of wood and furniture (25, 26) and (d) the tobacco-cigarette industry (22). These sectors are responsible for almost 80 per cent of total industrial employment. (Tables 7.4 and 7.5).

The general distributions of the number of firms and employment by branch of production presented in Tables 7.4 and 7.5 are useful in providing us with a general picture of the region’s industrial structure. They conceal, however, certain qualitative characteristics of this structure. For example, classification under the sectors of non-metallic minerals (code 33), non-electrical machinery (code 36) and what remains un-classified as miscellaneous manufacturing can be quite misleading. Most firms in these sectors (which also show a considerable increase between 1980 and 1987) are not manufacturing industries proper in the case of Xanthi. In particular, the non-metallic minerals sector includes mainly cement and marble quarries which engage, if at all, only in preliminary processing of the minerals; the whole sector employs an average of 150 persons annually (Statistics Department of the Xanthi Prefecture, 1987). The other three sectors include mostly family or ‘personal’ businesses which for any practical purposes would be described as specialized repair-shops or craftshops. It is indicative of this that the 13 firms classified under machine production employ between them about 50 people and the 14 unclassified ones less

⁶ No official statistics exist about changes in employment since the 1981 national census. However, preliminary information on 1985-86 provided by the Department of Statistics of the Xanthi Prefecture suggests, especially as the overall level of employment (the “stable labour force” of about 5,000) has not changed since, that the general distribution of employment by branch of production has not essentially altered.

TABLE 7.4

Number of Manufacturing Establishments by Branch of Production (Xanthi)



Code Numbers of Manufacturing Branches According to the NSSG

- | | |
|------------------------------|-------------------------------------|
| 20 = Food | 30 = Rubber and Plastic Products |
| 21 = Beverages | 31 = Chemicals |
| 22 = Tobacco | 32 = Products of Petroleum and Coal |
| 23 = Textiles | 33 = Non-metallic Mineral Products |
| 24 = Clothing and Footwear | 34 = Basic Metal Industries |
| 25 = Wood and Cork | 35 = Metal Products |
| 26 = Furniture | 36 = Machinery (non-electrical) |
| 27 = Paper | 37 = Electrical Appliances |
| 28 = Printing and Publishing | 38 = Transport Equipment |
| 29 = Leather | 39 = Miscellaneous Manufacturing |

Sources: 1. Data for 1980 calculated on the basis of information cited in P. Sioutis, 1981.

2. Data for 1987 calculated on the basis of information offered by the Industry Department of the Xanthi Prefecture, 1987-1988.

TABLE 7.5

Employment in Manufacturing Industry and Handicrafts (Xanthi, 1981)

Code	Branch of Production	Employment
20	Food (excluding beverages)	1,197
21	Beverages	50
22	Tobacco	357
23/24	Textiles, clothing, footwear	1,608
25	Wood and cork	320
26	Furniture and related items	370
27	Paper	150
28	Printing and Publishing	41
29	Leather	91
30	Rubber and plastic materials	30
31	Chemicals	—
32	Products of petroleum and coal	—
33	Non-metallic minerals	110
34	Basic metals	20
35	Metal products	254
36	Machinery (non-electrical)	103
37	Electrical appliances	261
38	Transport equipment	112
39	Miscellaneous manufacturing	10
	TOTAL	5,084

Source: NSSG, 1986.

than that (Statistics Department of the Xanthi Prefecture, 1987). The way general statistics is conducted means that an individual blacksmith, for example, registering his services as a "Personal Liability" company and employing, maybe, one or two

assistants, would be classified as a manufacturing unit under machinery production or, possibly, under the metal products branch.

The unreliability of general statistics in the above sense is not restricted to the aforementioned branches. A major characteristic of Xanthi's industry is the large number of small and medium sized firms. The importance of small and medium sized companies has risen since the recession not only in Greece but also in the broader EC area. Their flexibility in re-orienting their production and adjusting easily to the changing market demand and their ability to retain a high degree of specialization is claimed to have made them resume the role they had lost during the economic boom years (S. Boutilier, 1988). The case of Xanthi's industry, that is an industry established mainly during the recession period, seems to confirm this general trend. However, a qualification needs to be made here in order for us to retain perspective. By Greek standards, a company is classified as small or medium if it employes up to 50 people.⁷ In France, the same classification pertains to 500 people! In the Xanthi region there are only about 20 firms that exceed the limit of 50 employees. In fact, about half of the region's registered manufacturing firms employ on average 5 people (Industry Department of the Xanthi Prefecture, 1987). These firms are family or individual businesses, requiring small capital investment and employ, if at all, low level machinery, non-automated and often non-electrical equipment. In other words, they are mostly handicraft in form, very similar to our blacksmith example. Such firms are mostly established in the branches of food, garments, wood and furniture. They usually have no direct links to the consumers market; they take orders mostly from larger companies through subcontracting and putting out. They provide employment mainly for the family members. In this sense, they function as a safety valve against unemployment. It is primarily due to the existence of this type of 'manufacturing' enterprises and to the persistence of small-scale farming

⁷ In practice, i.e., concerning the granting of certain additional benefits that small and medium-size enterprises are entitled to, the limit is currently extended to 80 employees. A new limit might be set for the 1991 scheduled census.

activities that Xanthi and the whole of Thraki, although displaying the lowest per capita GNP, register, on the other hand, the lowest unemployment rate among the EC "level II" regions (AKRITAS Report, 1988).

On a national scale, 35 per cent of those economically active in the industrial sector are in fact self-employed (K. Simitis, 1989), meaning that they are the owners mostly of such types of small firms. Overall, since the late 1970s, the number of such firms in Greece has increased at an annual rate of 2 per cent. Over the same period their annual rate of bankruptcy has been 10 per cent! (S. Boutilier, 1988). What this suggests is that, although overall this category of firms has become a predominant characteristic of the Greek industrial structure, **individually** such firms do not enjoy a permanent and stable basis within manufacturing. Their existence is based more on chance and circumstance. And their main function is to provide employment and the means of survival for an individual and/or (his/her) family members. (M. Malios, 1986: 87-88). In this sense, at an individual level, a firm of this type which is established today but may not exist tomorrow or whose owners may choose to shift to another kind of economic activity, establishes temporary and casual links with the industrial structure rather than constitutes an organic part of this structure.

It is obvious, therefore, that the small size of a firm is not merely a quantitative feature but in fact pertains to (and can be used as an index of) distinguishing qualitative characteristics of its structure, form of operation and function within the economy. Table 7.6 presents the distribution of firms of the Xanthi region according to the enterprises' "legal form". This provides us with an indication as to the firms' size and mode of operation: Personal Liability and "individual" enterprises tend to be — although this cannot be taken as absolute — small scale investments of the type described above. Out of a total of 61 Personal Liability and individual companies the Chamber of Industry and Commerce registers 30⁸ as "industrially significant". The term in this case refers to firms which have been, at least over some time in the past, operating on a regular basis with regular production out-

⁸ The registered number was 32, but two firms closed down in 1988.

TABLE 7.6

Distribution of Manufacturing Enterprises by Legal Form (Liability) in Xanthi

Code	Branch of Production	SA	LTD	Personal	Individual	TOTAL
20	Food	9	2	5	3	19
21	Beverages	1	-	1	-	2
22	Tobacco	5	-	-	2	7
24	Clothing and Footwear	18	1	2	2	23
25	Wood and Cork	2	-	5	2	9
26	Furniture	-	-	6	1	7
27	Paper	2	-	-	-	2
28	Printing and Publishing	-	-	1	1	2
29	Leather	1	1	-	-	2
30	Rubber and Plastic Materials	3	2	2	2	9
33	Non-metallic Minerals	5	1	5	3	14
34	Basic Metal Industries	1	-	-	-	1
35	Metal Products	4	-	1	1	6
36	Machinery (non-electrical)	2	1	2	7	12
37	Electrical Appliances	2	-	1	1	4
39	Other	3	-	3	-	6
TOTAL		58	8	34	25	125

Source: Industry Department of the Xanthi Prefecture, 31 March 1987.

put (for exports or internal consumption), and have shown some form of stable integration with the market and the region's manufacturing sector. On this basis, we are here talking about a manufacturing sector composed of about 95 individual firms, even if several of these firms are still close to our blacksmith's example. Small family firms are common, first of all, in the textiles/garments sector where there is great variation in size of investments as well as employment: The existing firms

employ anything from 5 to 150 people. An outstanding case is Kommotex SA, a German subsidiary (the only foreign direct investment in the region) with a steady employment of 450 people. Small family firms are also common in the food sector where even the few industries that stand out as relatively big investments rate low in employment. With the exception of SEVATH SA (tomato puree) which employs between 240 and 400 people, the other main food industries — Greek Sugar Industry SA, Xanthi Milk Industry Rodopi SA, and SEPEK SA (meat processing) — are all at the upper limit of medium-sized employment.

Overall, with the above qualifications in mind, the region's industrial sector in the 1980s has neither changed considerably nor expanded significantly since the 1974–1976 outbreak of industrial activity. In fact, during the 1980s, the rate of new industrial investments slowed down even more than it had during the late 1970s. The 1981 and 1982 regional development legislation, although highly subsidizing modernization and expansion investments of already existing firms, did not succeed in its purpose of stimulating an expansion of the region's industrial sector through the establishment of new firms. The absolute increase in the number of manufacturing units registered in 1987 pertains mostly to firms which started operations in the early 1980s, but which were actually founded, that is, they attained operation licenses and commenced construction works in the late 1970s. After 1983, in particular, new investment activity reached almost a standstill. The report of the Department of Industry of the Xanthi Prefecture (31 March 1987) notes the failure of the regional development policy in the 1980s.

We observe that the institutional framework for economic development guaranteed direct and indirect subsidization; its contribution, however, to the strengthening of the economy's productive structure was not the expected one, possibly also because in many cases we had external leakages. We need, therefore, a further improvement and better utilisation of the incentives. (Industry Department of the Xanthi Prefecture, 31 March 1987)

The case during the 1980s is not only that the regional development policy is failing to produce the expected results, that is, assist the region to qualitatively

break with its agricultural and peripheral integration and promote industrialization. It is also failing to withhold a trend of de-industrialisation evident in the region which runs in parallel and is concomitant to the general trend evident at a national level. Specifically, out of the 66 Limited Liability investments officially registered (Table 7.6) for the year 1987, ten constitute "investments under realization". This means that production has not as yet commenced; construction works are under way or have not even started. Although these investments have been approved and operation licences granted, there is no guarantee, especially in light of the most recent developments we shall look at later on, that these investments will be completed. In the region in general there is great discrepancy between the number and size of investements approved (for subsidization and operations license) and those actually realized to the point of commencing production. The latter constitute only 10 per cent of the former (AKRITAS Report, 1988).

Furthermore, over the past five years a growing number of firms have been progressively led to underutilization of their capacity either because they are no longer market competitive or because of financial troubles or, usually, a combination of both. Between 1986 and 1988 ten companies have closed down: one beverages firm which was taken over by another of the same branch, one footwear plant, one wood processing plant, three metal products units, and four garment firms. Some of them were indeed among the largest firms in the region. Deras SA, for example, a leather garments firm founded in 1979 employed about 200 people. The firm's approved original programme had been for an investment of Drs 319 million and 1,000 employment. The investment was realized at about one fifth of its original plan, before the company ceased operations a few years later. Soldatos SA which included a garment producing unit and a dyeing shop was a Drs 51 million worth investment and employed about 350 people. Today, only the dyeing shop operates. Mafredas SA, another garments firm of more than Drs 100 million worth of capital investment that used to employ about 100 people, also ceased operations. Finally, another five firms of various branches of production are currently operating with

highly underutilised capacity and on a temporary basis. (Industry Department of the Xanthi Prefecture, 1987; Chamber of Industry and Commerce, 1988).

Recalculating the overall number of firms on the basis of the aforementioned developments, we see that Xanthi's manufacturing sector is currently comprised of about 70 "industrially significant" firms (41 Limited and 30 Personal Liability companies) which are actually still operating in more or less full capacity. The majority of these firms have been established during the second half of the 1970s, at the time when industrial recession was well underway at a national level. As local authority and firm owners themselves readily admit, the particular investments were realized because of the advantages offered through state subsidization. Although at the time state incentives assisted industrial development in the region in beating the general trend evident at a national level, it was not long before the general industrial crisis caught up with it. It seems a contradiction in terms, but it is also true that the region's industrial decline started as soon as its industrialization was well under way. In the next chapter we will be looking at the nature and extent of private firm reliance on state subsidization, a case which becomes all the more clear with the recent (1987-1988) abolition of certain subsidies due to EC incorporation. We shall also be looking at cases of specific firms in exemplifying some of the points raised in our discussion earlier and in highlighting some aspects of the individual firm's national and international integration.

Chapter 8

SUBSIDIZED INVESTMENTS IN XANTHI

8.1 The Subsidies Scheme: Effects and Prospects

The Industry Department of the Xanthi Prefecture Report concludes that the Xanthi experience on the way private industrial investments were realized, or not, shows among other things:

- Lack of planning by the private investors of the actual materialization process of their investment ...
- Lack of project studies with respect to the future prospects of the particular branch in which specific investments were to be directed, which could guide both the private investors and the creditors (banks) administering the loans and subsidies ...
- Wrong mentality on behalf of the prospective investors, especially of small and medium enterprises, who do not pursue planning on a realistic- scientific basis and tend to consider project studies as a 'waste of money'...
- Lack of high technical knowledge which inhibits [correct] investment choices. (Industry Department of the Xanthi Prefecture, 1987: 2).

The development of industry in Xanthi in the 1970s, stimulated by the state regional policy, was part of a restructuring process of industry at large emerging as a response to the worsening conditions of accumulation. It was not necessarily, at least not in all cases, an investment trend actualized on the basis of the individual firm's long term programming and proper evaluation of its long term prospects. The purpose of it was mostly to take advantage of the available state subsidization provided for regional development. Such subsidies provided, at least in the short run, a

more favourable environment for the firm by highly subsidizing its cost of production and reproduction. This way the individual firm found itself in a financially more advantageous position and was able to cope or cope even better with the worsening market conditions.

State subsidization, was of course, not the only advantage that Xanthi could offer to private investors. The region retains the advantages of any 'peripheral' area, namely, availability of cheap and minimally unionised labour force (see D. Massey and R. Meegan, 1982: 185-186). It has, in particular, a 'surplus' of female labour force (Industry Department of the Xanthi Prefecture, 1987: 6) — the traditional working force of textiles-garments industries. For food industries it has the additional advantage of allowing for an integration with the existing agricultural sector. It is obvious from the structure and overall orientation of the region's industry towards (a) labour-intensive and light-consumer branches of production, especially food and garments, and (b) small-size firms with low capital investment, that private investors exploited such advantages. This furthermore complies with the general trend at a national level that we have mentioned before, namely that one form of industrial restructuring since 1975 has been a shift of private investments towards traditional branches of production, such as food and clothing, as well as labour rather than capital-intensive large industries (T. Giannitsis, 1985).

The above regional 'attractions', however, would not have been as such sufficient to allow for the development of industry in the region, at least not to the same extent that it has actually taken place. On this there is common agreement between Xanthi's industrial owners (their official agent being the recently formed Federation of Enterprises of Border Areas of Thraki and East Aegean – AKRITAS) and the state agents (Chamber of Industry and Commerce, the Prefecture, and the banks) responsible for administering the region's industrial development. In the case of Xanthi or, for that matter, of the whole Thraki area, the specific 'shortcomings' associated with the region's 'peripheral' nature by far outweigh any advantages that the relocation of industry in peripheral regions is expected to benefit from.

These shortcomings are directly translated into an "additional operational cost" for the region's enterprises. This is a term introduced by the AKRITAS Federation to refer to the difference between the operational expenses of a firm located in the periphery and those that the same firm would have if it was located in the "centre", meaning the Greater Athens area. It has been calculated that, all aspects of operation considered, the cost for the regional industry in Thraki is on average about 18 per cent higher than that of Athens. According to the Federation, state subsidies is the only means that can, at least in the short run, alleviate this extra cost so that it can make firm operation in the regions at least as profitable as those in the centre. And it is true that the majority of investments are still attracted to the "central" regions. For example, in 1987 there were 1,772 investment applications in the Attica region; 1,341 represented new investments and 431 pertained to the expansion of old ones. In comparison, there were only 35 investment applications in the whole of the Thraki area, the majority of which (23) constituted expansion of old investments (Data from the Ministry of Industry cited in the AKRITAS Report, 1988).

The "additional operational cost" pertains to certain particularities of the region (Xanthi, specifically, as well as the whole of Thraki) with respect to its geographical location, infrastructure services, commodity and labour markets. The transport cost of primary material and end products is quite high due to the region's location. As certain types of manufacturing units do not exist in the region, nor in the neighbouring ones, and as most industries are specialized rather than vertically integrated, the transport of intermediary products becomes an additional expense. For example, the owner of a particular garment producing firm was describing the following cost-increasing process fairly common among the region's industries: Yarns are bought from a company in Thessaloniki and transported to the factory site in Xanthi, where they are being knitted into fabric material. The company possesses modern spinning machines. It lacks, however, a dyeing unit which is considered too specialized and too high a capital investment for the firm's budget. Out of the two

dyeing units existing in the region, one has closed down and the other one is not considered good enough. It cannot meet the colour and quality specifications given by the firm's customers (the particular company works exclusively on contracts from European firms abroad). The fabric is, therefore, transported back to Thessaloniki to be dyed. In the meantime, a specimen might have traveled back and forth several times before finally being agreed upon by both sides — an additional time consuming process. The dyed fabric is transported back to Xanthi for the manufacturing of garments.

Similar problems are confronted with the repairing, maintenance, and servicing of machine equipment. Although large firms are able to maintain their own technicians, small sized units are at a disadvantage. Local servicing is not adequate for certain types of repair jobs in which case technicians have to be brought in from Thessaloniki or Athens. The problem of finding skilled technicians is a major one in the area. It is aggravated by the lack of skilled labour force.¹ The majority of workers come from the agricultural sector and have no industrial training and no skills. Most of them, as we have previously mentioned, are also small farmers, considering their factory income as a mere supplement to their farming activities. Their attachment to these activities and their particular mentality and unfamiliarity with the factory environment, an environment which they still consider foreign as it has only a a short history of fifteen years in this region, is considered highly problematic by the region's industrialists for the firm's productivity.

A further 'problem' is the lack of available administrative services in the region. This has to do with the fact that Athens remains the country's administrative, commercial and communications centre. The result is that many firms have to maintain a headquarter branch or at least a public relations office in Athens. Finally, the state itself, in spite of its attempt to promote the region's industrialization through

¹ The particular problems are acknowledged by the EC Commission as major ones for the development of peripheral, agricultural regions (Commission of the European Communities, September 1988).

financial motives, has highly neglected to provide an adequate infrastructure. The road network is considered highly unsatisfactory, although there is the probability that infrastructure is not improved for military purposes — as a border area the region is considered highly sensitive. In a letter to Oikonomikos Tahydromos, Mr P. Zeritis, Chairman of the AKRITAS Federation and owner of the region's possibly most successful firm Thrace Paper Mills SA, has claimed with reference to the region's infrastructure:

There must come a time when the PPC will function the same way as it does in Athens: without 30 blackouts per month. There must come a time when the OTE [telecommunications] must become reliable. And there is the possibility for the gas pipe installations coming from the north not to go only westwards, but to also turn eastwards to meet the already operating Turkish one at the border line. (Oikonomikos Tahydromos no 40, 1988: 56).

The aforementioned characteristics confirm the region's peripherality not only with respect to its agricultural sector but also with respect to its industrial one. For the private investors they represent major problems to be dealt with, especially as in the 1980s competition for cost-saving has been intensified. The state subsidies have been the region's main attraction for private investments, as it is openly admitted by all the industrialists who "moved in". "If they moved to the periphery, they did so only to take advantage of the incentives. Without them, their operation becomes problematic" (L. Arsenios, 1988; 91). Related to this was the bank policy of providing easy access to loans and credit. As we have seen in the previous part of this study, this has been a general policy of the state-controlled banks in assisting private investments, but it was even more extensively applied as part of the regional development policy. An additional consideration was the subsidization of the industry's export activities. The latter has been crucial for the region's industry as the majority of firms are highly export-orientated (Chamber of Industry and Commerce, 1988). So, we see that local industry has made full use of a combination of state direct and indirect subsidization which allowed it to benefit from the highest available financial advantages and cost-saving means.

There are two types of industrial firms one can detect in the Xanthi region with respect to the extent to which state subsidies determined their location decisions.

(a) The first group includes firms which, no matter how crucial state incentives are for their operation and market survival, they are established in Xanthi for specific reasons which pertain to the region's particularities as such. Such firms in all probability would not have been established elsewhere; they are part and parcel of the local economy. Such are most of the firms in the food and tobacco branches because of their strong links with the region's agricultural sector. This is especially true for those firms that constitute agricultural cooperative investments. A cross-category of this type of firms has to do with ownership — that is, when the private investors are local inhabitants. Although in most of these cases the investment would not have been actualized without the "incentives", if unable to survive the firm would close down rather than move out of the region.

(b) The second type includes those firms which "moved in" from other regions (Zones A, B, or C). Either the industry was relocated or the investment was partly transferred or a company opened up a new factory in Xanthi while maintaining others elsewhere. Such investments would not have been carried out in Xanthi if it were not for the incentives. Their owners readily admit to that as we shall see in the following case studies. This is not to say that such investments would have been carried out in a 'central' (Zone A) rather than another peripheral region, but that such investments, especially where installations are not complicated (garments producing units, for example), are easy to move out if a higher rate of profit is thought to be attainable elsewhere.

Both categories of firms have relied extensively for profitable operations on the direct and indirect subsidization. For some firms subsidization has turned into a determinant factor for their operation. In this sense the industrial structure sustained by state subsidies has been overall a weak one. This weakness is revealed in the industrial decline of the region over the past five years or so and in the

decline of new industrial investments in spite of the 1981-82 "incentives" legislation. As the overall intensification of market competition in the 1980s has resulted in an "abstention" from private investments, firms do not consider these subsidies sufficient enough for them to move into the area. States one of Xanthi's Prefecture officials,

The overall impression is that industrialists are no longer interested in taking advantage of these incentives. The incentives are high state loans, state grants, state participation in the investment amounting up to 55 per cent. A specific investor has advanced three different applications for investing in building expansion. All three applications have been approved, but the industrialist did not finally actualize his plans.

Indicative of the current situation are the following figures pertaining to the whole of the Thraki region. Since 1982 and up to the 31st of March 1988, 606 investment applications were advanced to be approved for submission to Law 1262/82 subsidization. They 'promised' 8,731 new jobs and were worth Drs 39.5 billion, Drs 14.4 billion of which (that is, 36.5 per cent) was entitled as state subsidy. In the end, only 147 of these investments were completed, providing only 1,647 jobs. They were worth just Drs 4 billion, almost half of which (47.5 per cent) came as state subsidy. (Data from the Ministry of Industry cited in the AKRITAS Report, 1988).

The weakness of the industrial structure is revealed in the existence of a "speculative" mentality in many of the region's entrepreneurs. The AKRITAS Federation admits to that: "Submission to a Development Law does not necessarily imply realization of the investment. The collection of the subsidy... does not guarantee the continuation of the operation of the subsidized investment". (AKRITAS Report, 1988). In other words, in some cases investors collect the money subsidy for an investment which they realize only partially. Subsequently, they either abandon the investment, declare bankruptcy, or continue minimal operation with highly underutilized capacity. This shows that in many cases the whole investment, because of its high subsidization, is treated not as a long term industrial project but as a quick means to secure a high return or even for personal hoarding. In other cases,

the heavy reliance on borrowing has brought firm operation to a dead end.

Investors often use the development laws so that they can borrow in order to repay the interest or parts of old loans. The borrowed capital is thus used for the repayment of other borrowed capital, not for investments. Thus a dead end is reached. The banks know it; often it is a common agreement between the bank and the industrialist. But this is the only way the banks can hope to get their money back, even if by perpetuating the circle. (Statement by the Director of the Prefecture's Department of Industry).

Such phenomena are essentially identical with the ones we have discussed in the case of ailing and problematic firms. To a certain extent, state subsidization here performs the same function that public sector investments had in the cases of the big firms or the important manufacturing sectors we have previously discussed. In this case, state intervention is indirect but equally crucial.

This indirect form of sustaining firm performance and restructuring is highly relied upon by industrial firms in all areas. In fact, whereas Zone D firms complain about the "additional operational cost" that they have to confront, Zone A firms consider **their** subsidies completely inadequate. The Chairman of the Federation of Attica and Piraeus Industries (SVAP), Mr H. Fyrogenis, stressed in a conference that measures and incentives should be re-introduced and re-inforced to allow for the high technology modernization investments and further operations of the Attica-based (Greater Athens) industries and that along these lines Law 1262/82 should be revised. What he claims is that this law gives preferential treatment to industries of other regions, thus making the Attica firms less competitive (Oikonomikos Tahydromos no 38, 1988: 87).

Obviously Mr Fyrogenis's claims contradict Mr Zeritis's statements, as each individual sees the advantages of the other side and the shortcomings of his own situation. Each individual tries to secure his own interests as an entrepreneur and the interests of his Federation as its representative. What this indicates for us, however, is the extent to which, in the current configuration of increasing competition and need for modernization, restructuring, and bigger investments, private industrial

capital relies on and demands further state intervention and financial support. The whole situation has become increasingly crucial with the recent changes necessitated with Greece's full membership in the EC since January 1988.

The first major such change pertained to the export subsidies. As early as 1986 Prime Minister Papandreu was providing the warning: "The **main weapon** that we [read industrialists] lose with our accession to the EC is intervention in imports and **the subsidization of our exports**" (Speech to PASOK's Central Committee, To Vima 21-8-1986). This form of subsidization, provided in addition to regional subsidies, has been most important for the Xanthi-based industrial firms. The majority of them, especially those that "moved in" from other regions, are mainly exporting industries (L. Arsenios, 1988). Export subsidies, like so many other state direct and indirect subsidies that we have discussed, were claimed to be against free competition rules. It was, therefore, decided that they should be progressively decreased. On the 1st of January 1987, they were cut down by 40 per cent. In January 1988 and 1989 they decreased by another 20 per cent respectively, and by January 1990 they shall be completely abolished. The government attempted to minimize the effects of these cuts on entrepreneurial profits. The new tax measures announced in December 1987 for that year included a 50 per cent tax free income with respect to business profits resulting from exports.

The second subsidy that had to be abolished in anticipation of full membership was the workers' insurance subsidy, so that now the employers have to pay the full amount of their contribution to their employees' social insurance and pension schemes. Thirdly, the introduction of the VAT in 1987 necessitated the abolition of all turnover tax exemptions that firms had been entitled to with the national turnover tax scheme. This has burdened their tax payments with an additional cost of about 50 per cent. Finally, another subsidy which was provided in order to minimize the firm's foreign loan costs was also abolished: During the transaction of exchange of foreign currency payments into Drachmas, a subsidy of 5 per cent was offered by the bank. In other words, a firm receiving payment in foreign currency as

part of a loan scheme could exchange it with Drachmas at a rate of exchange 5 per cent higher than the official one. Other subsidies are also in danger. A dialogue has started between the European Commission and the Greek government, each arguing from its own standpoint. The EC "shows understanding for the bad economic situation and acknowledges the need to assist recovery", but:

... the Community, according to reliable sources, intends to make clear to the Greek government that it is not possible to continue accepting the situation that has been created with the subsidies offered by Law 1262 and which in many cases are against the rules of competition as defined within the Community. (Oikonomiki Kathimerini, 29-8-1989).

These most recent developments have provoked a reaction from industrial owners everywhere, but especially of the Thraki and East Aegean regions, as they were the ones relying on the highest subsidies. The formation of the AKRITAS Federation in 1988 was an attempt to organize this protest into specific demands that could be advanced at a state level. The aim was to exercise pressure on the government to argue their case more persistently with the EC Council so that subsidies that could bypass the EC restrictions would not be lost and/or to introduce new ones. Their official document, advanced in July 1988, reads:

In order to cover the **additional operational cost** of those border area enterprises that are actually **in operation**, [we propose] a subsidization from the **state budget** that would amount to 25 per cent of the enterprises' **sales turnover** [i.e., the value of their actualized sales] ... on the basis of the following ... :

(a) Sales subsidization on the basis of the VAT as it was previously provided with the turnover tax (subsidization amounting to 50 per cent of the VAT). The annual cost amounts to Drs 2 billion.

(b) Subsidization of employment by 20 per cent on the basis of the **insurance contributions** which were previously subsidized by 50 per cent.

(c) Subsidization of the **transport costs** by 50 per cent.

(d) Reduced prices by 50 per cent of the **electricity** and fuel costs and 50 per cent reduction of **income tax**.

(AKRITAS Report, 1988).

In other words, the private investors **insist** on the continuation of the subsidization scheme in more or less the same form as it has so far been provided. The main

difference is that the subsidies should be provided on the basis of the **actualized** sales rather than of the **proposed** capital investment, so as to avoid “leakages” and speculative investments.

The demand for direct subsidies is obviously not a concern for the region's welfare. It is a demand for financing industrial capital's costs of reproduction and expansion, and of transferring part of the private costs of capitalist cost competition (expected to intensify with the 1992 market unification) to a social cost through the state budget. In previous chapters we saw how the particular practice has already sustained a weak industrial structure. Whether it will continue to do so or not is an open question. Not only because the debate is still going on, not only because, in spite of the improvements in profit and investment rates since 1986–87, an industrial and economic recovery in Greece is not yet in sight, but also because the kind of industrial structure that Greece shall emerge with out of this long period of de-industrialization, dis-investment, and adjustment to EC integration and to global structural changes is not yet clear. But the state's mediating role in this process and the investors' demand for and reliance on this mediation are indisputable facts.

8.2 The Industrial Firm in Xanthi: Aspects of National and International Integration

Our study of specific cases of firms established in the Xanthi region draws attention to firms that differ from the type that we confronted in our previous case studies, that is the large, high-technique firms whose ‘bad economic performance’ attracted immediate and direct state intervention and which regularly appear in newspaper headlines. We shall be here concerned with the smaller, less known or even completely ‘anonymous’ private industrial unit which is more typical of the kind of firm that **numerically** predominates in Greece's manufacturing sector. Although we should be cautious of generalizations at this level of analysis, especially

as we cannot disregard the firms' location context, the following empirical studies do give us useful insights about the mode of operation of such firms. The particular case studies also aim at highlighting aspects of the individual firm's national and international integration. More specifically, they aim at demonstrating how regional, national and international structures intercept. We make no claims that the firms presented here are **representative** of anything except that they are established in the region's most representative branches — textiles-garments, food and tobacco-cigarette industries — and that they are highly export oriented (they operate partially or exclusively on subcontracts from abroad). Given the great variation that empirical instances of restructuring and change display, such claims can serve no sound purpose. The value of qualitative rather than quantitative studies rests in discovering or uncovering, as D. Massey and R. Meegan put it, "the mechanisms behind the numbers" (1982: 186).

The challenge is to hold the two sides together; to understand the general underlying causes while at the same time recognizing and appreciating the importance of the specific and the unique. (D. Massey, 1984: 300).

8.2.1 Garment Firms

In our chapter on problematic firms we presented the case of Piraiki-Patraiki, the largest textiles-garments firm in Greece. This was the case of a big corporation oriented towards vertically integrated production, high technology, and expansionist policies. We mentioned then that the dualism of the Greek industrial structure is best exemplified in the textiles-garments branch. In the Xanthi region, one confronts precisely the branch's other 'face': the small, low-technique, labour-intensive, family-owned manufacturing unit, specialized in the production of specific items or in stages of the production process. These units, which display a variety of apparently contradictory features — the application of computers and faxes in organizing the firm's accounts and information networks alongside the use of second hand sewing machines, the manager-owner who has completed studies on cotton-

manufacturing technology in FR Germany or has a Masters Degree in economics from a British university alongside an ironing machine which has been 'patented' by a local technician who can claim no formal qualifications — are for the most part highly export oriented and, unlike PP, quite successful businesses in their low aspirations. Whether producing exclusively for the 'external' or also for the domestic market, the links of these small domestic units are with internationally integrated production circuits.

Case A

The first case we will be concerned with is an apparel manufacturing unit employing about 70 to 80 people. Three persons act as managerial personnel: the owner himself, his son who is also a qualified engineer specialized in textiles technology, and a third employee working also as an accountant. The number of employees places the firm at the border line between small and large-scale enterprises. "It is good to keep the number small — just on the border line. Small units get higher subsidies"; this was a comment advanced by one of the Prefecture's civil servants in justifying the large number of small firms in the area. The firm's owner readily admits to the importance of the subsidies for maintaining profitable operations. He does not deny the existence of "speculators" and "external leakages", to use the term employed by the Prefecture's report cited previously. But, in his opinion, the answer to this problem should not be sought in the abolition of subsidies altogether; rather in a different form of applying the subsidies. He expressed more or less the same idea that was to be advanced as a formal proposition by the AKRITAS Federation a few months later:

State grants and subsidies should not be given for the construction of buildings and for the purchasing of machinery or the import of materials. They should be given on the basis of the actual quantity or value of the items produced ... Overstating the cost of constructions and of machinery is a very common practice. This way they get higher subsidies.

The particular investor "moved in" to the region in the late 1970s **in order**

to take advantage of the subsidies on offer. He stresses that if the higher incentive privileges for the region were to be abolished, "the continuation of operations would be impossible". And he points out that he is in a position of realistically comparing the advantages and disadvantages of 'central' and 'peripheral' industrial locations, as he maintains another apparel firm in Athens. The two companies are two distinct legal entities and bear no formal business links. With the recent subsidy cuts and the anticipated future ones, he contemplates "moving out". This would mean either transfer the particular firm to Athens, or close it down altogether and have the machinery and equipment absorbed by his other company already established there.

I cannot deny that many of us contemplate returning to Athens. Already many transfer their machinery there to reinforce the operations of their other firms.

We should here draw attention to the fact that machinery bought for and by the 'Xanthi firm' is subsidized at a much higher percentage than the 'Athens firm'. It is obvious that its transfer to Athens (which could take place as a simple sales transaction of second hand equipment between two different companies), whatever the reason for it, essentially defeats the purpose of regional development. This is an example of the "leakages" mentioned in the Prefecture's report.

We no longer have competitive differences with Athens; lately only the disadvantages [of the Xanthi region] remain. If I had an agricultural products processing factory like SEVATH, or one like DIANA [Thrace Paper Mills SA], highly waste and noise producing, then, yes, I would have to face location restrictions. But we can transfer anywhere. I could get permission to establish my workshop on the floor of an apartment building downtown Athens ... Moving back to Athens would mean several advantages: skilled workers, specialized personnel, cheaper labour force, being closer to the decision centers ... Last month, the computer [a personal computer used for keeping accounts] broke down. I had to bring a technician from Athens, pay for his flight and his stay here. Not to mention that Olympic Airways was on strike at the time. It was a week before I had the computer working again.

Whatever the alleged advantages of Athens, claimed to be lost for the Xanthi-based firm, the particular company is business-wise a very successful one. Orders are high; the small factory operates at its full capacity. Garments, mainly

trousers and shirts, are produced in a wide variety of design and type of fabric (all cotton). Certain types of fabric are ordered from other firms while others are produced in the factory; there exist two fully automated knitting machines which have been recently installed. There is no dyeing unit and no designing unit. The cutting and ironing ends of the production process are semi-automated. The main activity is the stitching and sewing of the fabric pieces into finished garments and this is what the bulk of the workforce — all female — is engaged in. The women operate about fifty stitching and sewing machines arranged in rows of four. Each specializes at different stages of the moduling process: left sleeves are sewed on in one row, right sleeves in the next one, buttons in the last one. The operations change with the kind of item produced. Buttons are replaced with zippers, sleeved shirts with non sleeved ones, shirts with trousers. “Some machines are more and others less modern”, meaning that different machines operate at different levels of automation, the less modern ones requiring more skills in their operation. Overall, the whole process is highly manual and skill requiring.

The company operates on orders from large garment firms abroad: Modemuller of Germany, Jeffrey Rogers of the U.K., the internationally better known UCLA and Lee Cooper brands, to name but a few. Garments are exported to a number of countries — the U.K., FR Germany, France, Italy, the U.S. No orders are intended for the domestic market. Design and quality specifications come with the orders. Our small firm is merely the ‘executor’. The garment labels with the fashion brandname are ready and sewed on. Some do have the indication “made in Greece” on; others do not.

Only in a few countries, it is required by law that the firms specify where the garments that they sell have actually been produced — France, for example. So, French firms have to put ‘made in Greece’ on the label.

Why would such a label be important?

Some years ago we used to make jeans for Lee Cooper. The orders came from France, the jeans were exported [to France]. I was shopping at a boutique shop in Thessaloniki and the shop was

selling Lee Cooper jeans. Imported ones. I had a look at them. They were exactly the ones we were making. I could tell from the way they were made, the kind of stitches etc. They were exported and imported again. Sold at Drs 7,000 each. People would buy them; they are imported, you see.

Big fashion firms do not merely make a strong presence in the market. They **built** the market for their products through advertisement and the introduction of 'new' products. The consumer is willing to pay Drs 7,000 for a pair of imported Lee Cooper jeans rather than half the price for any other pair of jeans produced by a local firm with a 'name' she/he has not heard of before. This makes the domestic firm's, small or large (we saw the same situation confronting PP), direct access to the consumers' market difficult, if not impossible. They, therefore, remain 'anonymous' suppliers of the big fashion firms which, in the current phase of cost-saving competition, are, as we have discussed, all too keen to move out of the manual stages of the production process. If it is difficult for a firm with big resources, like the PP, to break out of this vicious circle, it is virtually impossible for the small owners having no access to market research, lacking knowledge of marketing techniques, and being unable to afford the cost of advertising. The "made in Greece" label is expected to help break down some of the 'myths' with respect to imported products characteristic of the average consumer's mentality.

In our case study of PP, we discussed the reasons why the particular firm, opting for the "northern model", is interested in breaking away from this kind of production circuit. But why would small firm owners who run successful businesses as suppliers of the "big fashion brands" express wishes against what immediately appear to be their own interests?

Indeed, most of them do not. But I see no future in the small family business that survives on putting-out operations for big foreign firms. Not any more. The cost of labour is now cheaper in other countries; the hardest competition is now with Turkey ... This is why the subsidies are necessary. But still, how can family units continue with no infrastructure: a simple gathering of five people with five sewing machines? ... [As for technology:] How can we keep up? Today the launching of new technology and new

machinery is a matter of months. You buy something, then in a few months something new comes out.

The above echo Mr Tseklenis and Mr Nasofidis' statements about the need for restructuring of the Greek textiles industry. Indeed, the firm's owner believes that, with the labour cost advantage being wiped out,² the future — "if there is one" — lies in fashion. The firm has recently made some steps towards producing for the domestic market, "experimenting" with its own designs. The first experiment was considered successful and they plan to organize such an activity in the future. Overall, the firm's policy seems to be a cautious one; the limits are known, but the possibilities that might open up, whether they will entail debating the subsidies issue, moving out of the region, or moving into other production and market directions, are yet to be estimated and assessed. In all cases, "the possibilities will be explored and exploited".

Case B

Whereas certain small investors are aware of the limits imposed on the Greek textiles industry because of the global changes in the branch and seem to be ready to move, or attempt to, in the direction of these changes, others seem comfortably established within the existing production networks. The second case we will present here is another apparel manufacturing unit producing exclusively on contracts with firms abroad. It is also a family business, much more obviously so. The workshop is established on the ground floor of the family house. All family members (five) are more or less involved in the business, although some are also involved in other professional activities, all but one being qualified lawyers. Only two of them usually carry out the everyday management requirements, one being

² In 1988, Werner International conducted a research on the hourly labour cost in textiles production in fifty countries. If the cost in the U.S. is taken as the basic index at 100, then the cost in Japan is 159. In the EC 'North' it is 142. In the EC 'periphery': 78 in Ireland, 60 in Spain, 47 in Greece, and 23 in Portugal. Other countries include, Taiwan: 31, S. Korea: 24, Hong-Kong: 23, Turkey: 11, Malaysia: 9, Indian: 9, Thailand: 7. (Oikonomikos Tahydromos no. 51, 1988: 66).

engaged in 'office work' (orders, supplies, legal matters, etc), the other acting more as a superintendent and dealing with whatever problems may arise at the shopfloor.

About fifteen women are employed for work on sewing and stitching and this is all the workforce employed. This is a much smaller investment than the case we discussed previously, not only with respect to the size of the workforce, but also with respect to the kind of production carried out. The only 'machines' are the sewing and stitching ones that the women operate. Cutting and ironing are done manually. The fabric materials are ordered from firms in Thessaloniki. Only simple designs can be coped with; the items produced are cotton T-shirts with little variation between them in terms of design. As the owner put it: "We are not an industrial or manufacturing unit; we are more of a 'house-workshop' [*oikotehnia*]".

The whole setting is indeed very different from what we encountered in the previous case. The owner herself often does the cutting and ironing of the fabric and participates in sewing if there is an overload of work. She also teaches new workers how to operate the machines; most of the workers are unskilled upon arrival. The workers are referred to as "women" rather than "workers" and get lifts back and forth to town (the site is located at the outskirts of the city of Xanthi) in the family car. One or two may be dismissed early if "the children need to be picked up from school", for instance. The owner introduced music at the shopfloor in an attempt to make "the environment more pleasant and the women more enthusiastic about their work". The women welcomed the idea, but soon stated their preference of Kazantzidis over Strauss and now the radio is continuously on, tuned on a local station with popular Greek music. The women also take pride in what they produce, especially in that their products are exported.

We produce good quality stuff. It is good work we do here and we get lots of orders. We are doing more and more complicated things. The one [i.e., T-shirt] I am wearing is exported to Germany.

A lot of them indeed wear the T-shirts that they produce. These items are not allowed to be sold in the domestic market (this is part of the agreement with the foreign firms). The workers are offered the choice from among unwanted items

returned because of minor faults, not having passed successfully the quality control of the 'client firm'.

Workers and owners are aware of what they produce and how and, in most cases, what country the produce is exported to, but not always who they produce for or what market the produce will end up in. Some of their biggest clients are La Redoute of France, Jeffrey Rogers of the U.K. and J. Sarporta of FR Germany. But the ready-made labels sewed onto the garments do not always correspond to the firm's name. The labels of some T-shirts ordered from and exported to Germany read *Laura Berlucchi* and underneath *Roma-Milano-Bologna* in Italian. The specification *100% Baumwolle* is in German. There is no specification as to where the garment is made. Other labels read *Le Frog, 100% Baumwolle* and here also there is no mention of where these garments are produced. *Visage, Girl, Jeffrey Rogers* are other labels with the specification "made in Greece" on.

What we learn from the owners of this particular company is that the small manufacturing enterprises do not always know of and about their 'client' firms, because they very rarely come into direct contact with them. Indeed, it would be very difficult for the foreign firms themselves to search for suitable putting-out units amidst the plenitude of small domestic enterprises. The whole network of putting-out is operated by intermediary firms located in the big cities. In our case, such a firm is established in Thessaloniki and maintains links not only with the companies in Xanthi but with companies in other areas as well. The foreign customers contact and state their orders to the particular firm, which then distributes the contracts among the various manufacturing units, according to each unit's quantity and quality produce capacity and specialization. The small firms themselves, when orders are high and deadlines cannot be met, "put-out" part of the production to even smaller firms or to "outworkers": independent, skilled workers, working individually or in small groups at home and paid by the piece. So, neither do the 'client' firms at the other end, *Laura Berlucchi* or *Jeffrey Rogers* for example, know exactly where and how their garments have been manufactured. Nor do they care who the

contract's other signatory is "as long as the garments they receive fulfil their order specifications and cheap price requirements".

The owners of this small firm do not have a clue what the name "Laura Berlucchi" represents. They do know, however, that Jeffrey Rogers is a big company name in the U.K. market. His design, colour, material and other specifications come with the orders. The ready-made T-shirts are shipped to London where they undergo quality control at the company's factory, a factory engaged only in quality control where no manufacturing as such takes place. One of the owners who has been there describes it as "a fully automated, computerized process, performed solely by robots". "Unsatisfactory" items are returned.

Jeffrey Rogers is a well-known name in the area as he is considered one of the best customers ("best" here meaning big and regular orders) for hundreds of small domestic apparel companies established between Xanthi and Thessaloniki. In the U.K., on the other hand, the name is associated with the cheap high fashion clothing available in many of the country's popular chain-shops. J. Rogers, described by *The Guardian* as the "T-shirt king", formed his company in 1974 with a staff of three. Jeffrey Rogers Plc today produces around eight million T-shirts a year, has an annual turnover of 25 million pounds, exports 15 per cent of its produce worldwide, and employs only 350 people. (*The Guardian*, 29-2-1988).

Jeffrey Rogers is just one of the companies that supplies high fashion, fast turnover garments to mainstream outlets such as Top Shop and Miss Selfridge. ... Operating, as always, on the cheap and cheerful, throw-away principle, Rogers prides himself on being able to clothe a woman, head to toe, for 20 pounds. (*The Guardian*, 29-2-1988)

Indeed, the emphasis on cheap prices creates great pressure for the manufacturing companies carrying out the orders.

It is not only a matter of the labour cost, but of the general state of the Greek economy. What about inflation? Our customers expect us to be able to produce the things at the same prices we did last year. As one of our German customers said to us: 'Why would I want to import your inflation?' The export subsidies were an excellent means for us to get around such problems. They have

now been reduced by half, which means that if we are to still attract orders we have to cut from our profits — to the point that with some orders we just about break even. But this way it is not easy to expand, especially not while interest rates are so high. So how can the government expect more private investments?

How do they see, then, the company's future prospects, and how do they feel about its location?

Athens has several advantages: skilled workers, being close to the decision centers, other industries close by. But not for us. We did not 'move in'. We are locals. Where could we 'move out' to? This company is not our only source of income. We established it seven years ago because the area was developing then, the subsidies were high, all official agents were encouraging us to do so, it seemed a good investment. The past seven years have been a golden period for export-oriented textiles... It is a hard time now with the export subsidies being cut and 1992 approaching.... We plan to progressively increase the range of products so that we can be able to handle more complicated designs and accept more orders. We also plan to gradually improve technologically... A number of other subsidies are still very helpful. OAED [responsible for the Unemployment Fund], for example, provides a Drs 1,000 daily wage subsidy for each worker we employ through it, on condition that we keep this worker in employment for at least one year. GSEVE provides non-interest credit of up to Drs 700,000 for each Drs 1,000,000 spent on computers and communications technology... It is possible to succeed on the basis of careful programming.

Case C

The third apparel firm we shall use as a case in point of how state subsidies have been employed by new firms trying to establish themselves within the changing configuration of production and accumulation processes, reveals yet another variation in the attitude and mode of operation of private enterprise. The particular company produces on "putting-out" for foreign customers (underwear) as well as launches its own "label products" (socks) in the domestic market. It was first established in Athens in 1973. In 1979, it was transferred to Xanthi. The relocation was completed and production in Xanthi commenced in 1981.

The company maintained its headquarter officers in Athens as this was considered the center of market and economic activity. It is important for the firm to have immediate access to this market since it is also marketing its 'own' products. The transfer to Xanthi was decided "solely for the purpose of exploiting the development incentives, Law 289 of 1976 which changed to Law 1262 in 1982".

There are twelve shareholders in the company, but the vast majority of the shares, 75 per cent, as well as complete management and control, rest with one person. In essence, this is also a family business. Some of the main owner's family members participate as shareholders, and it is his son, an economist by profession, who acts as top manager in his absence. The firm employs 30 workers in the production line (both men and women). Another 5 comprise the administrative personnel. As in the cases of the companies we presented above — as, in fact, in the majority of small firms in the area — the employees do not belong to a trade union.

They do have demands, but they do not seem interested in organizing. Circumstantially, they will choose someone to represent them — on the spot, and for specific grievances. They never strike, not even during general [i.e., national] strikes when no one can prevent them from doing so.

This is viewed as a definite advantage by management, especially as it is not 'counterbalanced' by high absenteeism levels and other 'workforce problems' common in the area. All of the workers are skilled and most of them had previous factory experience. The one main problem is finding technicians, especially for the British-made Bentley sock-knitting machines. Such technicians have to be brought from Athens and "retain the secrets of their trade, refusing to train anyone else on the operation of these machines, so that they can secure their jobs and keep their wages at high levels".

There are two production lines in the factory: one for cotton underwear, and another for cotton, woollen, or mixed fabric (acrylic and other synthetic materials) socks. Cotton is, of course, domestically produced. The woollen and synthetic yarns

are for the most part imported. Production is not vertically integrated; the yarns (cotton, woollen or synthetic) are bought ready-made rather than fabricated here, and there is no dyeing unit. There are, however, six automatic knitting machines for the fabrication of the cotton material used for underwear. The production of socks is a fully automated process, except for the ironing and packaging. Although the owner makes a point of the fact that vertically integrated production has in the long-run "big cost-saving advantages" (including the cost in time-loss due to the transfer of the items in and out of the factory), he maintains that investments in a spinning mill or a dyeing shop "cannot be afforded by the company's size, not even with the assistance of the subsidies".

The production of socks is intended for the domestic consumer market. According to the manager, there is no question of attempting to export this kind of produce. Cost-wise it would not be competitive in the external market. It is admitted that the comparatively high cost of sock production is mainly due to outdated technology. The Bentley machines utilized are of a technology 15 to 20 years old. New machines produce at least 50 per cent as many items over the same period of time. Part of the underwear production is also absorbed by the domestic consumer market. But for the most part underwear is manufactured on orders from foreign firms — about 60 per cent is exported, mostly to FR Germany, but also to the U.K. and Sweden. Here again, the design, fabric quality, and other specifications for the garments and their packaging come with the orders. The firm's own name never appears on the label and there is no mention of where the products have been made. The manager did not disclose the 'names' of his customers, but he did state that they are not always other manufacturing firms. Often the orders come from foreign trade-companies or individual merchants, who then sell the products to manufacturing enterprises. This is another type of intermediating mechanisms within the putting-out networks.

I really do not know where my products end up or what eventually happens to them. All I am interested in is exporting under whatever circumstances. The state is also interested in exports.

The foreign firms, on the other hand, are interested in the low production cost that we can offer.

So, their interests meet! Or do they?

The one problem is that most measures aiming at the increase of exports, for example the depreciation of the currency result also to an increase in the cost of imports. They are very helpful for the firms which export, but for firms that do both, like we have to import the wool and machinery, the positive effects are more or less cancelled out by the negative ones — Due to inflation, depreciation and low productivity, we have an increasing cost of production in recent years. As a result, our products are no longer as competitive as they used to be.

The subsidies, on the other hand, as interpreted by the firm's manager, are found "insufficient" and "aimed mainly at increasing the number of employees". In other words, he finds from his experience that the higher subsidies are in practice given to firms whose expansion justifies increase in employment, which is an indirect way of keeping unemployment rates down. So, what is suggested here is that overall, the best-off firms are the ones realizing big exports and investing in labour-intensive rather than machine-intensive techniques. Indeed, a number of factors seem to indicate that the particular firm has been re-orienting its activities along these lines. Over the past two to three years, capital investments have been on the decrease. The firm's production line of synthetic stockings, a completely mechanized process, was shut down. On the other hand, employment and output in the underwear production line have increased; and so have the exports of these particular items.

It seems, therefore, that the particular investor, in the specific kind of production he engages in (our previous cases pertained to the fashion end of apparel industry, whereas socks and underwear is not fashion as such) and within the specific production circuits he is established in, still finds the labour cost advantages favourable. Unlike our first case, where the investor makes his first attempts of moving from putting-out production for foreign firms to production directly for the domestic consumer market, the specific firm seems to be moving rather in the opposite direction. What these cases suggest is that there is no unique model to be

followed in the present phase of restructuring of the Greek textiles industry. But in the case of these firms, part of the restructuring process was their establishment for taking advantage of the subsidies scheme and for exploiting the possibilities opening up due to the disaggregation of the textiles production globally.

8.2.2 Tobacco-Cigarette Industry: SEKAP SA

Unlike garment manufacturing firms, those manufacturing branches, such as tobacco and food processing, relying on the agricultural sector for the supply of raw materials maintain stronger links with the regional economy. The tobacco industry, in particular, as we have already discussed, has a long established tradition within the Xanthi economy and community. But the links of these branches with the local, predominantly agricultural, economy is not just a matter of tradition or raw materials supply. The major investors in these branches are not individual industrialists, but farmers' cooperative organizations. Through their investment initiative in the secondary sector, as the Chairman of the Federation of Xanthi's Cooperative Organizations put it, "farmers' cooperatives attempt to establish commercial outlets for their agricultural products". Primary producers themselves thus make a presence in the sphere of industrial processing and commercialization of their products and establish direct links with the consumer market of these products. This is also an attempt towards influencing the market according to their interests.

The reasons, aims, and results of this 'intervention' will become clearer in the following case studies of SEKAP SA and SEVATH SA. It should be here noted, however, that this 'intervention' or expansion of the primary sector producers' activities to the manufacturing sector was a long set goal of the region's agricultural cooperatives (see V. Ilantzis, 1987) which could only have begun to materialize with the introduction of regional subsidization. State subsidies assisted in the realization of investments which would not have been financially possible otherwise. For example, the initial plan for the establishment of SEKAP (Cooperative Tobacco

Industry at Greece SA), a cigarette manufacturing company, pertained to the purchase of the small state-owned Tobacco Industry of Xanthi, which had phased out, with the intention to reconstruct and modernize it. The announcement in 1975 of the government's intentions to significantly increase the regional subsidies with Law 289, which was eventually issued a year later, caused a drastic change in the plan. Another project was launched pertaining to the establishment of a completely new and much larger investment.

We were thus given the opportunity and possibility to materialize an old dream of our cooperative movement and of our tobacco-producing world — the creation on the basis of a broader plan of a large, fully modern tobacco-cigarettes unit with the participation of all the cooperative organizations of the country... (V. Ilantzis, Chairman of SEKAP and General Manager of SEKE, 1987: 40-41).

In the case of private manufacturing enterprises whose shareholders are cooperative organizations, the decision as to their location in a highly subsidized region was not a matter of profit-maximization considerations. For those investors the subsidies were crucial in being, first of all, able to **realize** the investment, and being, then, able to maintain the operation of the units without or with minimum losses. As both the representatives of the cooperatives and the managers of the factories emphasize, the cooperative manufacturing units are not primarily "profit-seeking" enterprises. The beneficial results of their operation consist first and foremost in being able to establish the "outlets" for the agricultural products and of maintaining the primary producers' connection with the market that we mentioned above.

Before proceeding to examine the case of SEKAP SA in more detail, we should give a schematic picture of the situation prevailing in the Greek tobacco-cigarette branch, so that we can understand in what way the establishment of the particular firm constitutes a step towards the branch's restructuring. As we have previously mentioned, tobacco is one of Greece's main agricultural products. Up to the 1960s, it was also one of its main export products. The decline, since then, of the international market demand for the "oriental types of tobacco", which are the

types being cultivated in Greece, reduced the relative importance of this product in the country's trade balance. Greece, however, remained worldwide one of the major tobacco-exporting countries. Yet, although Greece remained a major producer and exporter of tobacco, it did not become an exporter of the end products, that is, manufactured cigarettes. In spite of the fact that the international cigarette trade expanded tremendously during the post-war years, the five cigarette companies established in Greece, all of which constituted domestic capital investments, oriented their sales predominantly towards the domestic market. Whereas non-tobacco producing countries, like Switzerland and FR Germany, became significant cigarette exporters during the post-war boom of the cigarette manufacturing industry, Greece remained a traditional supplier of the primary product, a product whose demand continued to fall in favour of cheaper kinds of tobacco.

The prevalence worldwide of "blended cigarettes" manufactured from *burley* and *virginia* tobacco crops and the resulting decline in the demand for oriental tobacco affected considerably, as we saw in the case of Xanthi, the Greek agricultural producers.³ It did not, however, immediately affect the Greek cigarette industry, which was realizing profits by selling its own as well as foreign brands of cigarettes in the domestic market. The policy of foreign firms in penetrating the domestic consumer market was to cooperate with the domestic companies for the production of their own brands, rather than to export the items or establish their own factories there. Thus, with the exception of one small company, Konstantinou Brothers SA, all the other domestic cigarette companies resumed the production on their premises of foreign brands as well as their distribution in the Greek market: Papastratos AVES resumed the production and distribution of MARLBORO (which became the best-

³ Today, they face the urgent need to cut down their production (by 40 per cent at a national level). This means that they must either replace their crop with other types of tobacco — a process which is still at a trial stage as it is not certain whether the climatic conditions in Greece allow for the cultivation of these other types — or to substitute other agricultural products for tobacco — a process proving very difficult as tobacco is cultivated in semi-mountainous areas where a limited range of crops can flourish. (*Oikonomikos Tahydromos* no. 46, 1988).

selling brand in the domestic market), Karelias Brothers SA that of WINSTON, CAMEL, and LORD, Keranis SA manufactures and distributes KENT, HB, PALL MALL, BENSON & HEDGES, and Georgiadis SA manufactures ROTHMANS. The foreign firms engaged exclusively in the advertising of their brands. The domestic firms did not immediately realize the long-term effects of this policy. The process is described by SEKE's (Cooperative Federation of Greek Tobacco Producers) management as follows:

By the late 1970s, a change became evident in the Greek smokers' "taste" in favour of the foreign blended cigarettes. The consumption of domestic cigarettes, made of Greek tobacco, was falling rapidly. The foreign firms were spending vast amounts of money on advertising and were thus changing the people's habits and preferences... The Greek cigarette manufacturing companies only then realized that all that time they were in fact assisting foreign firms in penetrating the domestic market at the expense of their own brands and of Greek tobacco in general... Even when they started to produce their own brands of blended cigarettes — mixtures of oriental with virginia tobacco — complying with the consumers' "change of taste", they could not compete with the foreign firms at the level of marketing and advertising.

Against these developments, SEKAP SA was founded with the following aims and aspirations: (a) to establish a technologically modern factory for cigarette manufacturing, (b) to advance both oriental as well as its own blended cigarette brands in the domestic market and prepare to compete with the foreign brands through modern advertising and marketing methods, (c) to advance exports of both oriental as well as its own blended cigarettes.

... one of the basic aims of the enterprise shall be the advancement of exports and the spreading of Greek cigarettes abroad as well as the spreading of Greek tobacco consumption. (SEKE's Administration Announcement, 6th October 1975, cited in V. Ilantzis, 1987: 44).

A Drs 420 million investment was thus launched in 1975-76, more than half of which was covered by state grants and loans with subsidized interest rates on the basis of Law 289 of 1976. The initiative for SEKAP's establishment came from SEKE SA (the Cooperative Federation of Greek Tobacco Producers). In addition

to the Agricultural Bank of Greece, 53 cooperative organizations participate as shareholders. The company employs 325 people as permanent personnel, 125 of which constitute scientific, administrative, and managerial personnel. It operates on three shifts daily, that is, on a 24-hour basis. Another 200 workers are employed as extra labour during the tobacco processing season (between June and September). The firm faced serious problems finding in Xanthi or attracting from other areas the skilled labourers, technicians, and the scientific personnel it needed and in many cases employees had to undergo extensive training.

Production commenced in 1980. The factory started operating with cigarette machines manufacturing about 300 items per minute. Technology is continuously updated. Today the firm employs the most modern machinery with an output capacity of 4,500 and even 8,000 cigarettes per minute. All operations, including packaging, are fully automated, and SEKAP SA, although not the largest, is the most modern cigarette manufacturing unit in the country. All machinery is imported — mainly from FR Germany (HAUNI), but also from Italy (COMOS, CD) and the U.K (MOLINS). The firm manufactures both oriental and blended types of cigarettes. For the former they utilize domestically produced tobacco. For the latter they import *burley* and *virginia* tobacco, which they process in the factory.

Technological know-how was first sought from the German cigarette manufacturing enterprise Martin Brinkmann. The agreement, however, fell through because Brinkman wanted to interfere in the marketing of SEKAP's own brands and demanded overheads from their sales. As this defeated one of the main aims of SEKAP's establishment, the 'cooperation' between the two firms did not continue. An agreement was then reached with another German enterprise, Reemtsma. Reemtsma agreed to provide technological and organizational know-how in all aspects of the factory's construction, production, and operation processes in exchange for SEKAP resuming the manufacturing for the Greek market of two of Reemtsma's own cigarette brands, ASTOR and R6, without, however, interfering in SEKAP's marketing of its own brands.

SEKAP's progress in manufacturing and launching its own brands in the domestic and external markets was rapid. In 1980 production commenced with the SEKAP EXTRA, SEKAP SPECIAL, and SIROKO oriental type cigarettes. Gradually, a series of other oriental brands as well as Greek blended (mixture of Greek with *virginia* tobacco) cigarettes were introduced — XANTHI, ARISTA, KIRETSILER, GR. But SEKAP's breakthrough in the domestic market came with the introduction of the Greek blended COOPER brand. Big emphasis was placed on the brand's marketing and a lot of capital was invested in its advertising. Emphasis on advertising is in fact a general policy of SEKAP, in line with the policies of the foreign cigarette manufacturing firms. SEKAP owns its own advertizing company (Cooperative Advertizing SA) and spends **half** of its annual gross profits — that is, about Drs 400 million — on advertising campaigns. As management claims, this is the main reason why the company, which today represents an investment of about one billion Drs, in spite its commercial success, is still presenting losses (Drs 176 million in 1985 and Drs 350 million in 1986). It should also be noted that another Drs 400 million of its gross profits is going towards the repayment of loans.

Nonetheless, in management's view, the policy is considered successful: Since 1984, due to extensive and expensive advertizing, company sales have been increasing by 20–25 per cent annually. As a result, SEKAP's participation in the domestic cigarettes market increased from around 2 per cent in 1982 to almost 10 per cent in 1988. Furthermore, SEKAP has made considerable progress with respect to its export aims. In agreement with the German enterprise H.L. Leibbrand, which owns a chain of super-market stores, SEKAP launched its own European blended brand, DIE WEISSEN, for the exclusive supply of the stores. A variation of the COOPER cigarettes is also exported to Saudi Arabia under a different brand name (GOLDINA) and in different (luxury) packaging. Today, SEKAP exports about 20 per cent of its product (mainly to FR Germany) and is by far the major exporting cigarette manufacturing company in Greece. Although, the state of oriental tobacco is definitely not improving neither in the international nor in the domestic markets,

the establishment of SEKAP SA has constituted a significant step in the direction of reviving the Greek tobacco-cigarette industry and of minimizing the negative impact of foreign cigarette brands on the domestic consumption of Greek tobacco and of Greek cigarette brands in general.

8.2.3 Food Industry: SEVATH SA

One of the industrial branches with high potential for further development in Greece is food-processing — another industry providing a great outlet for the country's agricultural products. The industries that rely on the domestic agricultural sector for the supply of raw materials, that is, food and beverages industries, have, in fact, recently attracted the interest of EC-based multinationals. In light of the 1992 market unification and the lifting of restrictions in capital movements, a number of such firms are currently investigating the potential of investing in the Greek agro-industrial sector. As it is, the EC market already absorbs 45 per cent of Greece's agricultural products (raw and processed) attaining an importance almost equal to that of the domestic market, which absorbs 50 per cent (To Vima, 2-4-1989). The interest of the EC multinationals is not so much in carrying out their own direct new investments, as in moving into and taking advantage of the already existing structures. Their recent moves have been towards purchasing or participating in investments with the largest of the established domestic firms or 'cooperating' with such firms, that is, taking over their management.

... there is interest from the multinationals of the Community for purchasing or cooperating with industrial firms of the agro-industrial and cooperative sector. Specifically, during the last six months, colossal multinational corporations of the food branch have been, in addition to inquiring, also having specific discussions with industrial complexes for cooperation in the national and international markets. Due to their financial problems, such enterprises [i.e., domestic food and beverages firms] are vulnerable to the offers. (To Vima, 2-4-1989).

In 1988 alone, 21 domestic food-processing firms were bought by foreign multinationals (Eleftheros Typos, 17-2-1989). To mention some of the cases that

have become known in 1989: Provime Hellas, a subsidiary of the French Provime SA, resumed the economic management of a chicken-raising cooperative in Thessalia. Metaxas SA, the largest Greek beverages firm, was bought by a Dutch subsidiary of the U.K.-based multinational Grand Metropolitan. Pavlidis (confectionary) was sold to the Swiss Jacobs-Suchard. The French Danone has shown interest in the dairy cooperative industry SYNERGAL as well as in the dairy firm FAGE. In 1988 FAGE had bought three other food manufacturing firms, EVGA, Allatini, and Elite, and is now the largest food exporting company in the country. Another French firm, the BSN (food and beverages) Group, has shown interest in purchasing Heninger Hellas, a beer brewery which is a joint investment of ETVA, the National Bank, and the German company Heninger. The offer is held to be over ten times the firm's shares' actual value. (To Vima, 2-4-1989).

The financial problems that domestic food-processing firms face making them "vulnerable" to the multinationals' offers are strongly connected with their inability to keep up with the branch's rapid pace of development — not least technological development — over the past few years. An OECD study published in 1988 reports that there have occurred important changes in several aspects of the food-processing industry. The branch has moved towards higher automation in the production line which in fact pertains to altogether new processing methods. Micro-electronics are soon to be introduced in production, and in this respect the industry is in fact "at the threshold of a technological breakthrough". New conservation techniques have been discovered. And most importantly, here again increasing emphasis is placed on marketing. "New" types of consumer products are being launched — that is, not new products as such, but a variety of new ways of **presenting** the products. (OECD, *Revivifier L'Industrie par la Technologie*, Paris: 1988, cited in P. Linardos - Rylmon, 1989: 62, 64).

Against these developments the Greek food industry at large lags far behind and remains to a large extent the supplier of semi-processed goods or intermediary ingredients for big multinational groups. The importance of the food industry for

the national economy is manifold. It contributes by 19 per cent to the manufacturing sector's gross product — the largest share of any single branch — and comprises 17 per cent of the manufacturing sector's total employment. But most importantly, the industry absorbs 2/3 of the country's agricultural product and is highly export oriented: its sales abroad represent 14 per cent of the manufacturing sector's total exports. Yet, during the 1980's, due to its inability to keep up with international developments in the branch, it has become less competitive in the external market. Between 1983 and 1986 alone exports decreased by 30 per cent. The problems here are similar to the ones encountered in/by other branches: On the one hand, there is low technology and no orientation towards research and marketing. On the other hand, the cost of labour no longer comprises a comparative advantage internationally. Technological modernization requires large scale investments. In Greece, about 80 per cent of the units established in the food and beverages branch employ less than 10 people. (F.L. Koskos, 1986).

The decline of the branch or even the penetration of foreign multinationals which have their own production needs to fulfill (P. Linos, 1989:60) are bound to have a direct effect on the primary sector producers, for which, as the President of Xanthi's Farmers' Cooperatives put it,

... a steady outlet for their products is extremely significant. Farmers' cooperative federations, with the financial backing of the Agricultural Bank, have in recent years multiplied their efforts towards establishing modern food-processing units. The development laws in peripheral regions have proven stimulating and extremely helpful in this attempt, which however needs greater assistance and active support from the state, if it is to succeed further.

Part of this effort has been the establishment in 1975 of the Thraki Cooperative Enterprise for Industrial Development (SEVATH SA), which was intended to absorb local agricultural products of the Thraki region. The initiative for its establishment came from the Federation of Xanthi's Agricultural Cooperatives. A number of Agricultural Cooperatives of the Thraki and East Macedonia regions participate as shareholders (75 per cent) in addition to a 25 per cent participation of

the Agricultural Bank of Greece.

Production commenced in 1977 with only one unit, tomato processing. The firm expanded rapidly and a number of other food-processing units opened: frozen vegetables, canned pickles, and frozen potato chips. Other ancillary units were also established on the premises: a carpenter's shop manufacturing boxes for packaging, a machine-repair factory manufacturing also spare parts, and a very modern printing factory. In addition to covering the needs of the food-production factories of SEVATH, these units carry out jobs for outside companies. The printing unit, for example, manufactures SEKAP's packaging items. The firm employs 450 people, 200 of which comprise administrative, scientific and technical personnel. During the summer months (July - August), they employ another 400 workers as seasonal labourers.

There are problems in finding workers — not in finding the required number of workers, but those having the required skills. They all arrive here unskilled; a lot of them are farmers. They see the job as seasonal, temporary, and of secondary importance. Absenteeism levels are high. It is important that we cooperate closely with them, even relate to them at a personal level, and help them adjust to the factory job. (Statement by SEVATH's Personnel Manager)

SEVATH SA has a strong export orientation. The tomato processing unit, which is technologically very modern and has a capacity of 1,200 tons daily, is mainly intended for the external market. 85-90 per cent of the tomato puree production and 90 per cent of the vegetables are exported, mainly to Western Europe and Middle East countries. One of SEVATH's best customers is the multinational firm HEINZ, which buys 2,500 - 3,000 tons of tomato puree annually. The overproduction of tomatoes in EC countries during 1984 - 1986 caused serious problems for the firm, as it was not able to dispose of its products, and resulted in losses. Since then, the EC set quotas for tomato production, a measure welcomed by SEVATH which has now started to recover financially.

Today, SEVATH SA represents a Drs 3 billion investment. According to management,

Investments continue despite the financial limitations, because SEVATH aspires to become one of the most modern industries of its kind and present good quality products. Very recently we spent Drs 100 million on freezers and Drs 70 million on improving our biological disposal clearing unit ... Profit is not the exclusive purpose of SEVATH's operation. Part of the whole idea of its functioning is to give [agricultural] producers the possibility to dispose of their products and thus have a minimum security, and also to assist against unemployment.

To assist the region's primary sector, the firm also maintains an agriculturalist research unit. This not only deals with product quality control, but also offers advice to local farmers concerning cultivation methods and restructuring prospects. Over the past few years, due to the establishment of the frozen vegetables unit in SEVATH, about 20,000 acres of cereal crop in the Thraki region were turned over to the cultivation of vegetables, which are in high demand in the external market as opposed to cereals and render a higher profit for the farmers (L. Arsenios, 1988c). Although SEVATH today operates with few losses, it is considered to be an enterprise with great potential for further expansion. Its establishment has, to a significant extent, fulfilled one of its main purposes, that is, contributing to the restructuring tendency within the 'agro-industrial' branches towards "the industrialization and commercialization of agricultural products under the initiative of the agricultural producers themselves".

8.3 The Role of Subsidies in Industrial Restructuring

The case studies presented above cover a diverse range of productive activities and modes of organization of these activities. But all cases show that state subsidization has been a crucial factor not only for the realization of the investments in their present forms, but in determining the mode of existence of the individual firm and its integration within the broader national and international context.

The cases dealt with here exemplify two 'kinds of investments' or 'invest-

ment orientations' that the subsidies have made possible. On the one hand, we have the realization of very costly investments in technologically modern (at least by national standards) units whose establishment aims to upgrade production techniques and promote the integration of production on a national scale to withstand multinational firms' competition pressure. Such are the cases of SEKAP and SEVATH, both of which constitute prominent firms in their branch. These involve large scale investments that would not have been possible at all were it not for the subsidies scheme. The importance of subsidies in covering the cost of investments of such a scale is evident. On the other hand, there are the low capital investments directed in highly labour intensive activities, such as the cases of the small garment firms presented here. Because of the low financial cost of these investments, state subsidization would not have been initially thought of as a determinant factor for their realization. Our cases, however, show (and this is more evident in the firms that "moved in" to the region) that for the export oriented companies operating mainly on subcontracting the subsidies have constituted a main means of enabling them to remain competitive production-cost-wise in the international market. In effect, for such firms, all forms of state subsidies function as export sales subsidies to alleviate the negative effects of competition by other low-wage countries.

In both cases, subsidies allowed for and financed part of the cost of a restructuring process of industrial branches and individual firms. In this sense, subsidization of the private firm has constituted an indirect way of state intervention in the accumulation process equally crucial with the direct forms of public sector intervention. In both cases, private investors have taken advantage of the subsidies provided for regional development to meet their needs for restructuring as these are defined by the broader, national and international context of the firm's operations, in order to improve their competitive position and reorient/readjust their productive activities.

Having said this, however, it is important to stress the limits of this kind of sustained restructuring which are becoming increasingly apparent. All regional

and economic development laws are marked by a simplistic, quantitative reasoning: Higher subsidies for the private firm should encourage more and bigger investments. Investments abstinence and regional underdevelopment are expected to be combated with an increase in the number of subsidies provided and in the amounts in which they are provided. But social processes do not quite work out in the same way that algebraic equations do. In this particular case, this is proven not only by the fact that spatial disparities in economic and industrial development persist, but also in that, as we saw in the previous chapter, deindustrialization and the 'investments abstinence' trend did, later rather than sooner, catch up with the region.

Currently, growing dissatisfaction with the region's persistent peripheralization and stagnating industrialization is focusing on the 'inadequacies' of Law 1262 of 1982, especially as its application in a number of cases is now blocked, as previously discussed, due to EC intervention. A revision of the whole problem is currently leading to the preparation of yet another economic and regional development law to amend the old one, which in all probability will abide by the AKRITAS Federation's demands — in other words, it will continue to secure the financing of certain expenses but in a form 'acceptable' by EC regulations. By all accounts, it seems that the private firm subsidization policy is going to continue more or less along the same lines. But although this is going to highly benefit the firms already established in the region, it is highly unlikely that another regional development of the same framework is going to produce or facilitate another 'industrial boom' in Xanthi of the kind that the region experienced in the 1970s.

For the problem is not a matter of stopping 'external leakages' and 'speculative investments'. The problem is one pertaining to the process of restructuring of the Greek industry at large as this intercepts, interacts with, and becomes part of the global process of capitalist accumulation and reproduction. The kind of and way in which investments were in fact actualized, or not, in the Xanthi region — that is, the ways in which private investors have taken advantage, or not, of the regional subsidies — show precisely that the issue of economic development in each

case (individual firm or branch of production) is more than a matter of finances; it involves a complex set of inter-determinations of the regional, national, and international dimensions of production. Individual private investors are to be expected to continue using the investment subsidies as a means of readjusting to the changing conditions in their branch in a way that will allow them to maximize at least their short term profit returns. And to the extent that capitalists cannot meet their profit requirements, there is no reason why the 'investments abstinence' trend in the industrial sector should not continue. The connotations for state industrial development policy, if it is to effectively continue its mediating role in a way that will not merely facilitate the individual firm's adjustment circumstantially, but also anticipate future developments on a national scale, are that a much more comprehensive policy is needed that would explicitly take into account national and international developments at a sectoral and branch level and assess the tendencies and possibilities for industrial restructuring against such developments. The present structure of private firm subsidization seems to be reaching its limits. But whether state industrial policy is to proceed with a qualitative step forward is yet an open question.

CONCLUDING COMMENTS

During the initial stages of the post-war industrialization process, the Greek state adopted an attitude in favour of "private investment initiative", especially concerning the development of the industrial manufacturing sector. It furthermore made no attempt to define the production orientation of this "initiative" and to provide a comprehensive, centrally administered plan for industrial development. In this context, the manufacturing sector in Greece developed on the basis of private investments, the exception being the public utilities infrastructure industries. The partnership between state and capital was revealed in the establishment of an elaborate system of direct and indirect subsidies, intended to accelerate the process of accumulation and maximize capitalist profits.

The international crisis of overproduction and overaccumulation brought Greece's industrialization process almost to a standstill. The deindustrialization and private investments abstinence trend evident since the mid 1970s and reaching extreme dimensions in the 1980s, were the manifestation of a deep-rooted crisis in the industrial sector. The Greek-based industry, having a highly dependent structure most significantly with respect to technological dependence and weak inter-sectoral links, showed great weakness in adapting to the structural changes within industrial production globally and, consequently, in re-adjusting its position within the international division of labour. The international restructuring of capital towards the employment of high technology branches and methods of production, on the

one hand, and towards the relocation of labour-intensive branches and stages of production in low labour-cost countries, on the other, caught Greece somewhere in the middle. The crisis affected Greek-based manufacturing most profoundly, especially as the most prominent of the manufacturing branches established in Greece are branches undergoing either a severe overproduction crisis internationally (e.g., shipbuilding, metallurgical-steel industry) or intense restructuring (e.g, textiles, food-industries). This thesis has addressed the issue of industrial crisis and restructuring in Greece on the basis of the problematic of the interconnections between the different frames-levels of the capitalist accumulation process. We have thus tried to establish in concrete cases of manufacturing firms and branches the relationship between national-state and international developments. We have been primarily concerned with examining aspects of the interventionist role of the state towards a resolution of the effects of crisis and looking at how this intervention interacts with the international aspects of the restructuring process and with the ways the nationally-based industry integrates with the world economy. In pursuing this line of inquiry we have been able to highlight some of the specific conditions, forms and mechanisms in which Greek-based manufacturing industry has been developing and restructuring over the past fifteen years.

Faced with the problem of disintegration of the country's industrial productive structure, the Greek state assumed the role of the economic regulator of the crisis at a national level. A main aspect of this role has been, in line with the established tradition of subsidies, to intervene in order to undertake part of the private cost of production in the manufacturing sector. This intervention, as we have examined, took a number of forms ranging from subsidization through the public sector enterprises and banks to direct state entrepreneurial investment initiative, to the further elaboration of the subsidies system. Through this processes, the state has attempted to sustain the restructuring of industry at a branch, enterprise, and

regional level by socializing part of the restructuring costs of industrial capital and thus making it more competitive in the national and international markets.

Tracing this process of intervention concretely through a number of different manufacturing branches and types of firms, we have shown that it has determinately affected the way Greek-based industrial firms attempt to cope with intensified competition and to restructure. It has been furthermore shown that, in fact, the state has not only assumed a crucial role in the individual firm's restructuring process, but that in doing so it has acted as a mediator in assisting the Greek industrial sector at large and individual firms in particular to adjust to the changing international configuration. In this sense, the case of Greece as it has been examined here confirms Gordon's view that the internationalization of production has in fact rendered state policy more decisive rather than more futile in the process of restructuring and crisis resolution (D. Gordon, 1988: 63-64).

Each concrete case we have examined reveals that the restructuring process involves an interaction and interpenetration of the national (including regional) and international frame of the individual firm's operations. What for capital at large is an international crisis of overaccumulation, the individual firm experiences as an intensification of international competition whether in the external or domestic market. At any given time, the individual nationally-based firm has to confront problems of adjustment to developments that well exceed the spatial or socio-economic boundaries of its location. Thus, the internationalization of capital and the increasing integration of production at a global level, bring national and international instances of the general accumulation process in a continuous interpenetration, which is more tangibly manifested at an enterprise level.

The case studies presented in this work illustrate that the specific ways in which any specific industrial firm attempts to restructure display high variability. The methods adopted, the practices pursued, and the specific aims to be achieved in

each case differ between firms according to the branch and the location of production, size and organic composition of capital. They are directly related to the scope, calibre, and mode of the firm's operations. They are furthermore dependent on the kind of production circuits within which the firm is established and its position within these circuits, and on the specific conditions prevailing in the particular branch of production both nationally as well as internationally. It is not a simple process. Its only 'simple' aspect is the underlying motive of capital for profit-returns and for the realization of these profits through market sales.

However, in following the specificities of the process in each case two things have become evident. First, the firm's restructuring, determined as it may be in form by the uniqueness of each firm's national and regional conditions of operation, involves considerations that are of an international character. Secondly, even the nationally-based firm (as opposed to the multinational) is part of a network of production relations which unfolds on an international scale. This may be more obvious for the non-vertically integrated firm or the firm with a strong or even exclusive external market orientation. But every firm is to a larger or smaller extent forced to operate under conditions that are highly internationalized. This aspect of increasing global integration of production shows that we can no longer rest comfortably on an analysis in terms of simple external-internal dichotomies when referring to the issue of development. This is more so evident in the cases where the state, in implementing a policy of industrial development, is in effect acting as a mediator of the national and international aspects of production. This further suggests that the process of global integration of production should be comprehended as an ongoing interdetermination of the national and international factors of the accumulation process rather than in terms of simply singly-directed determinations of either the world economy and the international circulation of capital or the internal/domestic structures. For an open economy, such as Greece, national development policies do

not have an effect irrespective of the ways in which the country is integrating into the world economy and incorporated in the international division of labour. But, on the other hand, neither is the national context a passive receiver of 'external' pressures.

The present study has given some insights as to how the national dimensions of the firm's mode of operation interpenetrate transnational dimensions of the conditions of production and accumulation, and how this interpenetration may determine decision and policy making at a firm as well as state level. The problematic of how the nationally-based firm adapts to increasingly internationally integrated production circuits is in its broader sense the problematic of how the national setting is required to accommodate this integration and the role of the state in this process. This problematic allows for the various elements and levels of the capitalist accumulation process to be comprehended in their unity — or their 'opposition in unity'. Unless such a conceptual framework informs more concrete investigation, development sociology runs the risk of resorting to a mere typology of development. On the one hand, developments within and of specific national social formations are more likely to be deduced from rather than explained by the theoretical models. On the other hand, the world system will be implicitly treated, as Lipietz has argued, as an 'invisible hand' or as a result of fully intentional, conscious common agreements that create the system's mode of organization (A. Lipietz, 1984a). In both cases, the world system will be theoretically perceived in a way that can only pay lipservice to the specific conditions and mechanisms of the processes of change and transformation.

Appendix I

THE LARGEST MANUFACTURING FIRMS IN GREECE

The following two tables list the largest manufacturing firms in Greece. In the first table (I.1), the 50 largest manufacturing firms are ranked by total assets, according to the Icap Hellas Directory of 1984. The second table (I.2) lists all firms (34) with more than 1,000 employees and is based on statistics conducted by the Federation of Greek Industrialists, also in 1984.

It should be noted that with the exception of six out of thirty-four firms in Table I.2 (numbers 15, 18, 25, 27, 30 and 33), the rest are also included in Table I.1 ; in other words, the two tables display high similarity.

The indices in the right hand side column are used to signify the following:

- P** : a problematic enterprise (i.e., under Law 1386/83 protection and OAE management).
- O** : an "overdebted" enterprise, i.e., an ailing enterprise acknowledged as problematic but not under Law 1386/83 protection, and under the management of state banks rather than the OAE.
- S** : an enterprise (non-problematic) under state ownership.
- S-Pr** : an enterprise (non-problematic) currently under state ownership that used to be privately-owned.

TABLE I.1

The 50 Largest Manufacturing Firms in Greece (1984)—by Total Assets

1.	HELLENIC ASPROPYRGOS REFINERY SA.	S-Pr
2.	HELLENIC AEROSPACE INDUSTRY LTD. (EAV)	S
3.	MOTOR OIL HELLAS CORINTH REFINERIES SA.	
4.	HERACLES GENERAL CEMENT CO. SA. (AGET HERACLES)	P
5.	ALUMINIUM DE GRECE SAIC.	
6.	PIRAIKI-PATRAIKI COTTON MANUFACTURING INC.	P
7.	HELLENIC STEEL CO. SA.	
8.	METALLURGIKI HALYPS SA.	O
9.	TITAN CEMENT CO. SA.	
10.	HELLENIC SHIPYARDS CO. SA.	S-Pr
11.	LARCO SA.	P
12.	HALYVOURGIKI SA.	
13.	HELLENIC CHEMICAL PRODUCTS & FERTILIZERS SA.	
14.	AEGEAN MILLS SA.	
15.	HALKIS CEMENT CO. SA.	O
16.	GREEK POWDER & CARTRIDGE CO. SA. (PYRKAL).	P
17.	HELLENIC SUGAR INDUSTRY SA.	S
18.	ATHENS PAPER MILL SA.	P
19.	PHOSPHORIC FERTILIZERS INDUSTRY LTD.	S-Pr
20.	BIOKAT CORP.	
21.	FINANCIAL MINING IND. & SHIPPING CORP.	
22.	BREWERIES GREECE SA.	
23.	AGREX SA.	S
24.	ELEUSIS SHIPYARDS SA.	S-Pr
25.	METALLURGIKI ATHINON SA.	
26.	SICNG CHEMICAL INDUSTRIES OF N. GREECE.	
27.	COOPERATIVE CANNING FACTORIES OF N. GREECE.	
28.	AGROINVEST SA.	
29.	PAPASTRATOS CIGARETTE MANUFACTURING CO. SA.	
30.	VOMVIX P. SVOLOPOULOS & CHR. COUTROUBIS SA.	
31.	VOMVICRYL SA.	
32.	ELINDA SA.	P
33.	EKO CHEMICALS CO. SA.	S-Pr
34.	PETROLA HELLAS SA.	
35.	BIAMAX SA.	
36.	SHELMAN SA.	
37.	ATHENIAN BREWERY SA.	
38.	HALKIS SHIPYARD SA.	S-Pr
39.	PETZETAKIS, ARISTOVOULOS G., SA.	
40.	NATIONAL PHARMACEUTICAL INDUSTRY SA.	S
41.	PIRELLI HELLAS SA.	
42.	THESSALIAN PULP AND PAPER INDUSTRY LTD.	P
43.	SEVATH SA.	
44.	HELLENIC BOTTLING COMPANY SA.	
45.	ELVAL HELLENIC ALUMINIUM INDUSTRY SA.	
46.	STEYR-DAIMLER-PUCH HELLAS SA (re-named: ELVO SA)	S-Pr
47.	KARELIAS BROTHERS CIGARETTE MFRS CO. INC.	
48.	HALYPS CEMENT CO. LTD.	
49.	VOLOS COTTON MANUFACTURING CO. SA.	
50.	SIDENOR STEEL PRODUCTS MANUFACTURING CO. SA.	

TABLE I.2

The Largest Manufacturing Firms in terms of Employment (1984)

(1,000 employees and more)

1.	PIRAIKI-PATRAIKI COTTON MANUFACTURING INC.	P	6,869
2.	HELLENIC SHIPYARDS CO. SA.	S-Pr	4,637
3.	GEEEK POWDER & CARTRIDGE CO.SA. (PYRKAL).	P	3,800
4.	FINANCIAL MINING IND. & SHIPPING CORP.		3,592
5.	HELLENIC CHEMICAL PRODUCTS & FERTILIZERS.		3,303
6.	AEGEAN MILLS SA.		3,228
7.	HELLENIC AEROSPACE INDUSTRY LTD. (EAV)	S	3,188
8.	HELLENIC SUGAR INDUSTRY SA.	S	2,848
9.	ATHENS PAPER MILL SA	P	2,699
10.	LARCO SA.	P	2,300
11.	ALUMINIUM DE GRECE SAIC		2,180
12.	TITAN CEMENT CO. SA.		2,140
13.	HERACLES GENERAL CEMENT SA.(AGET HERACLES)	P	1,950
14.	ELEUSIS SHIPYARDS SA.	S-Pr	1,871
15.	OLYMPIC CATERING SA.	S	1,850
16.	ELINDA SA.	P	1,794
17.	BIOKAT CORP.		1,467
18.	AEVAL FERTILIZERS INDUSTRY SA.	S	1,381
19.	SHELMAN SA.		1,370
20.	HALYVOURGIKI SA		1,300
21.	KARELIAS BROTHERS CIGARETTE MFRS CO. SA.		1,288
22.	ATHENIAN BREWERY SA.		1,250
23.	PAPASTRATOS CIGARETTE MFG COMPANY SA.		1,219
24.	HALKIS CEMENT CO. SA.	O	1,216
25.	PARNASSOS BAUXITES SA		1,154
26.	VOLOS COTTON MANUFACTURING CO. SA.		1,150
27.	HELLENIC BOTTLING COMPANY SA.		1,150
28.	SYROS SHIPYARDS	S-Pr	1,131
29.	HELLENIC ARMS INDUSTRY SA. (EVO).	S-Pr	1,100
30.	ETMA ARTIFICIAL SILK IND. SA.		1,100
33.	MOTOR OIL HELLAS CORINTH REFINERIES SA.		1,100
32.	PHOSPHORIC FERTILIZERS INDUSTRY LTD.	S-Pr	1,075
33.	IVI-PANAGOPOULOS SA.		1,075
34.	HELLENIC STEEL CO. SA.		1,050

Appendix II

QUESTIONNAIRE

A. History of the enterprise and general characteristics

1. Date of the company's establishment and year production commenced?
2. What does the company produce? Please provide a schematic description of the production process. (The latter applies to cases of vertically integrated firms).
3. Number, geographical location, and kinds of production units (plants, mines, ports, etc.) which are owned by the company? When was each production unit established and what does it produce?
4. Has the company expanded (in the sense of addition of new production units, buying and/or merging with other companies: which and when) or has it contracted (in the sense of plant closure and/or phasing out parts of the production process: which and when) over the years?
5. Is the company a subsidiary of another company (if so, of which)? Is the administration/management of the company under control of a state or other organisation? If so, which one and since when?
6. Participation (if any) in other companies: which ones, since when, and by what percentages?
7. Number and name of subsidiary companies (if any)?
8. Is the company using putting-out? If yes, explain.

9. Is the company functioning as putting-out for another enterprise? If yes, name the enterprise, the kind of production undertaken, and the terms under which it is undertaken.
10. Is the company using subcontracting?
11. Who are the company's share-holders and by what percentages?
12. Has the ownership of the company and/or the composition of its share capital changed since its establishment? If yes, explain.
13. Is the company classified as a problematic enterprise under OAE? If so, what are OAE's feasibility plans for it (i.e., closing down, selling out, liquidation, under a viability rehabilitation programme, remaining under state ownership, or other)?

B. Sales

1. What percentage of production output is exported and what percentage is for domestic consumption?
2. In the case of exports: (a) Which are the main countries of export? (b) Which foreign companies appear as main buyers? (This question applies to cases of production of intermediary products rather than consumer goods).
3. In the case of the domestic market: Which companies appear as the main buyers of intermediary products?
4. Has there been an increase or a decrease in the company's export activities in recent years? Since when?
5. What is the company's market position in competitive terms? (a) In the case of the domestic market: What percentage of the domestic market does the company share? (b) In the case of exports: How does the company stand competitively in the international market and the EC market in particular?

6. Has the company's market position (domestic and/or international market) been improved or has it deteriorated during the last years? Since when? Name the main reasons for each case.

C. Supplies of raw materials

1. What are the main raw materials used?
2. What percentage of the total supply of materials comes from the domestic market and what percentage is imported?
3. In the case of imports: Which countries and which companies are the main suppliers?

D. Supplies of technological equipment

1. What percentage of the technological equipment comes from the domestic market and what percentage of it is imported?
2. In the case of imports: Which countries and which companies are the main suppliers?
3. Which is the main construction company (that is, the company that offers or has offered during the process of construction engineering-technical services and know-how)?

E. Personnel

1. Total number of employees?
2. Number of employees in each production unit (or other establishment, for example, central offices)?
3. Number of employees in administrative positions?

4. Number of employees in clerical posts (offices, sales, etc.)?
5. Number of scientific personnel?
6. Number of skilled and number of unskilled workers?
7. Is there a collective bargaining agreement in force?
8. Is part-time employment used?
9. How many shifts does each production unit operate on?
10. Is overtime used and if yes, for what categories of personnel (office staff, technical staff, etc)?
11. Has the size of the workforce increased or decreased and by how much since the establishment of the company (overall and per production unit)? Have there been any redundancies and if so, when?
12. What is the form and degree of workforce unionization in each factory and the company as a whole?
13. Have there been major strikes in recent years? If yes, when and what were the workers' demands?
14. What is in general the attitude of the trade union towards management and administration and towards the company as a whole?
15. What is the system of payment (hourly, daily, monthly, fixed or piece rate)?

F. Capital and financing

1. Amount of capital (share capital, equity capital, fixed assets)?
2. Amount of capital borrowed and average annual interest payments?

3. Where do the company's loans mostly come from (foreign or domestic, which banks or organisations)?
4. Has the company used or does it plan to use the Regional Development Incentives Laws?
5. Is the company indebted to public organizations (for ex. Public Power Corporation, Telecommunications Organization, Social Insurance)? If yes, to which?
6. Are the existing interest rates judged by the company as high or satisfactory?
7. Is the existing state assistance in the form of Development Laws and subsidized financing judged as satisfactory or not?
8. Has the company's rate of borrowing increased or decreased since its establishment?
9. Have the company's rate and volume of investments increased or decreased since its establishment?
10. Does the company show profits or losses (and why)?
11. Has there been an increase or decrease in production output since the company's establishment?

G. Organization

1. What is the form of administrative organization of the company (for example, centralized or not)?
2. Have there been any significant changes in the company's form of organization since its establishment? If yes, what changes and when did they take place?

H. General Questions

1. How modern is the technology employed?
2. Is the company undergoing a process of technological modernization? Does the company keep up with the recent technological developments in its branch of production?
3. What are the most important problems the company is confronted with today?
4. Has Greece's entrance into the EC affected the company and if so, how?
5. Which are in your opinion, the changes of the overall economic environment since 1975? Since 1980? How have they affected company performance?
6. Does the company own the land on which the factory premises are located?
7. How does transportation of the workers to the factory take place? Where does the majority of the workforce live?
8. Does the company face any problems with the workforce? If so, please elaborate.

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