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GREEK ECONOMIC POLICY AND THE ENTREPRENEURIAL FUNCTION*

A. D. KARAYIANNIS

University of Piraeus

A. IOANNIDIS

University of York

Abstract

In this paper, we are investigating the influence of specific economic policy strategies in Greece during the last 25 years upon the formation and the function of entrepreneurship. Economists and other social scientists have analyzed and investigated not only the entrepreneurial motives but also the specific variables that influence the supply of entrepreneurship. A number of these variables exist in a market economy system under government intervention and are either affected by specific economic policy or are the result of such a policy. Thus, encouraging entrepreneurship is not only a major economic imperative but also an urgent challenge that must be met to reconcile the goals of economic growth. The present paper focuses on the conditions of essential factors which are regulated by economic policy and drastically influence the undertaking of entrepreneurial activities in Greece. The basic conclusion is that the effort of the various governments to guide and direct the entrepreneurial activity had, in general, negative results and thus Greece had a low rate of success in the business activity arena.

1. Introduction

The term “entrepreneur” or “entrepreneurship” has not obtained a widely accepted definition in the literature. Generally speaking, the economists have emphasized some main functions which describe the role of the entrepreneur in bearing the risk of uncertainty, in innovation activities, in organizing and managing the business enterprise, etc.¹ The market of entrepreneurship involves the demand and supply of entrepreneurship (see Schultz, 1980). In general, the demand for entrepreneurship results from the available investment opportunities, and the supply of entrepreneurship depends upon the socio-psychological environment, including the nature of the educational system, the status of the entrepreneur in society, his natural abilities and skills, and economic policy.

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Economists and other social scientists have analyzed and investigated not only the entrepreneurial incentives but also the specific variables that influence the increase or the decrease of entrepreneurship (e.g. see Papanek, 1962; Alexander, 1966; Glade 1967; Van Praag and Van Ophem, 1995; Karayiannis, 1996). A number of these variables exist in a market economy system under government intervention and are affected by the state economic policy, or are the result of such a policy.

In the present paper, the important factors of economic policy which effectively influence the supply of entrepreneurship are investigated in the case of Greek economy. More specifically, we will investigate the power and the kind of influence of important economic and other factors, which was mainly the product of the economic policy that has been followed in Greece during the last 25 years. This economic policy, which cannot be characterized as Keynesian (see Psalidopoulos, 1989; Karayiannis, 2000), had more negative than positive effects. The Greek economic policy and the government intervention have not contributed to the creation of a favourable economic environment in which the entrepreneurial and the general investment activities can flourish (Karayiannis, 2000). Furthermore, the level of investment and employment have decreased because of the unreliable-unstable governmental (fiscal and monetary) policies during the period 1975-1994. The factors that were affected or created by such policies, as will be shown, led to the diminution of the actual supply of entrepreneurship.

Thus, the purpose of our analysis is to isolate and ascertain the most significant "external" economic variables that influence directly the growth of entrepreneurship in Greece. Of course, there are many characteristics and weaknesses of Greek entrepreneurs, such as the trend of concentrated managerial practices, the short-run policy orientation etc., that play a significant role in the productivity of the entrepreneurial activity in the Greek economy (Karayiannis, 1996). However, the examination of these peculiarities and weaknesses does not constitute the aim of the present analysis, as these are the result of heterogeneous and long run effects that cannot be directly and immediately corrected by a rational strategic economic policy. Also, there are other factors that act through the international trade and various economic coalitions (e.g. European Union) on the development of entrepreneurship in an economy. Again, we are not going to consider these kind of factors in the present analysis, as we take for granted that the Greek economic policy could not drastically and immediately change or modify its impact.

The paper is structured as follows: In the first section, we will shortly analyze some drastic external factors that have an impact on entrepreneurship. In the second section, based upon empirical evidence and relevant works, we will examine the influence of Greek economic policy on the development of entrepreneurship. Finally, the basic conclusions derived from the current analysis are cited in the last section.

2. External Impacts on Entrepreneurship

The attainment of business projects in an environment of private property and of competitive opportunities open to all, where the state intervenes in order to prevent the economic disequilibrium and not to deteriorate and enlarge it, leads to the presence of a particular entrepreneurial function. This function may include a great number of factors from which we are able to isolate the most important external ones, which played a crucial role in the progress and evolution of the entrepreneurial activity. If the majority of the most important factors –taking into account the degree of their influence- affect positively the Greek entrepreneurship, then we may speak of a favourable entrepreneurial environment and of optimistic entrepreneurial expectations. On the contrary, if these factors that negatively affect entrepreneurship play the most important role, then we may speak of a negative entrepreneurial environment which requires radical reforms and revision of the already existing economic policy².

Considering the described supply and demand regarding the entrepreneurial framework, we assume that there exist an entrepreneurial function (E) for the Greek economy. Such function (not separated in distinctive activities), may be represented by the number of business-investment undertakings and the development of the already established firms, include some important variables like the following:

$$E = f(r, G, T, X, P, O, Kr)$$

Where (r) is the real interest rate that influences directly the productive investments; (G) the rate of government intervention; (T) the tax policy; (X) the subsidies and incentives policies; (P) the often changes in economic policy and the degree of its credibility; (O) the general economic environment; and (Kr) the speculative practices.

There are, of course, other additional external factors that although being very important, are not of a short-run planning and impact, such as the technological knowledge, the expenditures for education and research, etc. These factors cannot be considered to be able to drastically influence directly and indirectly entrepreneurship in the short-run, and hence are excluded from the analysis. Also, there are other factors that can be influenced indirectly and secondarily by economic policy, such as the level of income, which can also lead to the undertaking of entrepreneurial activity. However, we are not going to examine these factors, in order to avoid repetition, since, in essence, what is examined here are the basic and primary factors and not the secondary ones.

Let us see how the undertaking of entrepreneurial activity or the creation of new business and investment activities, can be influenced by these external factors of the

general economic environment. According to the accepted economic principles, it is assumed that, the following kinds of influence on entrepreneurship³ may hold:

1) If the rate of investment depends only on the cost of capital, then the level of the real interest rate (r) has a negative impact on entrepreneurial investment, i.e.

$$I = f(r) \quad \text{and} \quad dI/dr < 0 \quad (1a)$$

It is generally expected that the rate of entrepreneurship increases in an optimistic climate of advanced private investments, namely:

$$dE/dI > 0 \quad (1b)$$

$$\text{Therefore,} \quad dE/dr < 0 \quad (1c)$$

2) The expansion of the public sector (G) and the intensive government intervention, with its distorted effects, is a factor that reduces the opportunities and the possibilities of the entrepreneurial performance, and for this reason it is assumed that the following impact holds:

$$dE/dG < 0 \quad (2a)$$

On the other hand, the increased public expenditures, mainly in infrastructure, positively influence the formation of a favourable entrepreneurial climate, i.e.:

$$dE/dG > 0 \quad (2b)$$

3) The government intervention influences strongly the undertaking of entrepreneurial projects through tax policy. The increase of taxation (T), and specifically the increase of profit taxation reduces the entrepreneur's capability and willingness to invest. Since Adam Smith's time, the following relationship has been established:

$$dE/dT < 0 \quad (3)$$

4) The tariff protection and the selective subsidies (X) being the indirect decrease in the consumer's surplus or the direct decrease of the taxpayers income, does not seem to be a very important and effective measure for the reinforcement of the competitive entrepreneurship. Generally speaking, although the subsidies lead to a distorted competition and to an increase in public expenditures, by increasing the "protection" and the subsidies, the improvement or the increase in the number of the enterprises is expected, with a parallel expansion in business activity. In this way, it is assumed, that there exists a small positive impact on entrepreneurship:

$$dE/dX > 0 \quad (4)$$

5) In addition to the increase of the public sector intervention, there is also the factor of the often changes in economic policy and the low degree of credibility (P) that this implies. This factor constitutes a very important element that acts drastically on entrepreneurship, and generally, the following impact is expected:

$$dE/dP < 0 \quad (5)$$

6) The establishment of a stable, reliable and rational economic policy (O) stimulates the progress of total production, and may considered to be a positive factor on entrepreneurial activities. Thus, the following relation and impact can be assumed:

$$dE/dO > 0 \quad (6)$$

7) The expansion of the speculative practices (Kr), the increase in tax evasion and/or the black market economy, reinforce the short-run (Es) and not the long-run planning (El) of the entrepreneurial projects and investment, namely:

$$dEs/dKr > 0 \quad (7a)$$

$$dEl/dKr < 0 \quad (7b)$$

From the preceding analysis of the main external factors that drastically influence the entrepreneurial function, it seems that some factors are stimulating while others are discouraging. To define the effects of these factors, we are using the symbols of the positive (+) and the negative (-) effects respectively. Therefore, we have:

$$E = f \left(\begin{matrix} r, & G, & T, & X, & P, & O, & Kr \\ (-) & (+, -) & (-) & (+) & (-) & (+) & (+, -) \end{matrix} \right) \quad (8)$$

A completely favourable environment for the development and progress of entrepreneurship is that which is represented by the following trends and impacts of the above-described external factors (see table 1), and constitutes the description and the efficient measurements of an encouraging entrepreneurial policy:

Table 1:

Factor	Desirable Level
r	low
G	moderate and of correct direction
T	low
X	moderate and of correct direction
P	non-existing
O	high
Kr	a few

3. External factors influencing Entrepreneurship in Greece

Based upon empirical evidence and relative studies for the Greek economy, in this section will be analysed the way that the above variables influence the development and the progress of entrepreneurship.

1) With regard to the first factor of the interest rate, although it has shown an effect, it does not seem to affect the undertaking and expansion of the entrepreneurial projects in Greek economy as strongly as the neoclassical theory assumes (see Paleologos, 1989). More specifically, while the real interest rate index was very low, reaching a negative level for a short period of time (1975-1986) due to a high inflation rate, the entrepreneurial investments, after a small increase during 1975-1979, were reduced. In addition, the entrepreneurial investments remained at a low level when the interest rate was increased because of the Greek economic policy target to cover the public debt by issuing domestic loans (issuing of treasury bills and bonds)⁴. In other words, the Greek economic environment produced a great degree of uncertainty for the entrepreneurs -as Keynes had pointed out (1936, pp. 138, 149, 150)- and thus an inelastic demand for investment in terms of the interest rate took place.

Apart from this situation, which is not very encouraging for private investments, due to the interest rate trade, it has been shown (Alexakis, Apergis, 1994, pp. 74-5) that the "oppressive control" of the Greek financial system by the state, and the "selective" financial assistance of special sectors of the Greek economy which lacked the competitive capabilities, acted as a brake on the private investment increase. It has also been shown (Bitros, 1981a), that the credit policy, which was followed in the 25 years period (1970-1995) and mainly during the Junta, was the financially assisted commercial activities by granting industrial loans. Under this policy, the short-run financial loans were preferred, rather than the long-run investment prospects. The various measures that were used for financing the long-run investments through a specific credit policy did not seem to be effective (see Bitros, 1981b). In addition, the banking policy, which was followed within the framework of monetary policy, in order to keep the different kinds of interest rate under control, stimulated the capital increase capabilities of the large "established" enterprises and discouraged the support of the dynamic small-medium firms (Demopoulos, 1981, pp. 103-5).

All the above show that the basic tool of Greek industry for its investment efforts, was the self-financing which was not proved enough to improve its development efficiency (Karayiannis, 1992, pp. 58-9; Hassid, Karayiannis, 1999, pp. 212-4). The result of the decrease of private investment in Greek industry was a declining industrial production. The study of Drakopoulos, Theodossiou (1991)

showed that the fall in private investments is one of the basic causes of the GDP diminution in the Greek economy in 1980's.

2) If we compare the positive and negative effects that the expansion and function of the Greek public sector had on entrepreneurship, it seems that the negative ones were the most influential. The reduction of private business investment rate (except houses), that took place in the examined period in Greece (see Karayiannis, 1992, pp. 10-11; Trends, 1998, p. 14), was the effect of the high inflation rate and the high public deficits which decreased the funds destined for such activity. Additionally, the increase in wage rate in a higher level than that of productivity, as a policy regime of the early years of 1980's, decreased the propensity to invest. Another factor that has contributed to the creation of the diminishing private investments was the climate of uncertainty, which prevailed over the entrepreneurial arena. This climate has been created mainly because of the ability of state authorities to act and alter the market rules, financing opportunities, etc. Moreover, the entrepreneurial activities of the public sector, which intervene in the basic productive sectors of the economy -such as the banking system (i.e. commercial banks), tourism (hotels, etc.), transportation, etc.-, have been proved to be unproductive not only in Greek economy, but in other countries as well. The entrepreneurial activities of the Greek public sector were not only of low effectiveness, because of the large labour employment –a consequence of the “political circle” impact- but also were also characterized by a high rate of capital waste and obsolescence (Georgakopoulos, 1997, pp. 48-9). Apart from this direct consequence of public sector growth, another indirect but most important and maybe of longer duration, was the extra operational cost of the private enterprises caused by the high cost and the low quality of products and services supplied by the state (Koutsoumaris, 1996, p. 57; Sarantides, 1998)⁵.

The above negative effects of government intervention to the development and progress of entrepreneurship in Greece, was not counterbalanced by the increase in public expenditures. The economic policy strategy which sought to increase public expenses (mainly consumption) did not result in an increase of investments in infrastructure and therefore did not increase the productivity of the Greek economy (Alogoskoufis, 1990; Karayiannis, 2001).

3) The increase in both income and profit taxes mainly affects entrepreneurship in the following ways: (a) decreases the individual savings and the accumulated funds of the entrepreneurs, (b) increases the “underground market” and the “parasitic” entrepreneurial activity, and (c) as von Mises (1944, pp. 32-3) had observed, high income taxes reduce the capitals of the new, energetic and innovative entrepreneurs and thus the large firms are protected from the potential competition. All these negative effects of high income and profit tax system, mainly on the new en-

terprises, had an impact on the decrease of entrepreneurial activity in Greece.

4) The protection of the enterprises from the international competition and the direct entrepreneurial investment subsidies, which derived from either the European Community's funds or the public funds of Greece, constitute -at least in the short-run- a consumer or extra public cost. Apart from this, there is evidence that these measures may impede the trend of entrepreneurship in any economy⁶. It would be useful to examine how these two measures functioned in Greek economy. The protective tariff system was directed mainly towards the increase in profits -through the protection policy- of some selected enterprises of the economy called "pillar" enterprises. However, it did not stimulate a favourable entrepreneurial climate for the new and ambitious entrepreneurs (Georgakopoulos, 1994, p. 27; Hassid, 1994, p. 109). This policy did not have the expected results, since after Greece joined the European Union, even the production of "traditional products" decreased (Giannitsis, 1994, pp. 39-43; Bitros, 1986, pp. 78-80). On the other hand, those branches of industrial products which were not under a long term "protection" of the tariff policy, constitute the most competitive branches of the economy (Hassid, Katsos, 1992, pp. 35-6, 110-1, 120). In other words, the tariff protection policy was a kind of specific private interest's protection (Katraniadis, 1995), which in essence, "gave premium" to the high profits and the production activities of intensive labour process that guarantee the most "faithful voters".

In relation to the "selected" subsidies, the situation was not very encouraging. The most important thing concerning the function of various subsidies -functioning as an entrepreneurial incentive- apart from their rate, is the procedure through which they are granted. These subsidies are more drastic when they are offered on the grounds of the entrepreneurial ideas and not upon the entrepreneurs' social-bureaucratic connections or private property. The way and the mechanism with which these subsidies were directed to selected activities are considered not to have fulfilled its goals. They have also led to a decrease in the incentives for productive activities because of the "easy wealth" derived from such subsidies (see Hassid, 1983, pp. 76-8; Alogoskoufis, Lazaretou, 1997, p. 227; Patsouratis, 1993; Prodromidis, 1998)⁷.

5) Regarding the factor of retraction and unreliability of economic policy, it is a fact that has been stressed by several researchers (e.g. see Alogoskoufis, 1994, pp. 58-64; Hassid, 1994, pp. 109, 113; Koutsoumaris, 1996, pp. 144-5). In addition, in the early 80's the policy which was followed, created an "environment" which did not inspire reliability for the growth of basic entrepreneurial prospects, which are required for the increase of investment activity⁸.

The observed behaviour concerning savings or the use of profits in non-entre-

preneurial activities (e.g. buying and leasing in real estate, etc.) cannot be changed with "coercive" means by the state. The causes that induce this behaviour have to be eliminated, and one of these causes is the frequent, irregular and superficial government economic reforms and interventions. One thing that the state policy has to introduce is the establishment of stable "rules of the game", which would turn the entrepreneurial investment to their normal trend, and encourage the supply of entrepreneurship.

6) The positive impact of the general economic climate, as a necessary factor for the stimulation of entrepreneurship, has been stressed by several economists (e.g. see Halikias, 1998, p. 82; Drakatos, 1998, p. 109). It must be mentioned that if either willingness (motivation) or opportunity (ability and/or capital) is absent, the individual will not become self-employed and therefore the decrease in the general entrepreneurial activity will follow. One of the most negative interventions of the economic policy was the intensive and extensive price controls, which, as it has been shown (Bitros, 1985, pp. 50-3, 156-7, 161-3, 172-3), distorted the effectiveness of the price mechanism, and directed entrepreneurship towards "parasitic" and short-term investment activities.

7) The existing system of high income and profit taxation not only deteriorated the income distribution against the productive classes, but also turned against the hard working and honest people (workers and entrepreneurs). It also led to an increase of tax evasion and the emergence of an underground economy over 35% of the GDP (Karayiannis, 2001, pp. 34, 48, ft.8,9)⁹. These underground economic activities and tax evasion, apart from the negative consequences on competition, seems to be resulted in "law disobedience" to the moral principals of society¹⁰. In addition, the modern entrepreneur also has other ways, except for his entrepreneurial investments opportunities, to increase the return of his capital. This strategy has been followed in the case of Greek economy. The economic policy of a high rate of public expenditures and debt, in order to counterbalance the decrease in the private total consumption, resulted in the "creation" of other, more attractive investment for entrepreneurs (e.g. investment in state bonds). When the return of the financial stock is higher than the expected profit by productive activities, then it is easier to transform the entrepreneurs into "rentier capitalists".

From the previous analysis is obviously deduced the negative impact of some factors, which influence the entrepreneurial activity in Greek economy. It is deduced from Table 2 that, through the adopted economic policy during the last 25 years, a powerful factor which would favour and raise the entrepreneurial productive (and not parasitic and outlaw pursuits) activities of the Greek entrepreneurs, has not been functioned.

Table 2:

Factor	Desirable Level	Level in Greek Economy
r	low	low but ineffective
G	moderate and of correct direction	high and of wrong direction
T	low	high
X	moderate and of correct direction	high and of wrong direction
P	non-existing	intensively existing
O	high	low
Kr	a few	many

4. Conclusions

The theoretical and the empirical examination of some external factors influencing entrepreneurship, leads to the following proposals regarding the proper economic policy strategies for the advancement of entrepreneurship in the Greek economy:

First: More appropriate government intervention has to be adopted to the function of market competition, which would aim to the maximization of the consumer's benefit and not to the increase of extraordinary profits. In this way, the entrepreneurs' competitiveness will be strengthened without any direct protection and control by state bureaucracy.

Second: A credit policy that would encourage the investment not only of the established large firms, but mainly of the new and potential entrepreneurs having special abilities, skills and profitable business ideas, should be adopted. In order the credit system to operate in this way, it has to "escape" from the strict control of state economic policy and to function in a more competitive economic environment.

Third: The selected investment subsidies should be reduced to a minimum, that is, should function only for the development of specific regional parts of Greece. Furthermore, they must decrease their bureaucratic procedures.

Fourth: The entrepreneurs should be informed, in time, about the economic policy that is going to be followed. This policy should be of a long-term planning and reliability. The state should provide encouragement programmes for self-employment. The objective of these programmes must be the encouragement of potential entrepreneurs to move toward such as occupational status.

Fifth: The state's economic policy must reward the productive effort of individuals and should punish the illegal and parasitic activity. Entrepreneurs should realise that success is rewarded, failure is forgiven, but illegality is punished.

In general, the effort of the various governments to guide and direct the entrepreneurial activity had, in general, negative impacts, and thus Greece had a low rate of success in the arena of business activities. The dominance of the public sector and the enlargement of bureaucracy strangled the private initiatives and individual economic freedom. In a strange but not inexplicable way, it led to the economic welfare of the "lucrative" and "parasitic" activated individuals.

NOTES

1. For a review analysis of the various entrepreneurial functions, see Karayiannis (1990).
2. In the work of the OECD Jobs Strategy (1998), the factors that favour entrepreneurship and the obstacles that hinder it have been analyzed, especially for the case of specific countries e.g. Australia, the Netherlands, Spain, Sweden, and the United States. The OECD work shows that, "the right balance between these factors is not easy to strike. But strike it we must, because fostering entrepreneurship is not only a major economic imperative but also an urgent challenge that must be met to reconcile the goals of economic growth and social cohesion".
3. The favourable entrepreneurial environment does not concern only the investments of the Greek entrepreneurs, but also the attraction of foreign entrepreneurial activities. It has been shown (Hassid, 1997; Kyrkilis, Pantelidis, 1997) that the Greek environment was not so attractive as it should be for the foreign entrepreneurs.
4. For the relationship between interest rates and entrepreneurial investments in Greece, see Karayiannis (1992, pp. 10, 50), Kalivitis (1992, p. 156), Lyberakis, Travlos (1993, pp. 54-5), Trends (1998, pp. 18-9).
5. This is a main cause justifying the privatization of some "key" public firms (Alogoskoufis, 1994, pp.116-125; Karayiannis, 1999, ch. 10, 11).
6. The disadvantages derived from the continuation of the protective tariff policy, based on the infant industry argument, are analysed with clarity and completeness by Bitros (1985, pp. 83-6).

7. The entrepreneurial stagnation, the decrease in competitiveness of the Greek industry but also its low technological improvement have been analyzed by several researchers (e.g. see Hassid, Katsos, 1992, pp. 250-2, 554-5; Giannitis, 1993; Kintis, 1995; Leventakis, 1995).
8. According to Pavlopoulos (1986, p. 22), the economic policy which was followed after 1981 in Greece, caused the emergence of a pessimistic entrepreneurial climate.
9. For a detailed theoretical and constitutional analysis of the strengthening of the phenomenon of tax evasion and the means that deal with it, see Spentzas (1982). The increased tax evasion, besides everything else, has been attributed to the ineffective and incomplete function and control of the taxation system (Georgakopoulos, 1994, p. 30).
10. Pavlopoulos (1987, pp. 11-12) mentioned this problem, observing that tax evasion and underground economy had created a feeling of injustice to the honest citizen, and thus had negative effects for the social and economic cooperation of individuals.

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