

# ARCHIVES OF ECONOMIC HISTORY

Volume XX

No 1

January–June 2008

# ΑΡΧΕΙΟΝ ΟΙΚΟΝΟΜΙΚΗΣ ΙΣΤΟΡΙΑΣ

Τόμος XX

Τεύχος 1

Ιανουάριος–Ιούνιος 2008

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ATHENS - ΑΘΗΝΑΙ, 2008

# ABORIGINAL AUSTRALIA: AN ECONOMIC HISTORY| OF FAILED WELFARE POLICY

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## Abstract

Aboriginal welfare policy of recent decades has been widely rejected as a failure. Radically different policies are now being trialed, in recognition of the continuing large gap between indigenous and non-indigenous living standards. Some Aboriginal leaders themselves have called for a rejection of the passive welfare policies of the past, in acceptance of a Friedman-style critique of ‘money for nothing’ welfare handouts, while nonetheless calling for a Sen-style capabilities approach to the policy needs of the future.

*JEL classification: D60, J39.*

*Keywords: aboriginal Australia, welfare policy.*

## 1. Introduction

Australia’s Aboriginal population has just passed the half million mark, representing some 2.5% of the total population of about 21 million. In the midst of Australian prosperity and its world-class health and education systems lies what is now widely regarded as the national shame of Aboriginal living conditions. Particularly in remote areas, Aboriginal circumstances are so conspicuously unsatisfactory that critics regard the Aboriginal population as comprising something of a separate third world country, within the Australian mainstream. Respected Aboriginal leader Noel Pearson has described life in his North Queensland hometown as “a living Hell”.

An immediate indicator of this situation is the fact the full-blooded Aborigines were not even counted in the Australian population census until a referendum changed the Australian constitution in 1967. That referendum received overwhelming support, but the new dawn that was anticipated did not in fact arrive, and – despite significant expenditures – the welfare policies of the decades since then have failed. Radical new policies are now being trialed.

While it is probable that many Australians remain largely unaware of the history

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of Aboriginal affairs since European settlement began in 1788, there is no doubt that there has been a sea-change in community interest in recent years and that there is now a widespread desire to see decisive policy reforms and significant improvements in Aboriginal living standards. In belated recognition of this national shame, the Australian community and government have just celebrated February 13, 2008 as national ‘sorry day’. Newly elected Prime Minister Kevin Rudd delivered an apology to the Aboriginal people for past wrongs and suffering, especially in respect of their ‘stolen generations’. This action, although purely symbolic, seems to have been particularly important to Aboriginal people, and was deemed a prerequisite to reconciliation and a new beginning. While many argue that an apology without compensation rings hollow, the Rudd Government maintains that its priority is not to establish a compensation fund but to take practical action to close the gap in life expectancy, and the gap between aboriginal and non-aboriginal populations in education and health standards. The apology is not meant to be a matter of mere words.

In short, the Aboriginal history of Australia is not a happy one. Aboriginal communities are beset with problems of alcoholism, domestic violence, child abuse, poverty, unemployment and existential hopelessness. Despite some successes in integration, and success stories especially in sport and the arts, many Aboriginal people seem marooned on a no-man’s land somewhere between their traditional lifestyle, which doesn’t really fit anymore, and the modern mainstream, which seems to remain out of reach.

## 2. Present Circumstances

The Productivity Commission Report on Overcoming Indigenous Disadvantage (2007; also *Weekend Australian* 2-3 June 2007) provides a kind of report card on progress in responding to issues of indigenous disadvantage. In a nutshell, it notes that “Across virtually all the indicators in this Report, wide gaps remain in outcomes between Indigenous and non-Indigenous Australians”. Progress has been made in respect of some indicators, but in other cases the divide between indigenous and non-indigenous circumstances has grown wider. Most telling of all is the fact that life expectancy is some 17 years shorter for the Aboriginal population than for other Australians. The Productivity Commission report also notes that Aborigines are 13 times more likely to be jailed than other Australians, that in 2005-06 indigenous children were nearly 4 times more likely than other Australians to be the subject of child abuse or neglect, and that long term health issues far exceed those for non-indigenous Australians. Most of the worst problems

are concentrated in the remote communities cut off from jobs, education, health and hope.

**Table 1: Key Indicators of Aboriginal Disadvantage.**

<b>Life expectancy</b>	Life expectancy for Indigenous people is estimated to be around 17 years lower than that for the total Australian population. In North America and in New Zealand the equivalent differential is much less, at about 7 years.
<b>Disabilities</b>	In non-remote areas in 2002, Indigenous adults were twice as likely as non-Indigenous adults to report a severe activity-limiting disability. In 2004-05, the Indigenous rate for kidney disease was 10 times as high as the non-Indigenous rate, and this gap is widening. In 2004-05, Indigenous people were three times as likely as non-Indigenous people to have diabetes.
<b>Schooling</b>	In 2006, 21 per cent of 15 year old Indigenous people were not participating in school education, as against only 5 percent of non-Indigenous 15 year olds. In 2006, Indigenous students were half as likely as non-Indigenous students to continue to year 12.
<b>Employment and unemployment</b>	In 2004-05, the labour force participation rate for Indigenous people (58.5 per cent) was about three quarters of that for non-Indigenous people (78.1 per cent). From 1994 to 2004-05 the unemployment rate for Indigenous people fell from 30 per cent to 13 per cent, but remained about 3 times the rate for non-Indigenous people (4 per cent).
<b>Household Income</b>	For the period 2002 to 2004-05, median gross weekly equivalised household income for Indigenous people rose by 10 per cent (from \$308 to \$340). This compares to \$618 for non-Indigenous households in 2004-05. In 2004-05, over half of Indigenous people (52 per cent) received most of their individual income from government pensions and allowances, followed by salaries and wages (34 per cent) and CDEP (10 per cent).
<b>Home Ownership</b>	The proportion of Indigenous adults living in homes owned or being purchased by a member of the household increased from 22 per cent in 1994 to 25 per cent in 2004-05 (figure 3.7.1) – but at 27% is much less than the 74% for non-indigenous households.
<b>Suicide Rates</b>	Suicide death rates were higher for Indigenous people (between 19 and 45 per 100 000 population) than non-Indigenous people (between 11 and 16 per 100 000 population) in Queensland, WA, SA and the Northern Territory (NT) in the period 2001 to 2005.
<b>Child Abuse</b>	In 2005-06, Indigenous children were nearly four times as likely as other children to be the subject of a substantiation of abuse or neglect. From 1999-2000 to 2005-06, the rate of substantiated notifications for child abuse or neglect increased for both Indigenous and non-Indigenous children.
<b>Murders</b>	Of 245 homicides in Australia in 2004-05, Indigenous people accounted for 15 per cent of homicide victims and 16 per cent of homicide offenders (against about 2.5% of the overall population).

<b>Incarceration Rates</b>	In 2006, Indigenous people were 13 times more likely than non-Indigenous people to be imprisoned. Indigenous imprisonment rates increased by 32 per cent between 2000 and 2006. In the criminal justice system indigenous people are over-represented as both offenders and victims
<b>Infant Mortality</b>	Indigenous infant mortality rates in most of the states and territories for which data are available have improved in recent years. Nevertheless, mortality rates for Indigenous infants in these jurisdictions remain two to three times as high as those for the total population.
<b>Alcoholism</b>	In 2004-05, survey results indicated that a higher proportion of Indigenous adults reported that they did not drink or had never drunk alcohol (53 per cent) compared to non-Indigenous adults (36 per cent), but among those who drank alcohol, the reported rate of short term risky to high risk drinking for Indigenous people (17 per cent) was nearly double the rate for non-Indigenous people (8 per cent), even though the rate of long term risky to high risk drinking for Indigenous people was not statistically different to that for non-Indigenous people.

Source: *Overcoming Indigenous Disadvantage: Key Indicators 2007, Overview.*

Emeritus Professor Helen Hughes (2007b) notes that in 1999 *The Guinness Book of World Records* added colour by giving Palm Island the unwanted accolade of “the most violent place on Earth outside combat zones”. She adds that Palm Island is “an almost unimaginable slum” - with ‘Third World’ health standards and a life expectancy 30 years less than in the rest of Australia - instead of an island of tropical beauty off the coast of one the richest countries in the world. Moreover, Hughes’s assessment is that Palm Island is a typical victim of the apartheid-like policies that have denied Aborigines mainstream Australian lives since the 1970s, and she contends that any group subjected to the same policies would become dysfunctional. Recast in Milton Friedman’s terms, her contention is that it was misguided government intervention that destroyed the social fabric of the Indigenous community, and made Palm Island the jobless, welfare-dependent, dysfunctional slum that it is today.

### 3. Early History: genocide, protectorates, and stolen wages

‘History wars’ have been fought in recent years, as protagonists of different accounts of Aboriginal history have voiced their views. One view is that a genocide occurred against the Aboriginal people, starting from the earliest days of British settlement. That genocide involved the deaths of perhaps 20,000 Aborigines in

fighters with troops, police and settlers in the course of dispossession, along with the deaths of many more as a result of introduced diseases, and the subsequent compounding of the 'military' deaths via a policy of 'stealing' Aboriginal children away from their families. A second view – proffered by ex-Prime Minister Howard and others - is that this 'black armband' view of Australian history is much exaggerated, and that much was in fact done with goodwill. Howard and his Ministers took the view that many of the children said to have been *stolen* were in fact *rescued* – and were provided with much improved circumstances.

Professor Ben Kiernan is director of the Genocide Studies Program at Yale University. He argues (2002:177) that “the Aboriginal rights issue emerged slowly against a backdrop of genocide”. He notes that the Aboriginal population is estimated to have fallen from 750,000 in 1788 to 31,000 by 1911, with most deaths due to introduced diseases, but, according to historian Henry Reynolds, with perhaps another 20,000 killed resisting white occupation between 1788 and 1901. Then, adds Kiernan, in the twentieth century Australian governments took thousands of 'half caste' children from their families to 'breed out the colour'. The Chief Protectors of Aboriginal Affairs in Queensland, Northern Territory and Western Australia in the 1913 - 1942 period are quoted to the effect that they recognised the importance of preserving the purity of the white race and breeding out Aboriginality by taking 'half castes' and absorbing them into the white population (see Meston, 1895; 1923). Kiernan cites the *Australian Archives* in adding that from 1910 to 1970, ten percent of Aboriginal children were separated from their families, and notes (2002:180) that the 1997 Human Rights Commission report *Bringing Them Home* found that the removal of Aboriginal children itself constituted genocide. A contrary view promoted in the popular press, however, is that the genocide claim is false, since “there is no evidence, in legislation or regulation, that the misguided policy was a planned and considered move to exterminate Aborigines” (*The Australian*, editorial, 25 March, 2008).

A system of 'protectorates' was used in the earlier decades of the twentieth century to administer Aboriginal affairs, via highly paternalistic policies applied within designated Aboriginal reserves in certain States. The European 'protectors' had overwhelming powers of control. In that context, controversy emerged about the issue now known as 'stolen wages' (Kidd, 2007), which is quite separate from the 'stolen children' controversy. In the days of European administrators or protectors of aboriginal settlements, indigenous wages and savings were held in trust by the State, and application had to be made to 'the protector' to spend one's own money, even for menial items such as groceries and clothing. Perhaps unsurprisingly, some of this money disappeared, and some is still held in these State trusts - as Aboriginal income earners failed to receive the full value of their own

ostensible wages. In Queensland, detailed records were kept of individual savings for every 'ward of state' (aboriginal), leading to acknowledgement of these 'stolen wages' in existent government accounts. In 2002, in the spirit of reconciliation, the Queensland Government therefore sought to settle the matter of stolen wages by making a compensation offer to Aboriginal and Torres Strait Islander people whose lives had been affected by the exercise of past Government controls over their wages and savings under the "Protection Acts". This offer was capped at \$55.4m [[http://www.datsip.qld.gov.au/datsip/work\\_savings.cfm](http://www.datsip.qld.gov.au/datsip/work_savings.cfm) accessed 2/3/07]. It included an apology to all living persons who had their wages and savings controlled and who are eligible to make a claim for compensation, on condition that all approved applicants sign an indemnity agreement against the State. Eligibility depended on being alive at the time of the offer and being able to provide proof of birth. While this reparations gesture represented a step forward for Aboriginal people in gaining recognition for past injustices, the adequacy of the reparations offered remains contentious, especially in view of the fact that the government of the day unilaterally decided on the level of reparations required, despite there being an estimated \$180 million of workers wages in the Queensland accounts with the Commonwealth Bank (Davidoff, 2007). The government also limited claims to only a few thousand dollars (eventually \$7,000), failed to provide claimants with copies of their financial records, failed to offer compensation to the estates of those already deceased, and - as the price of claiming these small sums - demanded that successful claimants indemnify the state against any further legal action. Perhaps unsurprisingly in these circumstances, some \$36 million of the \$55.4m allocated was left unclaimed, and the Queensland Government has subsequently suggested it will divert this 'surplus' to school scholarships for aboriginal students. Insofar as what is at issue is the return of private income – as against compensation for some other 'wrong' - Kidd (2003; 2008) quite properly describes these arrangements as "an abuse of human rights [and] a perversion of justice". Disgruntled indigenes continue to demand full restitution of what is legally theirs, and dismiss as irrelevant any Queensland Government defences that \$55.4m is as much as can be afforded.

#### **4. Welfare Policy Since the 1967 Referendum: Phoenix Rising?**

May 27, 2007 marked the fortieth anniversary of the 1967 referendum. It was marked by laments over the lack of progress over those four decades. Indigenous communities remain dysfunctional, and are beset with violence, poor health, high incarceration rates, unemployment, poverty, welfare dependence, lower

educational involvement, and low respect for the law. Outside remote communities, tension remains between cultural groups in Australia, leading to emotional trauma, the fear of employment discrimination, and general cultural frustration. Many Aboriginal leaders themselves have come to accept the need for desperate measures for desperate times, and just such desperate measures were in fact delivered by the Howard Government in 2007, shortly before it lost office, in the form of emergency intervention into Australia's Northern Territory (NT). A taskforce of police, medical personnel, troops, and administrators was sent into the NT remote aboriginal communities to break the cycle of violence and poverty. Remarkably, just as Australia has sent troops into the Solomon Islands to try to restore civil order there, so the national government was forced to do something similar within its own borders.

In Queensland too, past welfare approaches are being abandoned, largely as a result of the agitation from Aboriginal groups themselves, notably including Noel Pearson's Cape York Institute. Significant welfare reforms will be introduced from July 1, 2008. Welfare payments will no longer be unconditional, but will be paid subject to performance in respect of improved standards of child safety, schooling and home maintenance. Such reforms are regarded by some as unacceptably paternalistic and discriminatory, but Pearson himself unhesitatingly accepts that practical improvements are unlikely in the absence of the quarantining of some part of welfare payments to ensure that monies received are in fact spent on food and child care, rather than on alcohol and drugs.

The series of events that has brought Australia to this position includes several landmark legal decisions and administrative reports. Given Aboriginal attachment to the land, the most significant of these was perhaps the High Court's Mabo land rights decision of 1992. In that decision the High Court rejected as legal fiction the notion of *terra nullius*, or the notion that the first European settlers merely took over an unoccupied land mass. For the Aboriginal people this decision represented acceptance of Aboriginal land rights over certain traditional tribal lands and was a landmark political and psychological victory. It has yet to bear full fruit, however, since outstanding native title claims have been resolved only slowly. In consequence of this and of the need to re-examine the distribution of payments between native title claimants, the new Rudd federal Government now seeks to review the native title system to ensure that it does a better job of allowing its intended beneficiaries to benefit from the current minerals boom.

The Mabo decision was followed in 1997 by the Human Rights and Equal Opportunity Commission's *Bringing Them Home* report, which investigated the 'stolen generations' issue. It claimed there had been genocide between 1910 and 1960, perhaps even into the 1980s, and recommended compensation as well as an

apology. That apology was denied by the Howard Government during its 11 years of power 1996-2007, but was immediately offered by the new Rudd Labor Government in a much commemorated national ‘sorry day’ event on 13 February, 2008. *Bringing Them Home* states that “Indigenous children have been forcibly separated from their families and communities since the very first days of the European occupation of Australia”. Governments and missionaries both sought to remove Indigenous children from their families in order to ‘inculcate European values and work habits in children, who would then be employed in service to the colonial settlers’. The government reserved land for the exclusive use of Indigenous people and assigned responsibility for their welfare to a Chief Protector or Protection Board, equipped with extensive power to control Indigenous lives. With some variations from State to State, the general policy was that full-blood Aborigines were to be ‘protected’ and ‘half-castes’ to be ‘absorbed’ into the white population. Poverty was regarded as synonymous with neglect, and was accepted by the courts as grounds for removal of children. ‘Self-determination’ in Aboriginal homelands evolved, but was never granted in any true sense, as it was in other colonized nations, and this led to recurrent legislative and cultural clashes between Australian law and the symbolic ‘self-determination’ of the 1970s. Exaggerated cultural sensitivity left self-determined Aboriginal homelands as dysfunctional ‘living museums’.

*Bringing Them Home* acknowledged that it is not possible to state precisely how many children were forcibly removed, even if any ‘unofficial removals’ are ignored. Official records are missing or incomplete, but the Report notes that historian Peter Read estimated the number of Indigenous children removed in New South Wales between 1883 and 1969 to be 5,625 (on the basis of official records). Additionally, Aboriginal adults have been surveyed to ask whether they were removed in childhood. One such survey of 600 Aboriginal people in the Kimberley region of WA in the late 1980s indicated that one-quarter of the elderly people and one in seven of the middle-aged people reported having been removed in childhood. Overall, the *Bringing Them Home* Report finds that nationally we can conclude with confidence that “between one in three and one in ten Indigenous children were forcibly removed from their families and communities in the period from approximately 1910 until 1970. In certain regions and in certain periods the figure was undoubtedly much greater than one in ten. In that time not one Indigenous family has escaped the effects of forcible removal. Most families have been affected, in one or more generations, by the forcible removal of one or more children”. As for reparations, *Bringing Them Home* recommends that there is an international legal obligation ‘to repair the damage caused’, requiring reparations in the forms both of monetary compensation and measures of rehabilitation.

Despite its historic apology in February 2008, however, the Rudd Government has committed to no such compensation payments, and maintains that the better form of compensation is to now take effective action to eliminate the 17 year disparity in life expectancy. Given that action to restore equality to health, education and living standard opportunities was incumbent upon the Government anyway, critics find this unimpressive, and no less than another ‘theft’ from the Aboriginal population. *Bringing Them Home* did acknowledge, however, that appraising past policies from the standpoint of present values was a questionable exercise, and the Rudd Government position presumably seeks shelter in this view.

Another influential Report was presented in 2007, when The *Little Children Are Sacred* report, by Rex Wild QC and Pat Anderson, presented the findings of a Northern Territory enquiry into the sexual abuse of Aboriginal children. This *Little Children Are Sacred* report notes that NT aboriginal children live amidst considerable problems of alcoholism and school absenteeism. It accepts that the sexual abuse of children in Aboriginal communities is a symptom of the broader breakdown of aboriginal society, and that what is required are generic responses on the overall social and cultural level, rather than specific band-aids over particular problems. Alcoholism, unemployment, lack of education, boredom, poverty and over-crowded housing have led to violence, and in extreme cases to the sexual abuse of children. Improved education and firmer responses to the scourge of alcoholism are integral to the necessary responses. The authors note too that money was available, since the Australian Government regularly brought down significant budget surpluses in recent years (running at some \$10-16 billion per year), and they effectively issue a challenge by noting that too little has been done, despite long standing knowledge of the problem, because of a lack of political will.

The Howard Government responded by passing *emergency response legislation* in 2007 to intervene in Northern Territory Aboriginal communities. The government accepted that alcohol, violence and child sex abuse are destroying aboriginal communities, and legislated to protect children and make communities safer. It set about putting more police in communities, providing health checks for children, banning alcohol and pornography in Aboriginal areas, and changing the welfare payments system to make it conditional, so that benefits intended to help children are in fact used for children and for creating jobs in communities. Steps will be taken to ensure that all Aboriginal children attend school. This Emergency Response involves spending in excess of \$0.5 billion in 2007-08.

Under the emergency response, in prescribed areas there is now a ban on having, selling, transporting and drinking alcohol, in acceptance of The *Little Children Are Sacred* report’s identification of alcohol abuse as the ‘gravest and fastest growing

threat to the safety of Aboriginal children'. The overall goal is to provide children with better health facilities, better housing, and altered – conditional - welfare payment rules to ensure that monies received by parents in fact achieve worthwhile results in terms of nutrition, education, security and community life, instead of merely subsidizing drunkenness. At least in NT Aboriginal communities the idea of believing in rights without correlate duties, or obligations, has come to an end. In furtherance of the goal of improved community governance, the government also deemed it necessary to acquire five-year leases over townships because much money has hitherto been wasted when spent on housing, infrastructure and repairs, since the Government had no control over the assets. Similarly, in keeping with the notion that the best protection against abuse is the free flow of information, changes are being made to the 'permit system' which has seen Land Councils or traditional owners allowed to grant permits to enter and remain on Aboriginal land in the Northern Territory. Media coverage will be easier. Private residences and sacred sites will still be protected, but the requirement to obtain a permit is now being removed in relation to common areas of major townships, access roads to these townships, and airstrips and barge landings. People attending court hearings or doing government business on Aboriginal land will not now need a permit. Critics of the permit system and the policy of 'separatism' see that system as having been disastrous and as having accomplished little more than the suppression of truth. Have the gatekeepers of the permit system in fact protected Aboriginal culture, or have they merely protected the perpetrators of misdeeds from exposure?

One further report of note arises from the 2008 Hope Coronial Enquiry in Western Australia, in the wake of concerns regarding Aboriginal suicides (including the suicide of an 11 year old boy: *The Australian* 26 Feb 2008) and alcohol-related deaths. On 25 February, 2008 Western Australia (WA) Coroner Alistair Hope released his 212 page report into the deaths of 22 Aboriginal people from alcohol or cannabis-related abuse in the northern Kimberley region since 2000. He lamented as 'inexplicable' the suicides of 21 young Kimberley aborigines in 2006. He described the living conditions in Kimberley Aboriginal communities as "appallingly bad", and described the plight of Kimberley children as "especially pathetic". He identified "massive" alcohol abuse in the region, failing education, substandard housing, chronic unemployment and poor health as contributing causes of community problems, and described the approaches of the WA and federal governments as "seriously flawed". He described aboriginal living conditions in the Kimberleys as a disaster, with no one in charge of disaster relief (given 22 overlapping agencies). In consequence, despite WA spending \$1.2 billion each year on the issue, conditions for Aboriginal people in the Kimberleys are

growing even worse. Echoing both the concerns and the reforms unfolding in NT and Queensland, Coroner Hope advocated that welfare payments should be made conditional, using vouchers to ensure that people had less money to spend on alcohol. He noted that in a region where Foetal Alcohol Syndrome rates are 21.5 times higher than in the rest of the State, there is reason to widen the ban on all but low strength alcohol. Targets and performance criteria are needed if welfare spending is to be focussed on achieving desirable results, instead of merely financing drunkenness.

All in all, a rising groundswell of community opinion now demands decisive action. The new federal government has undertaken to continue with the Howard Government's emergency response in the Northern Territory, and the Western Australian and Queensland State governments are moving towards significant new approaches to Aboriginal welfare policy. These approaches are paternalistic, but are different from past paternalism insofar as they seek to be experimental in promoting 'positive discrimination', and are oriented towards the achievement of certain social ends, rather than just to the provision of the financial means to afford the indulgence of individual freedom and consumer sovereignty in the choice of those ends. They therefore raise question as to whether the ultimate goal of even conservative political parties is to promote individual freedom (which it would be for Milton Friedman) or social progress (which it would be for J.S. Mill, on at least some interpretations, despite Friedman's own professed foundations in J.S. Mill as well as Adam Smith).

## **5. A Friedman-style critique of past Aboriginal welfare policy**

Milton Friedman has long argued that government intervention, even when well intentioned, is often counter-productive in practice. Past Australian Aboriginal welfare policy might in fact be seen as an example par excellence of Friedman's case, which offers a compelling explanation as to why aboriginal social and economic systems have broken down so badly. Respected Aboriginal leader Noel Pearson now sees himself as something of an Aboriginal incarnation of Milton Friedman, despite describing himself as a man of the left who seeks to uplift the Aboriginal underdog. He accepts that passive welfare spending has been a disaster which has facilitated a dissolute lifestyle in which welfare dependence has financed "the grog". This in turn has fed domestic violence and an abandonment of both traditional value systems and anything viable to replace them. Over time, Pearson has therefore become an advocate both of the policies of reliance on individual responsibility, and the critique of welfare state policies associated with Friedman

and the political *right*. In effect, he now sees himself as a man of the left who says ‘give me Friedman’ when it comes to avoiding ineffective policy ‘solutions’. Pearson echoes Friedman in concluding that in the long term money for nothing is corrosive. The main problem is thus not government under-funding of Aboriginal services so much as the total absence of the sort of incentives that shape citizenship and individual behavioural responses in mainstream society.

Friedman’s general critique of welfare state policies emphatically objects that it is not policy *ends* or goals that have been at fault, but the choice of policy *means* chosen to advance those goals. Indeed, according to Friedman (1980), the reality is that government interventions in the welfare state have commonly produced counter-productive results in respect of all three domains of efficiency, equity and the preservation of the social fabric. And this is precisely what Pearson concludes in his assessment of the present plight of Aboriginal communities, in which he accepts that the ‘passive’ welfare handouts of recent decades all but guaranteed on-going unemployment, alcoholism and irresponsibility, the vulnerability of children in particular, and the overall breakdown of traditional culture and social life. Friedman himself complains that while economists routinely look to the efficiency and equity implications of government policies, they often fail to recognise the cumulative effect of past policies on the preservation of ‘the social fabric’, but it is precisely here - in the Aboriginal community’s loss of its own identity, traditions and value systems - that Pearson and others see the biggest problem of all. To quote Pearson (cited in Peter Saunders, *Australia’s Welfare Habit*, 2004, p. 192): “the resources of passive welfare are fundamentally irrational. Money acquired without principle is expended without principle...the irrational basis of our economy has inclined us to wasteful, aimless behaviours ...we waste our money, our time, our lives”. Friedman would doubtless be impressed by Pearson’s insight. Government sought to help, but hurt the cause instead.

Thus, from a Friedman perspective, welfare dependence, CDEP sheltered employment, the absence of a clear link between personal behaviour and income or reward, and such like have destroyed Aboriginal ability to manage their own lives and have destroyed their “social fabric”, thereby contributing to the upsurge in alcoholism, substance abuse, violence, passivity and hopelessness. Despite the good intentions evident in large funding flows to Aborigines and Torres Strait Islanders, good intentions do not themselves guarantee good results, and in any case, much of this funding has failed to reach the intended beneficiaries but has gone instead to indigenous elites and to non-indigenous bureaucrats and consultants (Helen Hughes in another echo of Friedman).

Nonetheless, in looking for *future* policy solutions in *response* to the present catastrophe, Pearson rejects Friedman’s emphatic endorsement of laissez-faire and

the market mechanism as limited and inadequate. He sees more of benefit in Sen than in Friedman, and endorses a Sen-style case for the development of human capabilities. Amartya Sen (1999) stresses that 'freedom' has both positive and negative attributes, and that in the presence of serious deprivations selective government interventions may be required to establish the positive freedoms that some communities presently lack. 'Equality of opportunity' is a concept much endorsed by Friedman, but it entails more than an absence of negative barriers to freedom in the form of restrictions such as chains. Positive freedoms are also required. More meaningfully understood, equality of opportunity thus requires positive action to provide education, health and political coherence. Accordingly, it is to this Sen-style position that Pearson defers in endorsing the need for selective interventions today, as in the case of the 2007 NT *emergency response legislation* or in the form of the 2008 welfare trials about to be introduced in Queensland in response to his own Cape York campaign. Consistent with Sen's position, Pearson (cited in *The Australian*, 13 March 2008) is emphatic that the situation in remote communities is desperate and that those who prescribe no intervention "are prescribing a perpetual hell for our children". To that extent, he rejects both a Friedmanite understanding of (negative) 'freedom' and a laissez-faire approach to the future. He is more interested in the practical resolution of vicious circle problems than ideological intransigence, and for him it therefore follows that action to limit alcoholism and promote better nutrition are essential first steps to reversing the 17 year difference in life expectancy. In effect, Pearson is effectively deferring to J.S. Mill, to whom Friedman himself pays deference, in accepting that there are prerequisites to arriving at a position in which laissez-faire itself becomes an appropriate policy. For Mill (at least on some interpretations), and for Pearson, the chief desideratum is social progress, rather than individual freedom (which is what it remains for Friedman). Simply maximising utility seemed a limited objective to Mill, and he felt compelled to qualify it as a social philosophy. Accordingly, he made a qualitative distinction between the pleasures, placing mental pleasures above bodily ones, and allowed that his doctrine of individual liberty did not apply to all persons at all times, since the individualism he extolled was that of the morally educated individual, not just the present individual. On both levels, Noel Pearson's stance appears to be in harmony with Mill's conception.

Just as Sen argues that human capabilities (including health, education, and political freedom as the most basic capabilities) are a prerequisite to real choice, so Pearson (2007) accepts that it is nonsense to say that an indigenous child in a remote community has the right to choose her life path, given poor health, minimal education and community disruption. "Her choices have already been made for her". Moreover, whereas Sen mainly addresses Third World countries where the

problem is one of lack of *opportunity*, Pearson stresses that the problem in Aboriginal communities is lack of *responsibility* (as a result of the cumulative impact of past policies of passive welfare). He therefore broadens Sen's conception and argues that individual choice is affected by incentives and culture as well as by capabilities. As he sees it, it is the shortage of responsibility, rather than the shortage of opportunity, which dominates in Aboriginal circumstances. For many in the remote communities, the reality has been that there has been no real choice at all.

Pearson is widely regarded as the outstanding Aboriginal leader (including by ex-Prime Minister Howard), but has his critics. He appears not to have been invited to the national 'sorry day' apology ceremony on February 13, 2008. He has himself been critical of present Prime Minister Kevin Rudd's political positions, and placed himself on record just before the November 2007 federal election saying that he 'dreaded' the election of a Rudd Labour Government. This may explain his apparent absence. Some critics have denounced him as "a pawn of the right-wing Howard Government" who has adopted "the ideology of the market fundamentalist right", and as "the front-man for the project of assimilation, a form of cultural genocide where Aborigines are to be forced to become imitation whitefellas". [[http://blogs.theaustralian.news.com.au/letters/index.php/theaustralian/comments/correct\\_policy\\_balance/](http://blogs.theaustralian.news.com.au/letters/index.php/theaustralian/comments/correct_policy_balance/)] Support for conditional welfare and for some standards of duty and performance, in return for 'welfare rights', hardly sounds like the market fundamentalist right, however. To the extent there is a crypto-teleological element in Pearson, and thus a generic dimension to his understanding of human development, it is inevitable that he will be criticized for diminishing the significance of cultural diversity.

Another major aspect of market based Friedman-style economics involves the defence of property rights, given that they are fundamental to the efficient operation of market forces. The most fundamental property rights issue in the Aboriginal context relates to land rights, and to the question of whether at the time of the original European settlement in 1788 all Australian land should be regarded as having been stolen from Aborigines, or whether the Australian landmass was *terra nullius*, available to whomsoever claimed title to it. The High Court's 1992 Mabo decision ruled that native title to land is recognised by the common law of Australia. Given the importance of this property rights issue and the path-dependent consequences that have flowed from it, it is instructive to consider just how should this High Court decision should be seen, from within the perspective of Friedman's economics. Should the land be regarded as stolen and due for return to its original Aboriginal owners? Friedman's answer (personal correspondence with Friedman (18/8/1994 and 6/9/1994) is that if the original European settlement of

Australia was regarded as invasion and conquest, “which does seem sensible”, “then the decision does not go far enough”, and latter day courts have no more right to grant property rights to Aboriginals now than their forebears had to extinguish them. Friedman, however, also accepts that there is a sense in which some costs are sunk, such that it is impossible to go back to the original state of nature and allocate property rights from time zero. While it may well have been an act of theft for the original settlers to allocate themselves property rights over assets which could be regarded as Aboriginal, that mistake was made generations ago – on the side of both the Aboriginals and the first settlers - and “It is not clear that the sins of the fathers should be visited on their great-great grandchildren for the benefit of the great-great grandchildren of the fathers who were despoiled.” Hence Friedman concludes that the Mabo land rights decision “was a very bad decision, neither fish, flesh nor fowl”. For him, it is hard to see how it can be defended on any kind of pure abstract ethical principle, and he doubts that the issue should be decided by a court. “It can only be defended as a practical compromise”. He nonetheless concedes that he had difficulty making up his mind as to the correct view of the Mabo decision, and by way of qualification adds that he did not see his own answer as complete or satisfactory.

Others involved in the contemporary Australian debate are often less equivocal, with some taking the view that the legitimacy of native title is apparent, while others take the view that ‘first here’ is a weak defence of land title claims since it is the European settlers who put the land to effective use and created the Australian economy that exists today.

## **6. How Sorry is Sorry?**

Needless to say, there is something less than unanimity as to just how culpable the overall Australian population should be for past injustices to Aboriginal people. Not everyone accepts that past policy failures have been quite as bad as is now commonly supposed. Some contend that no apology was ever needed. Others contend that an apology was appropriate, but there is no cause to pay compensation. Still others say that an apology without compensation is worse than useless.

Keith Windschuttle is one historian prominent for disputing the now prevalent view that there is much to apologise for. He finds little evidence to support the ‘stolen generations’ story. In *The Fabrication of Aboriginal History*, he contends that the ‘stolen generation’ story was essentially created by recent historians via attention-seeking misconceptions. According to him, the policy of removal of

children was largely about protection or rescue, and the children removed were removed to better circumstances or to undertake useful trade training and apprenticeships. He finds little evidence that they were removed on grounds of Aboriginality, with a view to ending that Aboriginality. His critics object, however, that the official records are unreliable, and merely gave politically opportunistic reasons for removals, rather than the real reasons. Former Aboriginal Affairs Minister Fred Cheney (ABC TV 12/2/08) claims personal experience of this matter in legal processes and is dismissive of the official records as self-serving. He tells of personal experience of a Perth case when children were removed from a family, despite no evidence whatsoever of neglect or other problems, on grounds that there were too many aboriginals in East Perth and “we are moving them on”. Whatever the nuances of Windschuttle’s protestations about official records on the stolen generations, what is clear is that it is hard to believe that official policy in this country has at all times been well disposed towards Aboriginals. Essentially, they have been defeated in a war, dispossessed, marginalised, and ignored. They were explicitly excluded from the national population census until 1967. Many have been left to live in the remote communities – in what some call “living museums” - in what appear to be ever worsening circumstances. The first Aboriginal student to graduate from a university did so in 1965, when Charles Perkins took a BA from the University of Sydney, almost 200 years after the start of European settlement. In these circumstances, knowing just precisely where the line should be drawn between those aboriginal children who were ‘stolen’ and those who were rescued scarcely matters, since there remains a policy of consistent failure to be sorry about. Moreover, the aboriginal people themselves clearly believe their history is one of dispossession and stolen generations, and ANU and Sydney University historian Peter Read, on whom Windschuttle largely blames the stolen generations story, remains adamant that it is Windschuttle who has it wrong. For Read – and for the Australian Government which has now endorsed the *Bringing Them Home* report - the stolen generations story is a much sadder one than Windschuttle appreciates. For Read, (*The Australian* 18/2/08) Windschuttle has provided only a hasty and naive reading of the records, without apprehending that words such as “children at physical and moral risk” masked action on racial grounds against Aboriginal peoples. Fred Cheney and other critics of the Windschuttle view that the stolen generations story was simply fabricated by recent historians, contend instead that it is naïve reliance on self serving official records which created or fabricated Windschuttle’s case for him.

Windschuttle adds, however, that if - fabricated or not - the stolen generations story is accepted by government and the community as accurate, compensation is due and there is no excuse for being content with a mere apology. Indeed, to

apologise without paying compensation is to aggravate the crime. Using the South Australian Bruce Trevor case as a guide, Windschuttle estimates that this requires a compensation bill of about \$50 billion. [*The Australian*, February 9-10, 2008 via *The Fabrication of Aboriginal History* Vols 1 and II].

With Windshuttle and others in mind, Aboriginal Leader Tom Calma (Aboriginal and Islander Social Justice Commissioner and Race Discrimination Commissioner) noted with great sadness on 'sorry day', that since the release of the *Bringing Them Home* report, many individuals have made their name as 'Stolen Generations deniers and rebufferers'. This vitriol has re-traumatised many of the Stolen Generations (Calma, 2008), and has cast doubts on the integrity of many individuals. In castigating 'deniers and rebufferers', Tom Calma no doubt had in mind all those who deride 'the black armband view' of Australian history, but could scarcely focus more pointedly than on QUT academics Professor Paul Frijters and Tony Beaton, (QUT; *The Australian*, 14 February 2007, p27) who decry Yale historian Ben Kiernan as 'an embarrassment to academia' for arguing that a genocide has been committed against Australian Aborigines (see section III above). Frijters and Beaton contend that widespread acceptance that Aboriginal welfare has grown worse is itself suggestive of declining standards of academic criticism, and protest that on matters of Aboriginal welfare academics feel free to make sweeping statements unsupported by evidence, as long as they are in tune with the prevailing mood. They suggest that Aboriginal lifespan has probably doubled from about 30 to 60 years in the last 200 years, and they object that claims about disparities in Aboriginal life expectancy are questionable and reflect bias via those who self-identify as Aborigines. At least for some, however, the concessions by Aboriginal 'Protectors' in the earlier decades of the last century of the desirability of 'breeding out the colour' themselves confirm an intent of genocide. *Bringing Them Home* and the present national government, not to mention Kiernan, are all more willing than Frijters and Beaton to be sceptical of official records and more willing to lend credence to Aboriginal oral history alongside the official records kept by those who saw fit to 'protect' the aboriginal people. Kiernan critically canvasses Windschuttle's claims and many others, and it is not at all clear that Frijters and Beaton have any grounds for their vitriolic attack on Kiernan in respect of the claim that there has been an Australian genocide.

Whether it is Kiernan who is an embarrassment to academia, as Fritjers & Beaton (QUT) allege, for his acceptance that there was an Australian genocide, or Fritjers & Beaton who are the embarrassment because of their excessive deference to unacceptably naïve ways of knowing where the truth lies, is a question of significance, and certainly one with implications for the concepts of rights and justice. Moreover, we might also ask, as Quiggin (2003) does, whether

Windschuttle is an embarrassment, given his predilection to believe that the ‘chosen ones’ are infallible and just ‘know’ the truth without reliance on any theory dependent positions, and given his unwillingness to recognize oral history? Indeed, Quiggin ultimately characterizes Windschuttle's version of cultural relativism as ‘racist’, just as Marcia Langton (2007b) objects - in what could be read as a dismissal of Fritjers & Beaton - to the morally righteous who use vanity, not evidence-based policy, and who ‘dance on our graves’. In these circumstances, just what constitutes scientific method or epistemological requirement is itself a serious question.

While the federal government remains opposed to the payment of compensation, the Tasmanian government acted on 23 January 2008 to right (some?) past injustices (ABC 23/1/08) and pay \$5 million compensation to the 106 Aboriginal Tasmanians who were part of the Stolen Generations. This Tasmanian scheme provides up to \$58,000 for people who were removed from their families, and \$5,000 for the children of members of the Stolen Generations. The Tasmanian report observed that white settlers there once hunted Aboriginal people for sport. Tasmanian Premier Paul Lennon urged other government's to follow Tasmania's lead. Acting Queensland Premier Paul Lucas ruled out the idea that Queensland would pay compensation, however, despite the additional stolen wages issues which exists in Queensland but not Tasmania.

All in all, the prospect of reconciliation has been promoted by the symbolic 2008 apology, but some disgruntled stolen generations representatives have nonetheless made clear that they resent the Rudd government's present policy of non-compensation. For them, action to restore equity to Aboriginal health and education standards was a government obligation anyway, independently of the stolen generation issue, and they therefore still want compensation. Dr Lowitja O'Donoghue (2008) - a stolen generations victim herself as a toddler and inaugural Aboriginal and Torres Strait Island Commission Chairperson – supported this view in her ‘sorry day’ statement to the effect that redressing past neglect of statutory responsibilities to provide social infrastructure “ought not to be part of the compensation”.

## **7. Policy issues past and present**

The list of policy issues to come under scrutiny includes those related to ‘stolen generations’, ‘stolen wages’, native title, passive (unconditional) welfare, institutional structures, separatism and the ‘living museums’ of isolated remote settlements, the administration of justice, the breakdown of traditional social

norms, loss of identity and purpose, the work-for-the-dole / CDEP issue, and policies towards alcoholism and domestic violence.

The CDEP (Community Development Employment Program) has come under recent scrutiny as a work-for-the-dole scheme which does little more than provide pretend jobs for a few hours a day. In so doing, critics object that its more important effect is that it sets up perverse incentives to stay within the welfare system and simply destroys the incentive to get a real job. Critics note that Aboriginals fill only 44% of paid positions in remote Australia (*Weekend Australian*, 4-5 Aug 2007), and that some Aboriginals have stayed on CDEP for twenty years, indicating its ineffectiveness. On the related, but different, issue of racial discrimination in the labour force, it is noteworthy that Gary Becker defines wage discrimination on racial or similar grounds as being evidenced when entrepreneurs willingly sacrifice some profit to avoid hiring a disfavoured group. In the Aboriginal case, however, statutory law was used to repress aboriginal wages in earlier years, to the advantage (not disadvantage) of those discriminating against aborigines. A relevant question therefore is whether earlier wage discrimination is better regarded as a form of slavery, rather than Becker-style discrimination.

In matters of schooling, problems are quite evident. Helen Hughes (*The Australian*, March 2008) notes that for the past two years the NT education department has reported 90% literacy rates for year 3 and 5 non-indigenous children but only 60% for indigenous children in Darwin and Alice Springs, and a lowly 20% for indigenous children in remote communities. The absence of indigenous teachers is another indicator of education failure in NT, where 28% of the population is indigenous, but only 3.6% of the registered teachers. Hughes contends that many CDEP teacher-aides would not themselves pass the grade 7 literacy test, and argues that the real cost of remedying past policy failures is more like \$500m to \$1b, not the extra \$100m of support recently announced by Deputy Prime Minister Julia Gillard.

In relation to matters of alcoholism and addiction, policy problems relate both to access and to the administration of the justice system, given the many alcohol related crimes. Pearson (*The Australian* March 1-2 2008) opposes the notion that alcoholism should be treated as a symptom. He adopts a Friedmanite acceptance of the crucial role of individual responsibility, and accepts that “the ideas and values we hold about freedom and free will” are the most important determinants of the spread of addiction. He sees little prospect of a solution to social breakdown in Aboriginal communities if individuals do not take responsibility for their own decisions, including those that have led to addiction, whatever the circumstances. In this, his view is in keeping with the rational choice models associated with Gary

Becker and Chicago School economics. Nonetheless he recognizes the path-dependence of Aboriginal circumstances – to which he tacitly considers Windshuttle to be insufficiently responsive - and consequently now sees a need for positive interventions to create social opportunities.

The policy of isolating aborigines in homeland communities has been an abject failure (Helen Hughes, 2007: 21). It is a policy which reflects ‘excessive cultural sensitivity’ or the methodological premise of value neutrality. The practical upshot of this value relativism is that many Australians – both Indigenous and non-Indigenous – now protest that one set of values they no longer wish to be neutral towards is the set now entrenched in many remote communities. Value relativism has been abandoned, in acceptance that the ultimate results of exceptionalist policies in these ‘remote living museums’ are murders and suicides. The absence of policing and law in remote communities permits high levels of child abuse and domestic violence, while small elites of ‘big men’, with strong vested interests against reform, monopolise the machinery of separate governance created for Aborigines and Torres Strait islanders (Hughes, *The Australian* 23/9/05; CIS 2005). From a Friedman perspective it is the accumulated impact of inappropriate past government policies, not ethnicity, that underpins the shocking conditions in Aboriginal communities, but while Friedman was evidently right about welfare handouts eroding ‘the social fabric’, there is nonetheless another level on which Friedman and Chicago School economics contributed to problems by fostering the value relativism on which was built the ‘reverse racism’ associated with the failed ‘culturally sensitive’ isolationist policy.

Traditional law also helped retard development, however, alongside any negative white-man influence. Traditional communal land ownership patterns themselves militate against commercial loans and private title to housing, and are partly responsible for past failures to prosper (as in PNG), quite apart from whatever blame can properly be laid at the door of past government policies.

## 8. Recent Controversies: The Past as Present

1. Bruce Trevorrow, 51, was the first of the Stolen Generations to succeed in receiving compensation from a state government. In December 1957, when 13 months old, Trevorrow was taken by his parents to hospital with gastroenteritis, where he was separated from them. Six months later – by which time he had already been fostered out to white parents - his mother was told she couldn’t see him, but that he was making good progress. Trevorrow was brought up believing he was white. When he was nine he was reunited with his real parents, and was

shocked to discover they were Aboriginal. On August 2, 2007, after seven years of court battles, Trevorrow was awarded \$525,000 compensation in a South Australian court, in recognition of what the court accepted was severe trauma occasioned by his forced separation and 'wrongful imprisonment'. On January 31, 2008 he was awarded a further \$250,000 in interest for the time taken for the case to succeed. Nonetheless, soon after – just two weeks after the historic 'sorry day' apology - the South Australian (SA) Government challenged the decision (Pia Akerman and Jeremy Roberts, February 29, 2008). Thus the legal precedent created by the nation's first compensation payout to a Stolen Generations member is now in limbo, and this SA challenge may delay for years a statutory compensation fund for Stolen Generations victims.

2. In 2006, a 10 year old mentally impaired girl was gang raped at Aurukun in North Queensland, but the perpetrators escaped a custodial sentence, despite guilty pleas. The Cairns prosecutor who described the nine perpetrators as 'naughty' but not deserving of a custodial sentence resigned amidst public outrage, and the Queensland Government subsequently appealed against the non-custodial sentence. [<http://www.theaustralian.news.com.au/story/0,25197,22910379-601,00.html>] Aboriginal academic Marcia Langton (2007) added that it would be a fair bet that each of the adults who pleaded guilty to the child rape was on a government social security or CDEP payment – thereby inviting the conclusion that dysfunctional behaviour is financially supported by government funding. To Langton, the nub of the problem in remote communities is that government itself funds dysfunctional behaviour, and there is no connection between what a person or community does and the income they receive.
3. As recently as March 2008, an Alice Springs backpacking hostel asked 16 Aboriginal women and children to leave (11 March 2008, ABC), apparently because other (overseas) guests complained that they were frightened of them. The hostel now faces a legal suit. Its reaction to public commentary is to say that it caters for overseas guests.
4. Trachoma is an eye disease that causes blindness. It is a disease of poverty and social disadvantage. It has been eliminated from many countries, and Australia is in fact the only developed country still reporting the disease. It was eliminated from Australia's white population about 100 years ago, but still exists in remote Aboriginal communities in proportions exceeded only in a few of the world's poorest countries. Although it is relatively easy and relatively cheap to eliminate, Dr Hugh Taylor, who was part of the Fred Hollows ophthalmology team which visited 465 Aboriginal communities in the 1970s,

reports being shocked to discover that on revisiting some of those communities 20 and 30 years later, trachoma still existed at largely unchanged levels. [[http://news.sbs.com.au/livingblack/tackling\\_trachoma\\_543379](http://news.sbs.com.au/livingblack/tackling_trachoma_543379)] Dr Taylor points out that the African state of Niger is one of the world's poorest countries but has nonetheless managed to treat millions of its citizens in the last few years, leaving the Australian failure to treat some 60,000 Indigenous citizens as utterly inexcusable.

## 9. Solutions

Federally, efforts to find solutions focus on the Federal emergency legislation in the Northern Territory, which the Howard Government introduced in August 2007 and which the Rudd Government has continued with some modifications. This was a vote of no confidence in the NT government (and in federal-state financial relations), following the failure of NT governments to deliver results in consequence of commonwealth funding over several decades. A special project by the Council of Australian Governments at Wadeye revealed how NT governments had failed to use commonwealth funds for their intended purposes, and concluded "To those most in need, the least is provided". (Marcia Langton, *The Australian* Jan. 26-27 2008, extracted from Langton, 2008). The Howard Government of 1996-2007 was a conservative government eager to celebrate the importance of individual responsibility and competitive markets, and its 2007 Northern Territory Emergency Legislation did not mask an abandonment of those core commitments. Its legislation seeks to repair the damage caused by the well intentioned, but counter-productive, welfare state interventions of the past 40 years. Despite its radical paternalism that legislation may still be seen as an endorsement of Mill's view that individual liberty is the chief desideratum, and that government has the right to curb individual freedom only to protect the freedom of others. In the face of the evidence of domestic violence and child abuse in the remote communities, this is exactly what the Howard Government felt compelled to do. The intellectual root of this position is also accepted by the Rudd Government, and by Pearson and other Aboriginal leaders, who see the freedoms of children and many others as seriously undermined by present circumstances in isolated townships.

In Queensland, the present 'solution' focuses on welfare trials soon to start in North Queensland. Pearson has worked long and hard to bring this about, and hailed the commitment of \$48m to a program aimed at wresting four Cape York communities from passive welfare as "the most significant reform in welfare since the Second World War" (*The Australian* 19/7/07). A four year trial will be run in

which the 3,000 residents of the four communities will have to accept responsibility for the healthy upbringing of their children, proper maintenance of their homes, and work to get themselves off 'sit down payments'. In short, welfare payments will become conditional, and failure to satisfy newly stipulated performance obligations may result in having a significant portion of those welfare payments withheld from individuals, and managed for them by a responsible family or community member. The Queensland Government will introduce a Family Responsibilities Commission (FRC) on 1 July, 2008, to work with individuals, families and communities to deal with issues of alcohol, drugs, violence, truancy, neglect, gambling, and financial waste. The goal is for the FRC to be pro-active and help rebuild local community norms, and under this plan FRC intervention will occur if parents fail to send their children to school or fail to protect them from harm and neglect, or in the housing context if tenants fail to comply with lease conditions. These reforms reflect Noel Pearson's neo-liberal plan for the future via his Cape York Institute's *From Hand Out to Hand Up*. His plan for progress into the future involves (a) making all welfare payments conditional (b) removing perverse welfare incentives against employment (c) encouraging residents to buy their homes and assume responsibility for them (d) attracting businesses by 99 year leases, and (e) redefining the idea of community in acceptance of the fact that there will never be sufficient employment in remote communities, so that members will have to rotate in and out (rather like the repatriation of incomes from Samoans in New Zealand etc). If life is not to be the Hobbesian "nasty, poor, solitary, brutish and short", major reforms are urgently needed. Queensland Premier Anna Bligh has indicated that if the FRC trial is successful the approach will be used more widely.

A third solution relates to finding the path to best achieve growth in 'the failed state in our midst'. Anthropologist Peter Sutton [2007; *The Australian*, 1/12/07 p6] exposed 30 years of failed indigenous policy in a 2001 paper called "the Politics of Suffering". In supporting the NT emergency intervention as necessary and overdue, and endorses the recognition that the most important issue in Aboriginal affairs is protection of the vulnerable. He likens the task in front of the Rudd Government to nothing less than a post-war reconstruction. Resource limitations will make a stage-by-stage process all but inevitable, and viewed as a plan for Third World development, which is what this really is, this stage-by-stage notion is consistent with Dani Rodrik's (2005; 2007) influential approach to development economics, in which growth diagnostics start by first identifying the most binding constraint in a given case. Once that has been dealt with, resources can be focused on the next most binding constraint. Sensible stages in the steps moving forward for what Marcia Langton (2007b) calls the 'failed state in our midst' may thus be identified as:

- (a) protection of the innocent
- (b) restoration of acceptable standards of governance, and individual responsibility, in remote communities
- (c) ending passive welfare and associated passivity
- (d) developing an understanding of addiction and choice
- (e) expansion of human capabilities, via improved results in education and health (which probably cannot be done in isolation from employment creation and increased need for self reliance)
- (f) encouragement of private sector employment creation programs, especially in mining and tourist regions
- (g) expansion of social capital – both within and between communities. This includes continuing education of the broader Australian public and acceptance of the rotation of people in and out of isolated communities for work purposes.
- (h) appreciation of what forms of intervention remain warranted and helpful and which forms have to go. Distortions in present markets need to be identified.
- (i) fostering of employment creation programs, training support, and other self reliance initiatives regarding home ownership and the like.
- (j) social integration. This should include full recognition of property rights, including those linked to the ‘stolen wages’ debate.

Pearson accepts that both individual agency and structural issues are key factors in explaining Aboriginal poverty, and that their relative importance will vary from place to place. This conforms with the Stiglitz and Rodrik stance on development economics that ‘one size does not fit all’.

A fourth dimension of a search for solutions derives from Australia’s current mining boom and its potential for Aboriginal development. Marcia Langton (2007b) notes that in the midst of much Indigenous misery the biggest mining boom in world history is currently taking place in remote Australia. This boom, largely a consequence of the extraordinary economic growth taking place in China and India, has left the Western Australian and Federal governments awash with royalties and the benefits of economic growth. Langton’s complaint is that wealth is extracted, but the local people are left destitute. Taxes and royalties accrue to the Western Australian government and the boom makes people in Perth rich, while little goes back into the Pilbara or the Kimberley: “It is a classic case of underdevelopment and colonisation. It is like Africa in the 19<sup>th</sup> century”. In this context Peter Botsman (2008; Brisbane Institute, December 2007) notes that in a place like the Pilbara or

the Kimberley where the mining boom has brought many economic opportunities, there is absolutely no excuse for the low levels of participation of Aboriginal people in the mining and ancillary industries. In the Pilbara 16 billion tonnes of ore per annum are extracted from Aboriginal lands, yet only a few hundred Aboriginal people are employed. Botsman therefore looks to the private sector for job creation, and claims that his group helped train 20 Indigenous people (for example as Heavy Plant Operators), 19 of whom graduated and were offered full time employment. A push has likewise begun to open up the country's banks to employment for Aborigines (*Weekend Australian* 17-18 February 2007).

A fifth aspect of the search for solutions is to remember that Aboriginal people do have a choice: they can stay in remote communities and live a (pseudo) traditional lifestyle if they prefer - but if increased income, employment and modernisation is a serious goal, then there is little future in remote communities devoid of an economic base. The possibility that certain remote communities have to be recognized as non-sustainable simply has to be recognized. A US solution is to create casinos on Indian lands, and an equivalent Australian innovation could be to establish euthanasia centres, or surrogacy centres in the Northern Territory and other remote communities – but that is a peculiar, and probably unacceptable, way to make one very particular group of people subsidise Aboriginal aspirations. There is little likelihood, however, of future government willingness to underwrite a preference for a traditional lifestyle with taxpayer funds.

Sixthly, the necessary political seems finally to be present. Prime Minister Kevin Rudd and Opposition Leader Brendan Nelson will co-chair a bipartisan policy commission to set about improving aboriginal living conditions. On 20 March 2008 they announced a pledge to close the 17-year life expectancy gap between Indigenous and non-Indigenous Australians by 2030. The Government also undertook to ensure that Indigenous Australians will have access to the same quality health services as the rest of the population within a decade. Housing is seen as a priority. The resources are available, especially while large federal budget surpluses are being recorded. The test will be in the execution of the new welfare reforms.

## 10. Conclusions

- (i) As the Productivity Commission reports on *Overcoming Indigenous Disadvantage* make clear, the living standards of Australia's Aboriginal people are unsatisfactory, lagging well behind those of mainstream Australians.

- (ii) A recent report into Indigenous well-being showed that countries like New Zealand, America and Canada out-rated Australia in improvements to Aboriginal outcomes (in health, education and economics) between 1990 and 2000 (ABC 27/12/07). Australia was highlighted as the only country on the list to have widened the gap between its Indigenous and non-Indigenous groups.
- (iii) The Australian Government has recently delivered an historic apology to the Aboriginal people for past wrongs and suffering, but has remained firm that this implies no commitment to payment of compensation. The Canadian Government on the other hand is set to pay more than \$1 billion worth of compensation to members of that country's indigenous population.
- (iv) Significant issues which could well have been resolved by now – including the elimination of trachoma and the stolen wages issue in Queensland – have not been resolved.
- (v) The 'stolen generations' issue has been addressed by the new Rudd Government, but remains contentious. Historians continue to debate the exact extent to which Aboriginal children were 'stolen' in earlier generations, and the extent to which it is appropriate to talk of an Australian genocide. Compensation has not been offered. Whatever the outcome of the 'history wars', normal principles of equity imply the need for some form of compensation insofar as any victims of stolen generation policies can be identified. To some, the present policy of apology without compensation for admitted injustices means that the Aboriginal population is still being abused.
- (vi) In the context of past Aboriginal welfare policy, Friedman would easily find much to vindicate his attacks on paternalistic intervention. In seeking liberation from 'the poison of welfare dependence', a growing list of Aboriginal leaders stress that in their efforts to strengthen the position of the underdog, they now stand foursquare behind Friedman.
- (vii) *Conditional* welfare payments will be a cornerstone of welfare reforms now being introduced, the primary objective of which is social progress rather than individual freedom. There is now increasing acceptance of a path-dependence running from the denial of rights to aboriginal people throughout much of the twentieth century (including rights over movement, employment and education), to the apparent injustices still vexing the issues of stolen wages and stolen generations, to the urgent present need to develop human capabilities (including in basic health and education and in community governance), especially in the remote communities. Making welfare payments conditional upon progress in developing those capabilities is now seen as the hope of the future.

- (viii) Aboriginal leader Noel Pearson emphatically blames past passive welfare policies for many ills, precisely in conformity with Friedman's position. When everything is provided by someone else, and money is given for free, and you then add alcohol and drugs to the mix – and do it in a society given to 'demand sharing' within a community where no particular standards are expected in return - the result is social chaos. Hence Pearson's call for *conditional* welfare in place of earlier unconditional welfare, in order to provide a link between personal behaviour and welfare income, and in order to rebuild the social fabric of Aboriginal society. Aboriginal leaders Noel Pearson (*The Australian* 15/12/07 p24) and Marcia Langton (2008) are emphatic that "remote indigenous people are victims of dehumanising government policies".
- (ix) Nonetheless it is unlikely that renewed and robust Aboriginal communities can be raised from present circumstances just by the sort of laissez-faire policy commonly associated with Friedman. Policies which induced departures from individual responsibility may explain the generation of past problems, but future progress now requires positive interventions to build the human capabilities which are themselves a prerequisite to effective choice and meaningful equality of opportunity. Pearson and other Aboriginal leaders therefore see Sen's capability theory as an important supplement to the Friedman critique of passive welfare policies. Hence the progress now being made towards the introduction of significant capability-building welfare reforms in North Queensland, the Northern Territory and elsewhere. Without investment in the development of human capabilities, and action to curb the destructiveness of widespread alcoholism and domestic violence, neither individual responsibility nor individual freedom is likely to be meaningfully re-established.
- (x) There is no doubt that there is now widespread community desire to see effective action to improve Aboriginal living standards. Radical new policy approaches remain somewhat controversial, but are nonetheless well supported as alternatives to the failed policies of the past. Intellectual roots for these paternalistic emergency interventions can be found in the theories of Friedman, J.S. Mill, Stiglitz and Amartya Sen.
- (xi) The political will to deal with the relevant issues now exists. Resources are available. What is needed is skill in policy execution to see if significant targets - including halving the 17 year gap in life expectancy or significantly lifting education standards - can be achieved by 2030.
- (xii) Noel Pearson (*The Australian*, 25-26 Aug 2007) notes that Indigenes

occupied the land for up to 60,000 years, but have not fared well in the last 200 years. The 1967 referendum removed discrimination from the original Australian constitution, but by itself did nothing to create the positive freedoms needed before Aboriginal people could assert meaningful equality of opportunity. In conformity with Sen's perspective, Pearson emphatically endorses the notion that, to this day, positive interventions remain needed to create the desired equality of opportunity. Australia may have come full circle in terms of the implementation of paternalistic policy, but the paternalistic policies of 2008 are seen as the experimental requirements of an emergency, and as positive discrimination designed to 'close the gap'.

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# INTELLECTUAL CAPITAL MANAGEMENT AS ENTREPRENEURIAL COMPETENCE DRIVER

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## Abstract

The entrepreneurial efforts for outstanding performance are recently a commonplace among researchers specialized in the matter of performance measurement. Indeed the striking difference in causa performance is its shifting from classical paradigma (financial ratios) to an increasingly intellectual capital or knowledge based one. The tangible, visible and materialistic based performance paradigma is gradually replaced by the terminus competence which has its strong connotations to the intangible, tacit or invisible human knowledge. This shifting is affixed as a “do it smart, not hard” business philosophy whereby the human factor with his intellective (episteme) and agentive (techne) potential is the firms source of competitive edge. Through the Parmenidian syncrasis of human based intellective (cold) and agentive (warm) elements the corporate becomes a non-imitational, conceptive, creative, “cognitive capitalist” (knowledge factory). The managerial and organizational structure supports this cognitive entrepreneurial agenda by establishing and forcing the Intellectual Capital Management (I. C M) as its supreme strategic management imperative. In this way the entrepreneurial syncrasis of the firm’s tangible resources like physical, technological and financial capital with the firm’s intangible resources, like intellectual capital, “produces” not just products or services but intellective-agentive entrepreneurial competence and expertise.

*JEL classification: P47.*

*Keywords: Intellectual Capital, Competence, Corporate Performance.*

## 1. Prolegomena

The entrepreneur as phaenomenon and as a main construct for the economy’s functioning has been long time before discussed – in the antiquity. The centrality of the entrepreneur concept has been recognized by the ancient writers and philosophers in Greece<sup>1</sup>. Entrepreneurship has been scientifically (“episteme”) and philosophically taught but also practiced (“techne”) in the daily life<sup>2</sup>. It is difficult to imagine that any made great expeditions<sup>3</sup>, wars and discoveries in the antiquity were performed without entrepreneurial mastery and supreme organization<sup>4</sup>. The Socratic philosophers (Xenophon, Plato, Aristotle) and especially Xenophon have

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talked as first about the entrepreneur and distinguishes so far between the functions of manager (knower) and entrepreneur (owner)<sup>5</sup>. Entrepreneurship was held in the antiquity as a special kind of “profession” because the related businesses were risky and uncertain<sup>6</sup>. Even psychological and behavioral dimensions have been addressed concerning entrepreneurial alertness<sup>7</sup>. In the context of the present paper the most interesting point is that Xenophon<sup>8</sup> had not only recognized the importance of the land (soil) for fruitful harvesting but also the impact of skills and knowledge (“*knowledge*” or “*intellectual entrepreneur*”). Although entrepreneurship in our times is understood in economic dimensions it is obvious that any kind of organized and coordinated activities in the antiquity requested outstanding “entrepreneurial” qualities<sup>9</sup>.

Connected with the above mentioned entrepreneurial dimension is also the question of the value at all, which goes back to the works of Aristotle first and to the economic view of Xenophon’s too. They somehow caused the division of the economists and the economic system in two groups or blocks. Aristotle is saying first that the price of goods depends on buyer’s own perceived usage utility. This notion addresses the *subjective ophelimistic price theory* or the capitalistic based view on elasticity of demand («*Εκάστου γάρ κτήματος διττή ἡ χρῆσις ἐστι... Ἄμφοτεροι γάρ ὑποδήματος χρήσεις... τὴν οἰκείαν χρῆσιν... ἀλλαγῆς ἔνεκεν γέγονε*», Ἄριστοτέλης, Πολιτικά, Α8-9, 1257α, 5-15). When goods are objects for exchange (*ἀλλαγῆς ἔνεκεν*) and not for the own usage (*οἰκείαν χρῆσιν*), then the related value comes up due to the cost (*δαπάνη*) of the product’s ingredients like material and labour. This second case addresses the *objective materialistic price theory* which has been first re-developed by the Scholastics in the medieval times and influenced later on the “Marxist view” of added value of labor, because «... *μὴ παλούμενοι μὲν γάρ οὐ χρήματα εἰσιν οἱ αὐλοὶ, οὐδὲν γάρ χρήσιμον εἶσι, παλούμενοι δὲ χρήματα*», (Ξενοφών, Οἰκονομικός, I, 10-12). In this way the pricing (profit) approach is predetermined either as a progressive one (progressive cost accounting, *expenses oriented*) or as a retrograde one (retrograde cost accounting, *earnings oriented*). In this way the two economic systems of “capitalism” (subjective, earnings, profit) and materialism or “communism” (objective, expenses, labour cost) found their prodromal theoretic thinker in the person of Aristotle and his value theory. Even Adam Smith in his work “*An inquiry into the nature and causes of the Wealth of Nations (1776)*” made the distinction between value in use and value in exchange, while Francois Quesnay mentions a *valeur usuelle* and a *valeur vénale*<sup>10</sup>. Accordingly there is really “nothing new under the sun”!<sup>11</sup>

The classical entrepreneur conceptional discussion itself has started in the antiquity mainly with the ancient Socratic authors Xenophon and Aristotle<sup>12</sup>. In the modernity the mentioned concept has been elaborated in detail by Cantillon (1680-1734), Jean-Baptiste Say (1767-1832), Alfred Marshall (1842-1924), Joseph

Schumpeter (1883-1950), Frank Knight (1885-1972) and Israel Kirzner<sup>13</sup>. These mentioned economists introduced a paradigm shifting in the conception of *successful entrepreneurship* or at least they have put an additional accentuation<sup>14</sup>. The crucial points for the last six thinkers are dealing with the entrepreneur's position in the economy as a whole and within its firm, with the definition of his task, with his personality and related abilities, with the determination of the demand and supply in the market and finally with the expected returns and drives<sup>15</sup>.

Cantillon (1680-1734) introduced in the modern era the very concept of the "entrepreneur" and had acknowledged the entrepreneurial function within the economy<sup>16</sup>. Interestingly he is distinguishing three types of economic agents: the traditional capitalists or *landowners* (physical capital), the *entrepreneurs* (structural capital) or arbitragers or "equalizers"<sup>17</sup> and the workers (human capital). Motivated by the profitability of the transactions the entrepreneurs are facing the dilemma of *risk and uncertainty*<sup>18</sup>. Therefore cautious forward-looking is requested for every entrepreneur but not innovation. Jean-Baptiste Say (1767-1832) in his work "*A Treatise on Political Economy or the Production, Distribution and Consumption of Wealth*" (1803) ascribes to the entrepreneurial concept a "new" but old (see Xenophon's work "Oeconomicus") dimension, namely that of the manager's role. Accordingly the entrepreneur is not like Cantillon's "outdoor dealer" of the economy as a whole and in general but the *leader* and *manager* in the partial firm. More than this Say regards the entrepreneurial function as an administrative kind of labor and moves away from the narrow entrepreneur concept of Cantillon. Say denies the Aristotelian based "*zero-sum*" effect and declares that the resources get their value after their transformation to useful goods, so that wealth is created through transformational production.

In this context he further declares the agriculture industry (*physiocratism*), the manufacturing industry and the commercial industry as the only types of industry which are able to create value<sup>19</sup>. He further seeks related connotations between the three mentioned industry types and the three types of knowledge: theoretical *intellective* knowledge (*episteme*), applied agentive knowledge (*techne*) and executed knowledge (*praxis*). While *episteme* flows easily to other national economies (knowledge dissemination) the areas of *techne* (production) and *praxis* (distribution) are pure entrepreneurial domains, where the entrepreneur creates products for human needs and through this consumption he is gathering all those monetary revenues to use them again as an input for the production of goods. In this way the entrepreneur creates wealth for land owners (rent for physical capital), for capital owners (interest for monetary capital) and labor owners (wages for human capital). Although the early neo-classical economists like A. Marshall

(1842-1924), F.Y. Edgeworth (1845-1926) and A.C. Pigou (1877-1959) had seriously included the entrepreneur concept in their investigations the later neo-classical successor thinkers had almost “erased” it. The “mechanized” homo-economicus concept has formally (dis) solved all problems with its “*imperfect*” perfectionism. In a system without any asymmetries concerning information, uncertainties, risks, preferences and equilibriums there is no need for entrepreneurs even no need for human beings but for *robotized men* or *humanized machines* -the perfect consequence of the Cartesian “*cogio ergo sum*” doctrine<sup>20</sup>.

Alfred Marshall (1842-1924) has developed a model of an entrepreneur which almost harmonically extends the one of Say. Only the Marshallian concept introduces *innovation*, *alertness* and a *general ability* as a supreme quality of the successful entrepreneur. General ability depends on social infrastructure of the entrepreneur, like its family (entrepreneurial) background, its education and innate characteristics.<sup>21</sup> Joseph Schumpeter (1883-1950) made a significant contribution to the concept of entrepreneur and his most ideas are put in his work “The Theory of Economic Development” (1911)<sup>22</sup>. He is supposed to have turned down the existing entrepreneurial paradigm: from manager to the leader of the firm, from innovation practitioner (applier or executor) to innovation creator, from exogenous innovation to endogenous one, from agentive entrepreneur (techne) to intellectual entrepreneur (episteme), from entrepreneur with agentive potential to one with intellectual competence or expertise<sup>23</sup>. Summing up Schumpeter has an entrepreneur in his mind which is an innovator, an engine for economic progress not just its wheels, not an owner of capital or manager, neither a risk bearer, but a dynamic inventor of new business combinations and opportunities. He is moving away from the static exogenous based entrepreneur concept of Cantillon towards to a dynamic one through which the economy is forced to an endogenous based higher equilibrium.

Frank Knight (1885-1972) has developed the difference between *risk* and *uncertainty* in his thesis “*Risk, Uncertainty and Profit*” (1921). Uncertainty (unlike risk) is a type of probability without any valid basis, without empirical past values, because it concerns outcomes of unique events. This true uncertainty is supposed to be managed through entrepreneurial judgment and estimation. Therefore original business or entrepreneurial decisions never concern probabilities based on past data or experience because this is the work of computers or common calculators. The remuneration of the entrepreneur is the residual income and he also guarantees the remunerations of the other agents or “*stakeholders*”. Israel Kirzner emphasizes the *entrepreneurial alertness* for discovering and exploiting profit opportunities and doing so they form the equilibrating forces of the market. The entrepreneurial function requires a special type of knowledge, a developed perception of opportunities, an increased alertness and the ability for decisions

under uncertainty, the bearing of risk and the competence of error correction (“learning by doing” or “trial-and-error”)<sup>24</sup>.

## 2. Entrepreneurial aspects

All the above mentioned entrepreneurial aspects (owner, manager or leader) concern the entrepreneur as an individual person with alertness and ability to perceive opportunities for profit, without to consider or worry about where the opportunities really come from. Probably the “*invisible hand*” mentality had strong roots in the brains of the earlier economists and didn’t care about the “*visible hand*” which is “*mixing the playing cards*”. Schumpeter (1883-1950) was the first in the modernity to address this very point when he declared that innovation were an endogenous process and opened therewith a new way of seeing innovation and knowledge. Today seems to be clear that the technology opportunity set is endogenously created through investments in knowledge and through its related spillovers (Acs et al, 2005; Romer, 1986; Acs, Storey, 2004). Especially within the context of knowledge spillover theory of entrepreneurship it is interesting to work out the interrelationships between the entrepreneurial object (business phenomenon) and the entrepreneurial subject (business person). Close to that is the question of the relationship between economic welfare and entrepreneurship in general. Traditionally the entrepreneur conception has been incorporated into the economic production function in the following general form:

$$Y = f(L, K) \quad (1)$$

The output or welfare of economic transactions is represented through  $Y$  depending on the factors labour ( $L$ ) and capital ( $K$ ), whereby Solow’s (1956)<sup>25</sup> *exogenous* neoclassical economy’s production function:  $Y_t = f(K_t, L_t)$  - where  $K_t$  is the physical capital stock and  $L_t$  is the quantity of labour (at time  $t$ ) under constant returns to scale, positive diminishing marginal returns – expresses the above relationship (Mavridis, 2004b). Acs and Storey (Acs, Storey, 2004) report in a recent publication that “*quantities of labour and capital alone explained only a small fraction of the variation of GDP*” which is supposed to be the measure for welfare and economic prosperity. This means that there is a big share of “*unexplained*” variation of GDP. In order to explain this unexplained element *technological change* ( $T$ ) has been introduced as a possible explanative variable and has been expressed through quantifiable measures, like education, research and development expenditures (R&D).

The growth model of Mincer (1974)<sup>26</sup>:  $Y_i = f(S_i, X_i) = \ln Y_i = \alpha_0 + \alpha_1 S_i + \alpha_2 X_i + \alpha_3 X_i^2 + \varepsilon_i$  takes this fact into consideration and introduces education time in years ( $S_i$ ) and experience ( $X_i$ )<sup>27</sup>. The expression  $\ln Y_i$  represents the *personal income*. The Lucas (1988) production function  $Y_t = f(A, K, L_1, L_2, L_3)$  is differentiated so far as it considers additionally  $L_i(L_1, L_2, L_3)$ , namely the number of workers or employees with primary schooling or illiteracy ( $L_1$ ), secondary schooling ( $L_2$ ) and tertiary education ( $L_3$ ), where  $A$  is the level of *technology* and  $K$  is the *physical capital stock*. Even after this correction of the exogenous determined economic production function the unexplained share remained still “substantial” while the more interesting issue is the recognition that “*technological change was not exogenous but rather endogenous*” (Acs, Storey, 2004; Romer, 1990)<sup>28</sup>. Having this in mind the *exogenous* neoclassical production function Romer’s (1986)<sup>29</sup> takes the form:  $Y_i = f(K_i, A_i * L_i)$ , whereby  $A_i$  is now the knowledge capital (firm  $i$ ) without any assumptions about the growth rate of  $A_i$ , but only that an increase of physical capital  $K_i$  causes a parallel increase of knowledge capital  $A_i$  ( $K_i' / K_i = A_i' / A_i$ ) at zero cost ( $dA = \text{const. } dK$ ).

This leads to the following *endogenous* model of growth:  $Y_i = f(K_i, K_i * L_i)$ , which expresses that the results are caused through the “*learning-by-doing*” process (Arrow, 1962)<sup>30</sup>, because knowledge (spills over like a public good)  $A_i$  depends from the whole economy’s capital stock  $K_i$  and not merely from the firm’s one (holistic knowledge aspect). The succeeding implication of this development is expressed in a knowledge based entrepreneurial function in the form (Acs et al, 2005):

$$E = \gamma (\pi^* - w) \quad (2)$$

Therewith the decision to be involved in the economy as an entrepreneur ( $E$ ) depend positively on the expected earnable profits ( $\pi^*$ ), has negative relationship with  $w$  which is the antagonistic value or anti-motivation variable for being an entrepreneur and is expressed through the possible earnable wage rates when employed by another entrepreneur. The variable  $\gamma$  represents all other influential factors on entrepreneurship. When taking into consideration also other factors like the knowledge stock ( $K$ ), the intensity of its exploitation ( $\theta$ ) and various barriers to entry the market ( $\beta$ ) the function looks as follows:

$$E = f(K, \theta, \beta, w) \quad (3)$$

Acs et al (2005) reports that the related results of a performed regression analysis confirm the hypothesis that entrepreneurial activity as a special production factor has significant relationships with economic knowledge in general and its modes of

creation and dissemination in partial. The above performed analysis checked for the relationships between the levels of entrepreneurship with a number of certain variables like knowledge stock. It explains where opportunities come from and how knowledge spillovers occur (production and distribution of knowledge). Accordingly discovery, exploitation, consequences and opportunities are the crucial points of entrepreneurship which are connected to the modes of intellectual entrepreneurship. Especially new knowledge is reported (Acs & Storey, 2004) to create new firms, while bought in knowledge (FDI) and old stock knowledge in form of patents have weaker impact on new start-ups.

It is reported that that human capital (TT) as number of degrees, education and diversity (education, experience in industries)<sup>31</sup> in the top management is likely to have positive association with innovation (new product, services and processes) and venturing (entry into new industries and business segments). The diversity index (DI) of heterogeneity (Blau, 1977)<sup>32</sup>  $DI = (1 - \sum p_i^2)$ , where  $p$  is the percentage of members  $I$  each category,  $I =$  category. Diversity enhances collective creativity and reputation. Acquired knowledge (ET) by the firm (“internalization”) from external relationships assumes absorptive capacity supported through diversity of the knowledge base (Hayton, 2005). The relational capital (RC) is connected with the firm’s reputation of what and how good past actions have been performed (EE). Insofar this is firm’s competence indicator for mastering future issues. Therewith past performance and future competence is perceived as measurement for risk and certainty to all directions – inwarded and outwarded. In this way the relationship between performance and perceived competence has an impact on the corporate as a whole, like attractiveness, reduced transactions costs, maximized transactions returns, attracted stakeholders (investors, customers, suppliers).

Summing up all the above an entrepreneur is somebody who takes decisions about the coordination of scarce resources and the exploitation of “scarce” opportunities, keeping always in mind that entrepreneurial opportunities and activities will be increased when new ideas and knowledge are present. Recently an investigation about the explanative variables for entrepreneurship (Acs et al, 2005) delivered all the above in the following conclusions:

$$E_{j,t} = a_j + a_1 K_{j,t} + a_2 b_{j,t} + a_3 w_{j,t} + a_4 i_{j,t} + a_5 z_{j,t} + e_{j,t} \quad (4)$$

In the above equation the affix  $j$  is the country and  $t$  the time,  $K$  is the knowledge stock,  $b$  the representant for barriers,  $w$  the wages,  $i$  the exploitation intensity of existent knowledge,  $z$  represents the various control variables<sup>33</sup> and  $e$  the error variable (independent, normal distributed with zero mean and variance  $\sigma^2$ ). The level of entrepreneurship activities ( $E$  as share of self-employed) has robust significant, positive relationships with the variable knowledge stock (measured by

R&D expenses)  $K$ . The public expenditures for high-tech *education* ( $v$ ), the *growth* rate of GDP, the urbanisation ( $v$ ) and the age category 30–44 years ( $v$ ) have positive sign. Negative signed are the variables for barriers  $b$ , wages  $w$  and knowledge exploitation  $i$  (measured by the share of patents and level of value added or VA).

High wages indicate on high opportunity cost for the ambitious entrepreneur and this decreases the wish for new start-ups. High value added (VA) levels indicate on a good exploitation of the existent knowledge (supposed there is a relationship between knowledge<sup>34</sup> and value added), which means that opportunities for newcomers are restricted. Expenditures for public education have distinguished (qualitative and quantitative) aspects which mean that significant relationships are only confirmed when qualitative high-tech education is financed. The quantitative aspects address the fact that not the public expenditures for (any) studying peoples are important but more those fort the share of diverse degree holders. Most probably a successful entrepreneurship policy has to point out the important issue of knowledge creation either on individual or collective (organised) level taking into consideration first the ontological (person) and secondly the epistemological (science) aspect (Nonaka, 1994). So the crucial point is to show how knowledge is internalized (ET, learned), combined (TT, conceptual), socialized (TE, documented) and externalised (EE, disseminated, spilled-over). In this way different types or modes of knowledge entrepreneurial activities or policies are to be discussed.

### **3. Intellectual Entrepreneurs**

#### **3.1 Intellectual capital taxonomy**

The causa intellectual capital as it is known in our recent days has started to be a research matter about twenty-five years before. But in the last decade many researchers in academia and in praxis started intensively thinking and writing about “knowledge in action” or intellectual capital. Many thinkers, writers, literates, philosophers and other interested men delivered either orally or in written form their thoughts about all the basic elements of knowledge. Beginning by the Socratians (Xenophon, Plato, Aristotle) and up to the late philosophers of the 19<sup>th</sup> and 20<sup>th</sup> century the knowledge matter and its many facets has been exhaustively discussed. They asked about the phaenomenon “knowledge”, its essence, properties and the mode of perceiveness. Knowledge as a special input type has many aspects and characteristics in context with the entrepreneurial

activity. Since production became more complicated because of its sophisticated “production chain” the related “value chain” structure is more then before cognitively determined. From the beginning of the value chain (supplier) up to its end (customers) the share of the “cognitive inputs” is steadily increasing<sup>35</sup>.

In this way more and more knowledge or cognitive “parts” are included or produced and also “consumed”. This means further that the cognitive values are replacing the material and technological ones, so that the supplies and the deliveries of goods are replaced through supplied (used) and delivered (created) knowledge values (“knowledge network”)<sup>36</sup>. This means that the classic economic paradigma turns around where tangible traditional views, aspects and concepts are reconceptualized getting an intangible touch. This turning to the “knowledge society” (Nonaka, 1994) has its consequences for the whole economy and especially for the entrepreneurial corporates. The questions raised now have to do with the whole range of decisions beginning from the needs of the customers and ending in prescriptions for the suppliers. The whole tangible transformation (production) chain has to be reoriented due to the intangibility of the cognitive “resources”. Organizations have to think about the production, distribution and acquisition of cognitive or intellectual resources, intellectual capital and intellectual “spare parts”. Therefore the entrepreneurial role has to be aligned with the new cognitive processes. As Nonaka precisely mentions the western thinking was dominating for long time by the finite “information-processing”<sup>37</sup> (MIS – Management Information Systems) mentality looking always for “problem solving” or mechanistic production decisions, while the new cognitive shifting asks for holistic “knowledge creation” (MIS - Management Innovation Systems) or “problem creation” (Nonaka, 1994).

In this context one of the supreme entrepreneurial attributes – *innovation* – cannot be sufficiently explained and understand with the “solving” mentality but more with the “creating” one. Solving is more equivalent to the entrepreneurial maxim of the *invention* doctrine, which is in fact directed towards quantitative colored solutions or “combinations”. It is obvious that the exogeneity assumption of “technological change” is tightly connected to the inventional or problem solving thinking, while the endogeneity orientation of technological change leads to *innovation* and knowledge creation. Therefore the apparent conclusion is the quest for a new entrepreneurial paradigma – the *knowledge entrepreneur* - the “knowledge or problem maker”, not the “knowledge or trouble-shooter”. Accordingly not only the organizational structures and processes have to take this momentum into consideration, but also the whole “cognitive infrastructure”. The classic high level representants for knowledge creation, production, documentation and dissemination – like universities, technological institutes and other related research centers – have to rearrange their passive commitment as

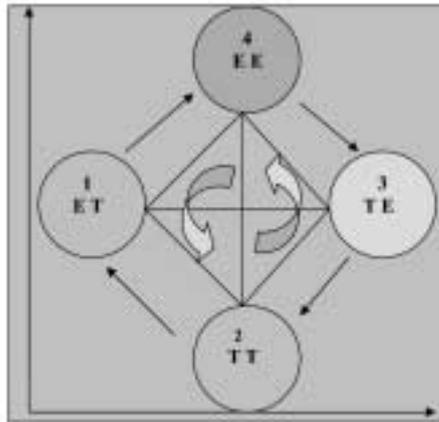
only providers of intentional problem solving knowledge to an active role of innovation catalysts.

The knowledge phenomenon which has been recognized by the Socratics in the Greek antiquity is a bundle of many “instrumental chords” and each one has its own “cognitive sound”. The cognitive range embraces two main dimensions – the epistemological (knowledge object) and the ontological (knowledge subject) one (Nonaka, 1994). The knowledge object (cosmos) itself as “source of knowledge” has been already discussed by the pre-Socratic philosophers and took its manifested forms by the philosophers Plato and Aristotle. While the first regards the ideas behind the visible objects as responsible sources of knowledge, the latter accepts the visible reality as the only source for knowledge. Therefore Plato looks behind the matter while Aristotle before it. In this way two main “schools” have been established and all the succeeding thinkers up to now took a position either closer to the “idealistic” concept of Plato or closer to the “realistic” one of Aristotle. The consequences of these two positions have extensions to our modern way of thinking insofar that we think in those categories, like “tacit” (invisible) and “explicit” (visible) as formulated and explained in our times by Michael Polanyi (Nonaka, 1994).

The knowledge subject as part of the knowledge process has been also discussed by the above mentioned philosophers and expressions like “Know-What” and “Know –Who” have been established by Aristotle first. While the object based knowledge is divided in tacitly or Nooumenon (Plato) and explicitly perceived or Phenomenon (Aristotle) one, the subject based (human) knowledge is for both (Plato and Aristotle) either tacit (T) or explicit (E). Tacitly or explicitly created knowledge preassumes living humans (ontology) and nature or cosmos (epistemology) and “the continual dialogue between tacit and explicit knowledge” dimensions (Nonaka, 1994). This dialogue or process of knowledge creation passes some phases or steps, like (a) knowledge acquisition (information flow), (b) knowledge creation, (c) knowledge manifestation and (d) knowledge application. In the acquisition phase information helps the person to “update” his “data” base, whereby explicit information (E) is converted to tacit (T) knowledge (1.ET) categories (diversity). In the creation phase the person rearranges, reconcepts and updates in his mind his knowledge base concepts according to his intentions, commitments, beliefs and ethical values (2.TT). The knowledge manifestation concerns the transformation of tacit knowledge to the explicit one, whereby the person manifests his tacit knowledge by using the cognitive infrastructure of the enterprise and makes it available to the organization (3.TE). In the last step the explicit made knowledge is distributed to the “stakeholders” or to the society itself by using the relational “knowledge network”<sup>38</sup> (4.EE) (Figure 1).

**Figure 1.** Modes (Modules) of Knowledge Conversion - Spiral of Knowledge<sup>39</sup>.

Tacit (Nooumenon)



Explicit (Phenomenon)

The above mentioned modes or modules of *knowledge conversion* are four different autonomous but also integrated states of knowledge creation and explain four *individual* and *organizational* types of knowledge conversion (Nonaka, 1994):

1. In the first (1.ET) mode the perceived environment (object, “*Know-What*”) is tacitly individualized (“**internalization**”) as an Aristotelian eidos (mental object) (**LC – Learning or Systemic Capital**).
2. In the second (2. TT) one -defined as “**combination**”-the individuals readjust or update their tacit (analogue) knowledge (“*Know-Who*”) base (**HC–Human Capital**).
3. In the third (3. TE) one which is named “**socialization**” the person converts tacit mental models (“*Know-How*”) to common (group or corporate) explicit knowledge patterns (**SC–Structural Capital**).
4. In the fourth (4. EE) phase defined as “**externalization**” the explicit “digitized” (“*Know-When*”) knowledge base is distributed or spilled over to the “Stakeholders” or society or culture (**RC–Relational Capital**).

Existing knowledge (prior knowledge) as an explicit, digitized or documented knowledge is declared as a “stock” of knowledge which can be transferred or disseminated (“flow” knowledge). This *knowledge flow* enables creation of new knowledge “under production” or “under construction” (Lambooy, 1997). This type of knowledge is called learning or systemic knowledge (LC). The meeting of

both knowledge types (old and new “tacit” knowledge) takes place in the brain of the “*knowledge capitalist*”, which forms the *human capital* (HC).

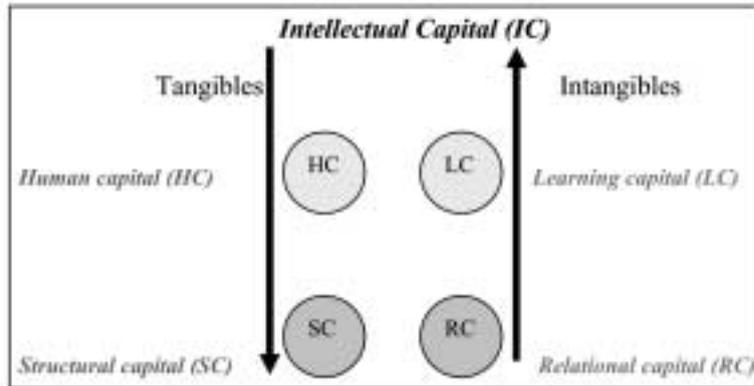
Since tacit knowledge became explicit or documented, it can be used to create value in form of products, services, methods or even new knowledge and is part of hardware (matter), software (methods, algorithms) or brainware (ideas, concepts, attitudes, values). This type of tacit knowledge expressed as technology capital is regarded as *structural capital* (SC).

**Figure 2.** *Dimensions of knowledge Modules.*

<b>Internalization</b>	<b>Combination</b>	<b>Socialization</b>	<b>Externalization</b>
• E T	T T	T E	E E
• tacit	tacit	explicit	explicit
• intangible	intangible	tangible	tangible
• invisible	invisible	visible	visible
• inwarded	inwarded	outwarded	outwarded
• learning	experiencing	sharing	disseminating
• intellectual	intellectual	agentive	agentive
• cold	cold	warm	Warm
• perception	conception	expression	documentation
• member	goup	organization	stakeholder Net
• LC	HC	SC	RC
• performance	competence	competence	performance
• cognitive ratios	individual comp.	collective comp.	financial ratios
• acquisition	generation	accumulation	exploitation
• librarian	author	library	science network
• exploitation	intuition	innovation	intention

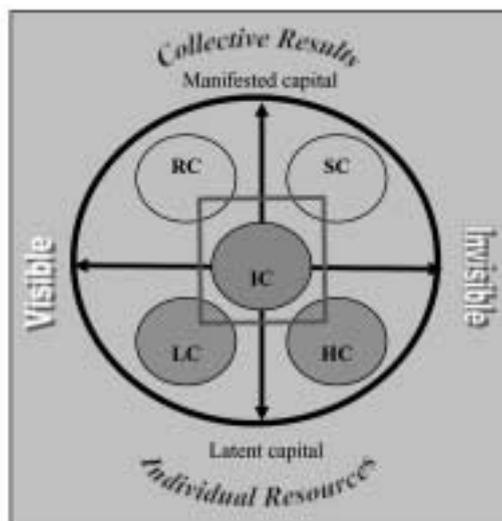
Every firm usually wants to distribute the own produced values (products, services, methods, ideas or knowledge) to customers and other “stakeholders” and also needs to receive from suppliers their produced values (products, services, methods, ideas or knowledge). This type of knowledge working behind is in reality an exchange enabler and is called relational network or *relational capital* (RC). The sum of learning capital (LC), human capital (HC), structural capital (SC) and relational capital (RC) is defined as the intellectual capital (IC). Structural capital (SC) and relational capital (RC) are mainly visible or explicit and therefore form the tangible part of the intellectual capital (IC) while the human capital (HC) is its intangible part. Inwarded knowledge tend to addresses self-administrative issues, which deal more with the firm (internal environment) itself.

**Figure 3.** *Tangibility – Intangibility dimensions of capital.*



Outwarded knowledge is directed towards the external firm or stakeholder environment, like suppliers, customers and others. While outwarded knowledge can never be tacit but always explicit, it may happen that inwarded knowledge could be an explicit / tacit (explicit knowledge “under construction”) one. Tangibility has to do with visibility, collectivity and manifestation while intangibility has connotation to the invisible, individual and latency (Figure 4).

**Figure 4.** *Intellectual Capital Aspects.*

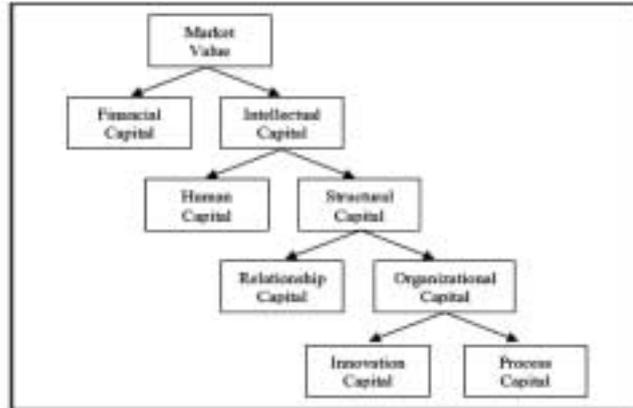


Discussing about the specific contribution of intellectual capital on growth it is necessary to understand it, to express its *structure* and finally to *measure* it. Still now the wish of the academic community to understand IC is more than apparent so that many writers have discussed about the essence of human capital, knowledge or intellectual capital (Bontis, 1998; Nonaka & Takeuchi, 1995; Mouritsen, 1998; Sveiby, 1997; Edvinsson & Malone, 1997; Mavridis, 2004a, Mavridis 2005). All of them accepted commonly that the main parts of IC are the *human capital* (HC as competencies of the employed staff), the *organizational capital* (OC as firmware in form of procedures, documentations, systems and methods) and the relational capital (RC expressed as customer / supplier based advantages). Intellectual capital (IC) is therefore the sum of individual competencies (HC), structural (SC), organizational structures (OC) and relational capital (RC) as the sum of dynamic relationships (like “supplier and customer” relations in its broader cast). *Organizational capital* (OC) and customer (*supplier*) capital (RC) are said to be the *structural capital* (SC) or the expressed or manifested knowledge, while the firm’s total IC is equal to the HC and SC (Scandia’s IC system, Figure 5).

### 3.2 An intellectual entrepreneurial concept

Although the Scandia system is one of the first schemes providing a simple and clear understanding of what is IC the present work tries to structure IC under the aspect of metamorphic growth process, which take place when human brainpower starts to transform the intangible “IC energy” (source) via *intangible* competencies to tangible forms, structures and procedures. Simply said we are facing the metamorphosis<sup>40</sup> of “*thinks to things*” (Mavridis, 2004b) or the *intellectual marriage* between the materiality (*naturality*) and the immateriality (*potentiality*) to the *reality*:

Figure 5. A “classic” IC division with its main parts.



Source: Diakoulakis et al (2004).

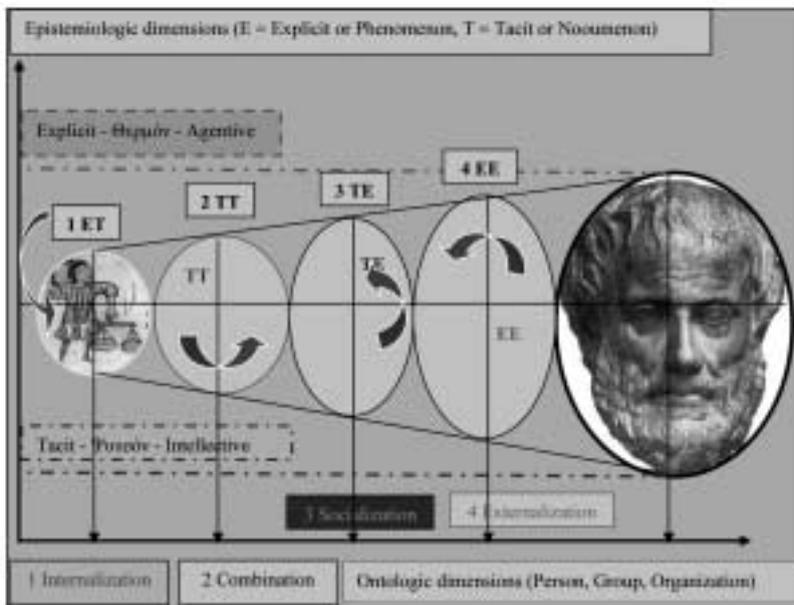
But according to the holistic understanding schemes like Scandia’s and the below (Figure 6) one represent simplifications (models) of the real world meaning that the reality cannot captured with our three-dimensional organs. More over our extended thinking has to embrace the idea that the (present) visible reality is only a part of another invisible reality, which will (may be) be visible later on.

**Naturality  $\Rightarrow$  Reality  $\Leftarrow$  Potentiality**

Facit: the realities or unrealities are a *time related function of our perceptive consciousness*. This means that *every tangible reality is mixed with an intangible one* and so far the *cause and effect* relationships cannot be absolutely described. Consequently the stochastically gained reality perceptions may be seen as parts of other parts or holons of other holons (Eijnatten, 2003). In this way the below shown *IC Mix* (Figure 6) has only constrained explicative power as being only one picture of the so many ones existing for one holon. Insofar are tangible (visible) and intangible (invisible) capitals faces of the same intellectual coin or intellectual balance sheet, where intangibles represent the potentiality or liability of the economic apparatus while tangibles show the manifested reality. When the individual tacit human capital (latent capital) is getting transformed to *explicit* collective capital

(structural or manifested capital) then the knowledge capital is a *flow*, otherwise a *stock capital* - stock or structure (Bontis, 1998). As a resultant of all these thesis and antithesis the synthesis seems to be a pragmatic path melting (grinding and / or polishing) all the extreme tensions. The question is like in Parmenides work the *analogy* or portions of the *syncrasis mixture* (ψυχρόν and θερμόν)<sup>41</sup>.

**Figure 6.** *The Spiral of Entrepreneurial Knowledge Conversion.*



This addresses the problem of the dominating or subordinating streams or the question of supremacy of episteme or that of techne, this of spirit or that of matter, mind or body, science or technology, sophia or phronesis<sup>42</sup>. We are trying therefore when taking into consideration the syncratic dimensions (υπερβάλλον) of Parmenides, the Aristotelian ontologic and Socratic epistemologic aspects mentioned by Nonaka (Nonaka, 1994) to reshape a new intellectual concept for the entrepreneurial activity- *The Concept of Intellectual Entrepreneurship* (CIE). Due to the above *syncrasis model* we distinguish between four types of *intellectual thinking* (episteme) or *agentive doing* (techne) concerned with the *epistemologic dimension* (Figure 6):

- (1) Learning or systemic capital (*ψυχρόν* / intellective - *sophia*) – perceptive<sup>43</sup>
- (2) Human capital (*ψυχρόν* / intellective - episteme) - conceptive
- (3) Structural capital (*θερμόν* / agentive - *techne*) - applicative
- (4) Relational capital (*θερμόν* / agentive - *phronesis*) - integrative

In the level of the individual or ontologic knowledge the synchysis equivalents are the following:

- (5) Know-What (knowledge, science, *ψυχρόν*, *sophia*) – Learning capital (LC)<sup>44</sup>
- (6) Know-Who (person, authority, *ψυχρόν*, episteme) – Human capital (HC)
- (7) Know-How (skills, methods, *θερμόν*, *techne*) – Structural capital (SC)
- (8) Know-When / Where (duration, frequency, extension, *θερμόν*, *phronesis*)- Relational capital (RC)

The above types 1, 2 and 5, 6 form the *individual knowledge* in its tacit (episteme) and explicit (*techne*) dimension. The types 3, 4 and 7, 8 form the *collective knowledge* with their embedded tangible and intangible aspects. Individual as well as collective knowledge are determined by the subject (knower), the object (known) and the related equivalents competence (know-how) and performance (know-when):

- (9) The Known (either perceptive or integrative) represents the *working* or *operating capital* of the firm.
- (10) The Knower<sup>45</sup> (either conceptive or applicative) represents the *starting* (human) capital of the firm.
- (11) The Knower competency (conceptive–applicative competence) represents the individual ability to express its (tacit) knowledge through action (agentive knowledge potential).
- (12) The Knower performance shows the ability of the firm to transform the individual (tacit) knowledge into explicit systemic power (perceptive – integrative) for the firms' internal organization itself (inwarded or intrinsic organization) or to bring it towards (customers) and upwards (suppliers) the value chain or stakeholder line (outwarded or extrinsic organization)<sup>46</sup>.

The possible combinations of the above Matrix on the related axis points (Competence as micro dimension and Performance as macro dimension) are (Figure 7):

- (13) Perceptive state (cold) & Conceptive state (cold) – Human Capital (HC)- Know-Who (Function)
- (14) Applicative state (warm) & perceptive state (cold) – Structural Capital (SC)–Know-How (Task)
- (15) Conceptive state (cold) & integrative state (warm) – Systemic or Learning Capital (LC)-Know-What (Internal organization)
- (16) Applicative state (warm) & integrative state (warm) – Relational Capital (RC)-Know-When (External organization)

With an additional restructuring and in order to provide a balance sheet scheme with extensions to a better prognostic and diagnostic accountability we get vertically the left side (HC, SC) and the right side (LC, RC). The so created balance between HC, SC and RC, LC expresses the

- *Human Entrepreneurial Competence* (HC, SC) and its equivalent value chain or
- *Stakeholder or Entrepreneurship Performance* (RC, LC).

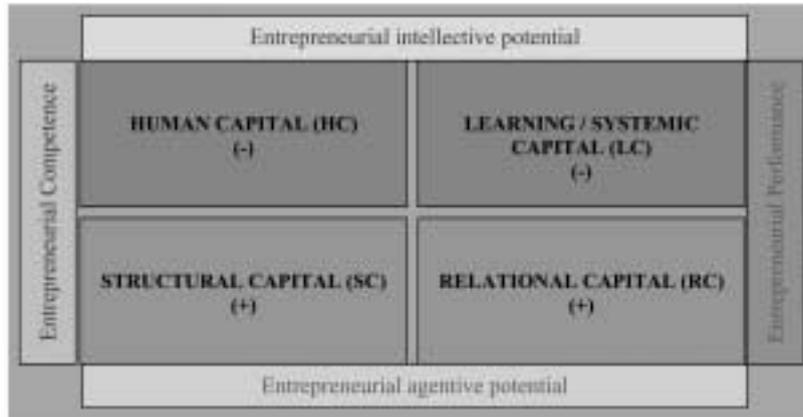
When turning or changing the sides we get a *horizontal* division in two equivalent parts which are *Technology* (SC, RC) and *Methodology* (HC, LC):

- *Agentive Entrepreneurial Potential* (active Technology - SC, RC) and the
- *Intellective Entrepreneurial Potential* (proactive Methodology - HC, LC).

When *crossing* the balanced sides we get the following four entrepreneurial competence / value node combinations:

- *Agentive Entrepreneurial Competence* (Human Competence-Agentive Potential)
- *Agentive Entrepreneurial Value* (Stakeholder Performance - Agentive Potential)
- *Intellective Entrepreneurial Competence* (Human Competence - Intellective Potential)
- *Intellective Entrepreneurial Value* (Stakeholder Performance - Intellective Potential)

Figure 7. Modes of Entrepreneurial Knowledge.



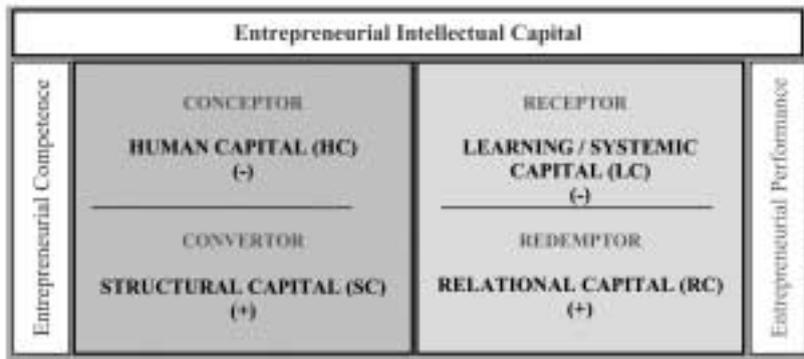
We see that all nodes are synchysis points of more properties and expresses cognitive dimensions dealing with the *person*, the *knowledge*, the *system* and the *relations*. The model combines personal (individual) and organizational (collective) attributes in order to express *individual entrepreneurial competence* and collective or *organizational entrepreneurship performance*. The succeeding synchysis mixture (cold-warm) states, like the conceptive (cold), the perceptive (cold), the applicative (warm) and the integrative (warm) deliver the four basic IC parts (Figure 8):

- HC- Human Capital
- SC - Structural Capital
- LC –Leraning Capital
- RC –Relational Capital

HC and SC are the basis for *Human Entrepreneurial Competence*, while RC and LC the Stakeholder, *Corporate or Entrepreneurship Performance*. The active *agentive potential* has its source in the out-warded SC and RC, while the *intellective potential* in the in-warded HC and LC. Finally *Intellective Entrepreneurial Competence* is equal to *Intellective Entrepreneurial Value* (IEC = IEV) and *Agentive Entrepreneurial Competence* is equal to *Agentive Entrepreneurial Value* (AEC = AEV). In other words to every competence element exist an equivalent value element (balance sheet), so that we can say

- **IEC**-Intellectual Entrepreneurial Competence (agentive + intellective)  
=
- **IEV**-Intellectual Entrepreneurial Value (agentive + intellective)

**Figure 8.** *Entrepreneurial Intellectual Capital.*



Having all above in mind the *harmonizing* (not equalizing–downwards or upwards) of the proportions of the cognitive elements first and forcing the intellective (cold) and agentive (warm) elements in order to create a reasonable entrepreneurial intellectual capital value is the indicated reasonable intellectual entrepreneurship strategy. The crucial point is the difference (Parmenides called it “*πτερβάλλον*”= surplus, the “value-added”<sup>47</sup>) between the cold/warm states and its relative percentage!

## 5. Conclusions

The entrepreneurial phenomenon concerning the entrepreneur itself, his activities or the entrepreneurship as a legitimized part of the economy has undergone various phases in theory as well as in praxis. So long innovation and the related entrepreneurial opportunities have regarded as an exogenous factor directed through an imaginative “invisible hand” there was no need to think about the source of innovativeness and change so far. Since it is recognised that entrepreneurial opportunities and technological change are determined by endogenous caused and knowledge determined innovations the causa knowledge management and intellectual capital has advanced to non-plus-ultra topic. Indeed the real matter of intellectual capital (IC) or knowledge management (KM) is still

not fully understood or not practically “realized”. Although it is easy to realise that some firm could not exist if its personnel would leave suddenly its jobs, the new (old) concept of the “knowledge firm”, “knowledge entrepreneur” or “knowledge society” remains still a wishful dream in the daily entrepreneurial praxis. It is not intended to explain all the reasons now, but it seems that one of the most important is the inability of understanding the essence, provenience and emergence of the topic.

From the antiquity up to the modernity many thinkers have tried to grasp the real essence of the “knowledge” as well as that of the role of the “entrepreneur”. The (Pre) Socratians have tried to shed light on the cognitive “black box” and have made reasonable progress so far that all the succeeding thinkers are following more or less the two main thinkers of the antiquity – namely either Plato or Aristotle. In the modernity the French Cantillon had introduced the concept of “entrepreneur”, while others enriched the whole concept by introducing other aspects. Jean-Baptiste Say sees (like Xenophon before him) the entrepreneur as manager. Marshall put as first mainly the dimension of innovation and in this way he made knowledge to an entrepreneurial agenda. Schumpeter continues with the ideas of Cantillon (entrepreneur), Say (manager) and Marshall (innovation) and declares the entrepreneur as the engine (not just the wheels) of the economy, who acts as a dynamic *inventor* and *innovator*, as a manager and leader, as a creator of endogenous based business opportunities. Knight makes difference between the Schumpeterian “*non-risk bearer*” and the true decision-maker who is managing the firm through true entrepreneurial judgment (when true uncertainty exists as a probability without empirical data of the past - non-routine tasks) and estimation (when true risk exists as a probability with empirical data of the past).

This Knightian approach addresses again the emergence of knowledge and especially the new knowledge, because the solution of non-routine tasks requests the application of “new ways”. Kirzner highlights the issue of the competence of error correction (“trial-and error”) and so reintroduces Arrow’s “learning-by-doing” which is tightly connected with the intellectual aspects of the entrepreneurial activity. While the above mentioned thinkers elaborated their entrepreneurial issues some others tried to explain in a descriptive way the production function or in other words the role of the various factors or resources for the economy. Almost parallel to the above mentioned entrepreneurial views, economists<sup>48</sup> defined equivalent production function or made attempts to explain what, how and why has an impact on the created value of the economy.

**Figure 9.** *Intellectual Capital Balance.*

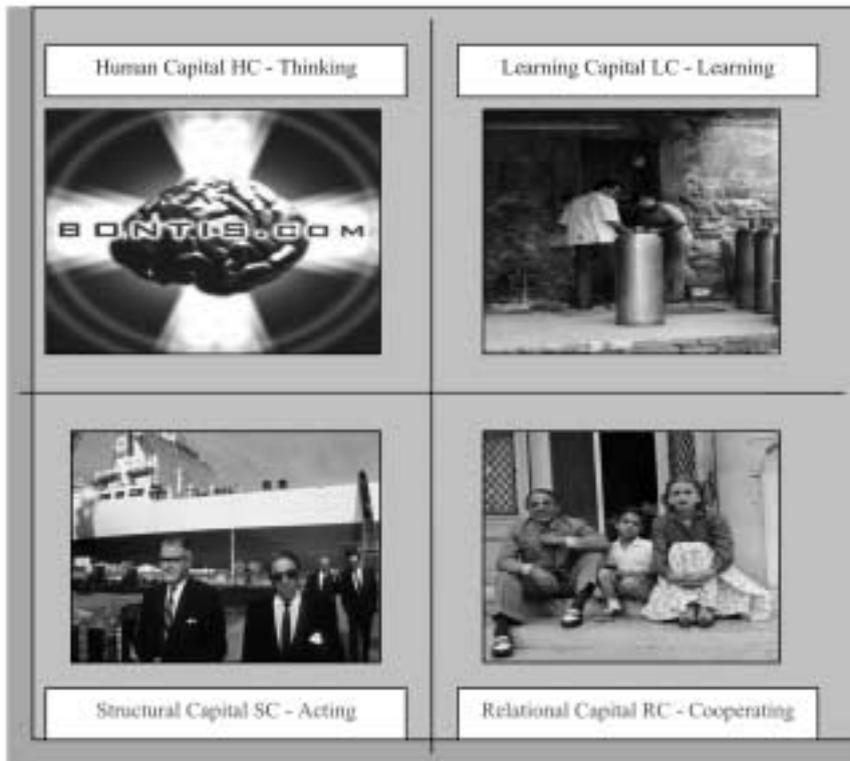
Entrepreneurial Intellectual Capital Balance Sheet			
Entrepreneurial Competence	STRUCTURAL CAPITAL (SC) (+)	HUMAN CAPITAL (HC) (-)	Entrepreneurial Performance
	RELATIONAL CAPITAL (RC) (+)	LEARNING / SYSTEMIC CAPITAL (SC) (-)	

Their production functions or growth<sup>49</sup> models regard almost unisono capital stock and labor as explanative factors for economic welfare. Later on literacy and experience follow as explanative variables for growth. The production function of Acs (Acs et al, 2005) takes into consideration the entrepreneurial knowledge, the expected earnable profits, the earnable wage rates, the intensity of knowledge exploitation, barriers to entry the market and other factors. In this context the most important conclusion – due to a related analysis - is that the above mentioned growth model confirms entrepreneurship as strongly and significantly depending on the level of knowledge stock. This goes quit conform to the recognition of the endogenousness of innovation and implies the importance of knowledge and its creation and distribution (spillovers).

**Figure 10.** *Intellectual Capital Account.*

Entrepreneurial Intellectual Capital Profit & Loss Account			
Entrepreneurial Competence	HUMAN CAPITAL (-)	STRUCTURAL CAPITAL (+)	Entrepreneurial Performance
	LEARNING / SYSTEMIC CAPITAL (-)	RELATIONAL CAPITAL (+)	
	PROFIT (+)	LOSS (-)	

**Figure 11.** *The Intellectual Entrepreneurial Window.*



Having in mind Nonaka's approach, Aristotle's epistemological and ontological diacritics but also considering the syncrasis theory of Parmenides we developed a spiral model of knowledge modes which is fully applicable to the entrepreneurial concept. In this way we developed the typology or taxonomy of knowledge production and divided the related intellectual capital into four categories (LC – Systemic or learning capital, HC- Human Capital, SC – Structural Capital and RC– Relational Capital). Through arrangements and rearrangements of the basic concept we construct taxonomy able to show some distinguished entrepreneurial aspects, like intellective and agentive potential, entrepreneurial intellectual capital and its competence and performance dimensions, entrepreneurial intellectual capital balance sheet (cognitive balance sheet, Figure 9), entrepreneurial intellectual capital profit & loss account (cognitive profit & loss account, Figure 10). Due to the above mentioned results the entrepreneurial activity acquires

(ET/LC), concepts (TT/HC), documents (TE/SC) and distributes (EE/RC) knowledge initiated innovation capital necessary for every economy. In fact entrepreneurs could be divided in perceptors, conceptors, convertors and distributors of intellectual capital based innovation and invention (Figure 11).

## NOTES

1. See e.g. the related works of Xenophon (430–354 B.C.) especially “*Oeconomicus*” and “*Poroi*”.
2. Boehm-Bawerk the teacher of Schumpeter (but also himself) must have read Xenophon’s opinion about exchange value of goods «... μή πωλούμενοι μὲν γάρ οὐ χρήματα εἶσιν οἱ ἀύλοιοι, οὐδὲν γάρ χρησιμον εἶσι, πωλούμενοι δὲ χρήματα» (Xenophon (1992). *Oeconomicus-Poroi* (in Greek). Athens: Kaktos Publishing), I, 10-12).
3. Like that one of Alexander the Great!
4. Xenophon is the “father” of Physiocratism because he declares land as the source of welfare «τῆς γεωργίας οὐδ’ οἱ πάνυ μακάριοι δύνανται ἀπέχεσθαι... » και «Αὐτὴ γὰρ ἴσως, ἔφην ἐγώ, ἤδη ἐστὶν ἡ πονοῦσα τοὺς μὲν ἐπισταμένους αὐτὴν πλουσίως, τοὺς δὲ μὴ ἐπισταμένους πολλὰ πονοῦντας ἀπόρους βουλευεῖν... προσφιλεστάτην θεοῖς τε καὶ ἀνθρώποις». (ibidem, XV, 4).
5. «Ἐστὶν ἄρα, ἔφη Σωκράτης τὴν τέχνην ταύτην ἐπισταμένω καὶ εἰ μὴ αὐτὸς τύχοι χρήματα ἔχων, τὸν ἄλλον οἶκον οἰκονομοῦντα ὥσπερ καὶ οἰκονομοῦντα μισθοφορεῖν; ... εἰ δύνατο οἶκον παραλαβὼν τέλει τε οἷα δεῖ καὶ περιουσίαν ποιῶν αὐξεῖν τὸν οἶκον». (ibidem, I, 4).
6. Xenophon points out that success depends on skills and knowledge, otherwise business brings losses «τοὺς μὲν γὰρ εἴκη ταῦτα πράττοντας ζημιουμένους ἐώρων, τοὺς δὲ γνώμη συντεταγμένη ἐπιμελουμένους καὶ θάπτον καὶ ῥᾶον καὶ κερδαλεώτερον κατέγων πράττοντας» (ibidem, II, 18). In the chapter twelve and thirteen he is talking about the special entrepreneurial carefulness («ὄφθαλμὸς δεσπότητος παχύνει ἵππον»).
7. Here addresses Xenophon a bundle of behavioural statements pointing out the importance of rewarding for the brave and industrious. He is commenting that the Persian king honours first the fighters (soldiers) and than the farmers, because the first protect the second, but the second provide food to the first.
8. «τοὺς δὲ γνώμη συντεταγμένη ἐπιμελουμένους καὶ θάπτον καὶ ῥᾶον καὶ κερδαλεώτερον κατέγων πράττοντας» (ibidem, II, 18)

9. Here (Xenophon) is describing the classic case of entrepreneurial alertness of discovering opportunities for high corn prices, because Xenophon is saying that «ἀλλ' ὅπου ἂν ἀκούσωσι τιμᾶσθαι τε μάλιστα τὸν σῖτον καὶ περὶ πλεῖστον αὐτὸν ποιῶνται οἱ ἄνθρωποι, τούτοις αὐτὸν ἄγοντες παραδιδόασιν» (ibidem, XX, 22-23)
10. Interested readers may consult the works of Todd Lowry S. (1987), that of Houmanidis (Houmanidis, 1990) and Karayannis (Karayannis, 1990)
11. Houmanidis (Houmanidis, 1991) is wondering that capacities like Schumpeter (and some other ones) seem to ignore the contributions of the ancient thinkers and especially that of Xenophon, Plato and Aristotle.
12. For a more detailed analysis see Karayiannis, A. (1990).
13. Karayiannis, A. (Karayiannis, 1990) mentions in his work “Democritus on Ethics and Economics” that Democritus is in many entrepreneurial issues the “teacher” of the above mentioned Socratic philosophers.
14. For the issues of other authors like Schmoller, Sombart, Walras, Weber, Wieser and others see Pittaway, L. (2005), “Philosophy in Entrepreneurship: a focus on economic theories”, *International Journal of Entrepreneurial Behaviour & Research*, Vol. 11, No. 3; Ebner, A. (2005), “Entrepreneurship and economic development”, *Journal of Economic Studies*, Vol. 32, No. 3
15. See Van Praag (1999) and Jackson et al.
16. Cantillon declares in his posthumous publication “*Essai sur Nature du Commerce en Générale*” (1755) the entrepreneur as a contributor or enabler or driver for the society’s economic value, In: Praag Van (1999).
17. Cantillon sees as the central role of entrepreneur that of the exchanger and equalizer of supply and demand!
18. Landowners and workers are not facing risk and uncertainty because the interest rates as well as the wage rates are contractually fixable, but selling prices not.
19. See Van Praag (1999)
20. See also Nonaka (1994)
21. See Van Praag (1999).
22. He represents the Austrian School and was educated under Boehm-Bawerk and influenced by Walrasian general equilibrium thinking (“creative destruction”).
23. Houmanidis (Houmanidis, 1991) is hitting that point when mentioning that Schumpeter (and some other ...big economists) seems to ignore the

contributions of the ancient thinkers and especially that of Xenophon, Plato and Aristotle to these mentioned points. Additionally we mean that this ignorance is at least a paradoxical point of view, because it is simply absurd to admire the marvellous minted coins of the antiquity time and in the same time saying that there is no economic thought at all. Commercially used coins and related commercial (economic) thought are the two faces of the same thing. Even money or coin forgery indicates on economic thinking!

24. See also Nonaka (1994)
25. See Korres & Polichronopoulos (2003)
26. See Hadjidema, S. (2002)
27. The experience is the difference between age and education time in years minus six (6). See also Mavridis, D. G. (2003) and Hadjidema, S. (2002)
28. In this context Acs and Storey (2004) compare the both high-tech countries Soviet Union and U.S.A. where the first lagged behind the latter not because of labour, capital or skills, but because of lack of entrepreneurship.
29. See Korres & Polichronopoulos (2003)
30. Arrow (Prusak, 2001) noted the "...non-excludability of knowledge..."
31. See also Hayton, 2005
32. *ibidem*
33. For some other one see Hayton, 2005
34. There is such a relationship (Mavridis, 2005)
35. Imagine the value structure (hard parts, soft parts and firmware parts) of any product in the past (e.g. car build 1900) and today. See also Coulson-Thomas, 2000
36. Knowledge users (buyers, importers) and knowledge producers (sellers, exporters) of cognitive production / consumption resources
37. The acronym "MIS" (Management Information Systems) should be read from now on as "Management Innovation Systems"!
38. See also Etemad & Lee (2003)
39. Based on Nonaka (Nonaka, 1994)
40. The metamorphosis from "things to thinks" is the classical issue of the philosophic (Socratians) dispute about the "source of knowledge" The metamorphosis "thinks to things" is its economic (con) version!
41. See Andriopoulos (1995, p. 53ff)
42. See Mavridis (2006)

43. See De Smet R., Verelst, K. (2001)
44. Ibidem
45. See Fenstermacher (1994)
46. See also Price (1997)
47. See Andriopoulos (1995, p. 53f)
48. Solow, Mincer, Lucas, Romer
49. Gunnar Myrdal (Myrdal, 1956) in his research about economic growth elaborated a distinction between the qualitative term development and the quantitative one growth, meaning that first the qualitative base has to be established before quantitative effects can occur. This point stresses the fact that quantitative tactical measurements grasp only when qualitative strategic infrastructure (strategic framework) has been set before. This distinction addresses the issue that knowledge or cognitive (qualitative) abilities are especially increasing when used while traditional resources and other production factors have diminishing returns.

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# LARGE LAND OWNERSHIP IN THESSALY AND THE SHIFTING NATIONAL ENVIRONMENT. ECONOMIC REFORMS AND SOCIAL CONFLICTS (1881–1912)

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## Abstract

Large land ownership constituted an obstacle to the economic development of the country and found itself in confrontation with numerous social groups pursuing the quest of economic modernisation. The production terms it imposed were orientated towards a ruthless exploitation of the work force, resulting into the creation of a friction between this group and the peasants. The increasing inability of the peasants to react, stemming both from their own weakness as well as from the powerful social position of the large land owners led to confrontation expressed through the development of the agricultural movement. This resulted in the creation of favourable conditions for the demands of income redistribution in favour of the peasants, the redefinition of the production terms and the increase of the domestic product.

*JEL classification:* N53, N33, N73, N93.

*Keywords:* economic growth, agriculture, income, Thessaly, large land ownership, technological change.

## 1. Introduction

In the present study we shall focus upon the large land ownership and the relations developed between it and the surrounding society as well as the implicative relations within it, and with the detection of the hierarchical order of the structured relations of the workers in the estates.

The integration of Thessaly and part of Epirus in the Modern Greek state in 1881 also meant the integration of large plains where big land ownership was dominant. The large estates constituted 75% of the ground cultivated<sup>1</sup>.

In the context of the Modern Greek social structure large land ownership constituted a way of productivity, and economic operation of this was closely associated with government providing hyper-structure<sup>2</sup>. The establishment of the large estates during the Ottoman domination can be attributed to lack of economic

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motivation deriving from the increased social power<sup>3</sup>. The relation between the operation of the large estates and the various political regimes was maintained up to the distribution of the land to the farmers. This was accomplished, to a large extent, during the 1920's. And it was also the reason for which during the periods of exacerbation of the rural issue the relevant references to economic topics were obscured by the focus upon the political aspects of the problem.

## **2. The estate and the surrounding society**

At the national economy level the issue of the large estates consisted, mainly, a subject focused upon demands for the redistribution of income in favour of the share-croppers, the acceleration of economic growth, the improvement of budgetary magnitudes regarding relevant expenditure and, finally, the restructuring of productive relations. The international environment during the period examined is characterized by a shift towards the improvement of agriculture. In Greece, the more intensive exploitation of the soil was the means by which the increase in agricultural income and more generally of GNP was pursued. In this context, an increasingly augmentative tendency of expenses for the primary sector of production was observed after 1890<sup>4</sup>. Large land property, in the form it existed in Greece, presented an obstacle for relevant improvements. Leaving the largest part of the land uncultivated and making some investments in equipment and land improvement, the system led to low productivity by the side of the share-croppers, who wretched from poverty operated within a crushing labour environment. The system itself consisted an important obstacle towards the increase of productivity and the modernisation of the rural sector of the economy. Overall, the position of the share-croppers in the estate had progressively become more arduous, initially as a result of the more unfavourable legal status after 1881 and then, in the beginning of the twentieth century, because of the increased mechanisation of the agricultural sector.

Both the share-croppers and the protagonists of the rural movement faced a particularly experienced politically social group, known as the squires. This group dominated the political scene of Thessaly, had an important presence in the Greek Parliament, with influential elements in the various governments and in the palace and would use various manipulations to deter any type of activity that constituted a danger to their interests.

An important political incident, the war in 1897, disturbed the above frame of economic and social imposition. Related to the effort of national fulfilment, it emphasised on the limitations of the Greek State and, by doing so, it cast doubt

upon the abilities of the group of leaders prevailing in the political scene and led to a reconfiguration of the political setting. The war in 1897 was also one of the causes of the movement at Goudi, a military movement whose objective was to make reforms, which signalled a change in Greek political reality<sup>5</sup>. Antimonarchist opinions exceeded the level of a simple marginal presence and permeated inside the middle and upper social strata, occupying Greek society more effervescently. This was not a simple contestation of the role and institution of monarchy, but a wider scorn of the Greek parliamentary system of the time. The more moderate of the dissenters wanted to rectify it while others, the minority and more radical, intended to abolish it, by associating their interventions with the total change of the ideological system around which the Modern Greek society was put together.

Within the above network of relations the rural movement gained momentum. Apart from the share-croppers it also gathered support from many intellectuals of various political tendencies and personal objectives. Social layers suppressed by the uneven parliamentary game were led to more dynamic solutions. With the formation of a dynamic agricultural movement of all Thessaly they tried to come out of obscurity and ram the political setting. The contestation of the political happenings in Athens after 1897 had found its right moment in the Greek province, whereas the existence of more than one current within the framework of the rural movement became evident from the speeches delivered in the period of the culmination of rural mobilisations. Most of the speakers appeared to combine the objectives of the movement with the application of urban reforms. Only a small number of the speakers exceeded the limits and used a phraseology connected with Socialistic ideals. In the context of the above fermentations extensive changes took place in the Greek province. In the cities of Thessaly groups of young people, mainly scientists, were becoming members of radical groups such as the Working Centre in Volos and the association of “*Ηώς*” in Karditsa<sup>6</sup>.

It appears that certain contemporary deputies of the region of Thessaly such as G. Filaretos and G. Karaskakis, were the proponents of various reforms one of which was the expropriation of the large estates. Their activities however, similarly to those of the other political reformers of the time, were limited by the insufficiency of resources. This was common to all the economies of the countries of the second wave of industrialisation like Greece, where the agricultural sector was predominant and savings were not enough in order to finance the extensive reforms that the country needed while loans from abroad had been used for transport works and for the purchase of military equipment. Furthermore, additional debt was not an option after the bankruptcy in 1893<sup>7</sup>. In his letter to the head of the Goudi movement N. Zorba, the leader of the share-croppers D. Bousdras asked for the expropriation of the estates to be considered. In this context he estimated the sum that would be needed was in the order of fifty million drachmas<sup>8</sup>. Obviously D. Bousdras had every

reason to present the expropriation as an easy affair and so this sum should be considered as the minimum. Objectively, however, the sum was excessive, as the total sum of government expenses in 1910 almost reached 141.500.000 Drs<sup>9</sup>. It is noteworthy that the effort to secure funds led the political leaders of Thessaly out of the country, to Greek merchants in Egypt<sup>10</sup>. Other factors hindering a solution were the influential current of power and interests which had been developed around private and government owned estates and the continuous stirring of the national issues. By the beginning of the twentieth century, owing to the donations of national benefactors such as K. Zappas, P. Harokopos and Stefanovjk–Skylitsis, the Greek State had become the dominant landowner. Even St. Dragoumis, the Prime Minister of the period of the mobilisations in 1910, had acted at an earlier time as the chairman of the committee for the management of Zappas' properties<sup>11</sup>.

### **3. The internal operation of the estate**

In the farming relations which grew within the large estates the following social groups were involved: cultivators who did not own land, workers in the farmland who did not use ploughs, squires, the upper hierarchy of the estate, tenants or subtenants of the estates, shepherds that grazed their animals in the estate, traders and other professionals that had dealings with the above groups and public officials.

Even though most of the times the share-croppers agreements were not rectified with a contract, there were cases in which everything needed to be imprinted in a formal document. The share-croppers agreements were of limited time duration. In accordance to these agreements, not only the personal work of the share-croppers was binding but also the entire work force of his family, including the underage members. In fact, the labour of the members of the extended family was so binding, that the share-cropper was threatened with eviction and could be accused for below par productivity not only for his work but also for that of the members of his family<sup>12</sup>. The land that the cultivator would cultivate was chosen by the squire. The expenses of cultivation were mainly bore the cultivator. The attribution of the squire's share from the cultivation of cereals should be effected immediately after threshing whereas in regard to the other kinds of production immediately after they were harvested. In both cases the share-croppers were obliged to transport the fruits to the squire's warehouse in the village without payment. The whole process should take place in the presence of the squire or his representative and the inspections took place on a daily basis<sup>13</sup>. A study of the Ministry of Finance estimated that the average size of cultivated grounds in the plains approximated 92 acres per agricultural family in Thessaly<sup>14</sup>.

**Table 1.** *Distribution of cereal cultivation in absolute quantities.*

<b>1893-95</b>	<b>Wheat</b>	<b>Barley</b>	<b>Corn</b>	<b>Total of acres</b>
Province of Agia	5.200	1.700	1.850	8.750
Province of Almyros	7.490	4.670	520	12.680
Province of Volos	5.500	3.100	230	8.830
Province of Domokos	19.770	5.500	2.802	28.072
Province of Kalabaka	27.050	15.390	20.460	62.900
Province of Karditsa	161.370	33.970	63.510	258.850
Province of Larisa	275.655	82.745	6.015	364.415
Province of Trikala	89.445	14.730	39.675	143.850
Province of Tyrnavos	24.750	3.700	10.300	38.750
Province of Farsala	76.885	16.666	8.780	102.331
<b>TOTAL</b>	<b>693.115</b>	<b>182.171</b>	<b>154.142</b>	<b>1.029.428</b>

*Source: Elaboration of the facts from: Ministry of Finance Department of direct taxes, Study of the agricultural production in Thessaly, Athens 1896, p. 36 (in Greek).*

**Table 2.** *Distribution of cereal cultivation in percentages.*

<b>1893-95</b>	<b>Weat</b>	<b>Barley</b>	<b>Corn</b>	<b>Total of acres</b>
Province of Agia	59%	19%	21%	100%
Province of Almyros	59%	37%	4%	100%
Province of Volos	62%	35%	3%	100%
Province of Domokos	70%	20%	10%	100%
Province of Kalabaka	43%	24%	33%	100%
Province of Karditsa	62%	13%	25%	100%
Province of Larisa	76%	23%	2%	100%
Province of Trikala	62%	10%	28%	100%
Province of Tyrnavos	64%	10%	27%	100%
Province of Farsala	75%	16%	9%	100%
<b>TOTAL</b>	<b>67%</b>	<b>18%</b>	<b>15%</b>	<b>100%</b>

*Source: Elaboration of the facts from: Ministry of Finance Department of direct taxes, Study of the agricultural production in Thessaly, Athens 1896, p. 36 (in Greek).*

**Table 3.** Average prices of cultivated acres per family.

<b>1893-95</b>	<b>Total of acres</b>	<b>Agricultural Families</b>	<b>Acres per family</b>
Province of Agia	8.750	69	127
Province of Almyros	12.680	98	129
Province of Volos	8.830	68	130
Province of Domokos	28.072	263	107
Province of Kalabaka	62.900	955	66
Province of Karditsa	258.850	4.107	63
Province of Larisa	364.415	1.435	254
Province of Trikala	143.850	3.343	43
Province of Tyrnavos	38.750	365	106
Province of Farsala	102.331	516	198
<b>TOTAL</b>	<b>1.029.428</b>	<b>11.219</b>	<b>92</b>

*Source: Elaboration of the facts from: Ministry of Finance Department of direct taxes, Study of the agricultural production in Thessaly, Athens 1896, p. 36 (in Greek).*

Land owners provided the seed. They subtracted it after the distribution of the harvest. When the share-croppers received the seed from the squire they should sow it. Otherwise, they were in danger of being accused of misappropriation in which case they should return it with the immediate befalling harvest. In case they did not cultivate the land they were compelled to give compensation. The threat the squire used was eviction, which could take place at any time of the year without compensation. Moreover, penal clauses were provided in the contracts against the share-croppers who did not uphold the terms of the agreement while compensations and interest payments were effected against them in the case of delays. All relevant provisions were in favour of the squires. Share-croppers were compelled to occupy those houses that the squires provided and to maintain them. It was also prohibited to them and their families to undertake other work, agricultural or not, except the one assigned to them inside the estate.

As apparent of what was previously stated, the work of the share-croppers was thoroughly supervised and controlled by the squire and his supervising employees<sup>15</sup>. The share cropper was inspected by the personnel of the estate not only for fear of theft of the product, mainly on the threshing floor, but also for the level of hard work and his productivity. Besides, the mansion-house was situated in the land in such a manner so as to facilitate the supervision of the share-croppers from the squire<sup>16</sup>.

Squires had an organised mechanism to control production. Custodians, rural constables and guards supervised the land as well as the harvesting activities of the plants that grew up freely, such as canes, and reported to the squire or in his representative who had the power of attorney<sup>17</sup>. At certain times the squires demanded from the rural constables the provision of guarantees for the undertaking of their work. This insured that both the custodians as well as the guarantors would be tightly pressing for the interests of the squires<sup>18</sup>. Share-croppers were also compelled to pay a sum for the wages of the rural police.

Overall, it can be concluded that without doubt the custodians had a closely supervised jurisdiction especially in regard to those actions that could cause a reduction of the income of the estate.

The agreements between squires and share-croppers regarding the distribution of production can be divided in two main categories:

1. Agreements in which the share-croppers attributed half the production of the harvest. In these the equipment and the animals usually belonged to the squire. The share-cropper mainly offered his work as well as the work of his family.
2. Agreements where the squire attributed one third of the production of the cereal harvest. In this case, the cultivators appeared to offer their work and their family's work as well as the seeds, the tools and the animals for the tillage.

Certain squires preferred to rent the estate to tenants who paid them a constant pecuniary sum. In this case the tenants required from the share-croppers the payment of percentages according to either half of the production or one-third of the production system.

Overall, it appears that in Western Thessaly the one third of the production system, which is associated with a better position of the share-cropper and who, in this case, was usually the owner of means of production, was more prevalent<sup>19</sup>. This geographic differentiation in the system of ground exploitation that prevailed has been presented in the bibliography in a rather absolute way<sup>20</sup>.

The economically and socially difficult position of the share-croppers demonstrates that the contracts constituted, to a large extent, the in writing expressed position of the squires. The ability of the share-croppers to formulate the contracts was even more difficult if one considers the fact that they were mostly illiterate<sup>21</sup>. Both sides developed techniques to violate the agreed terms in order to withhold as much part of the product as possible.

From their part, the share-croppers developed techniques to defend themselves and increase productivity. Many of them, organised in the context of extended families, tried to maximise the exploitation of the family's labour force by disengaging the more productive women from domestic work. Usually, a very old or pregnant woman would remain in the house, with the younger children of the

extended family, this consisting of a number of nucleus families. In addition, they used marriage as a strategy to regulate their working potential and their consumer expenditure. As the married couple would live in the bridegroom's house, the Karagkounides of the region of Karditsa used to marry the boys from an early age and the girls at a later age. The wedding took place either before the agricultural jobs, so that it would have increased the working force of the family in time, or afterwards, so that the family would have avoided the expenses of feeding the redundant work force during the winter<sup>22</sup>.

The social group of the squires along with their employees oppressed not only the social group of the cultivators but also the whole of the local society. The squires and the administrative personnel of the estate were, to a large extent, foreigners. As a result of this, in a society based on the maintenance of personal prestige, a bitter opposition between the foreigners and the locals developed. The proletarianization of the villagers, which also became evident from their increasing turn towards emigration, was an additional factor intensifying tensions. However, their organisation, along with their turn to more radical solutions, did not lead to any immediate solutions.

The distribution of the agricultural product, which determined the incomes of the involved social groups, was the central point of the conflict between share-croppers and squires. The relatively unfavourable position of the share-croppers was the result of their economic and social weakness. This led to the consolidation of a complex of oppressive production relations through which they tried to transfer the costs of low productivity, attributed to technological backwardness and the lack of infrastructures, to the share-croppers. The squires, supported by the large economic and social capital which they possessed, were turned almost unilaterally towards the exploitation of human work force. The result of these relations was the excessive burden of debt incurred by the share-croppers<sup>23</sup>.

#### **4. The nomadic cattle-breeders and the estate**

The income of the share-croppers depended as much upon the agricultural product as upon livestock-breeding. In Thessaly 47% of the sheep and goats and 71% of big animals belonged to the cultivators, while 8% of sheep and goats and 20% of big animals belonged to the squires. 45% of the sheep and goats and 8% of big animals belonged to the tenants of pasturage<sup>24</sup>.

The cultivator had the right to graze small and big animals in order to provide for his family. The number of animals was limited and the cutting of grass was free of charge, although the share-cropper was compelled to deliver a percentage from the grass cut to the squire's grass shed without a fee<sup>25</sup>.

**Table 4.** Property regime and quantitative evaluation of capital in absolute numbers.

<b>YEAR: 1896</b>	<b>Sheep and goats of Proprietors</b>	<b>Sheep and goats of Farmers</b>	<b>Sheep and goats of Renters</b>	<b>Sheep and Goats Total</b>	<b>Big mammals of Proprietors</b>	<b>Big mammals of Farmers</b>	<b>Big mammals of Renters</b>	<b>Big mammals Total</b>
Province of Agia	2.708	5.044	15.008	22.760	436	38	103	577
Province of Almyros	4.100	500	21.200	25.800	145	0	760	905
Province of Volos	0	6.550	29.600	36.150	0	518	790	1.308
Province of Domokos	1.500	11.500	27.500	40.500	40	1.846	1.068	2.954
Province of Kalabaka	15.620	45.800	25.200	86.620	480	2.950	200	3.630
Province of Karditsa	16.100	135.540	62.370	214.010	10.810	22.163	504	33.477
Province of Larisa	19.660	79.076	72.760	171.496	1.523	5.607	655	7.785
Province of Trikala	3.402	105.483	74.580	183.465	233	17.066	1.435	18.734
Province of Tymavos	10.495	7.230	45.900	63.625	1.030	420	20	1.470
Province of Farsala	2.440	29.332	34.490	66.262	629	3.646	872	5.147
<b>TOTAL</b>	<b>76.025</b>	<b>426.055</b>	<b>408.608</b>	<b>910.688</b>	<b>15.326</b>	<b>54.254</b>	<b>6.407</b>	<b>75.987</b>

Source: Elaboration of the facts from: Ministry of Finance Department of direct taxes, Study of the agricultural production in Thessaly, Athens 1896, p. 36 (in Greek).

**Table 5.** Property regime and quantitative evaluation of animal capital in per centages.

<b>YEAR: 1896</b>	<b>Sheep and goats of Proprietors</b>	<b>Sheep and goats of Farmers</b>	<b>Sheep and goats of Renters</b>	<b>Sheep and Goats Total</b>	<b>Big mammals of Proprietors</b>	<b>Big mammals of Farmers</b>	<b>Big mammals of Renters</b>	<b>Big mammals Total</b>
Province of Agia	12%	22%	66%	100%	76%	7%	18%	100%
Province of Almyros	16%	2%	82%	100%	16%	0%	84%	100%
Province of Volos	0%	18%	82%	100%	0%	40%	60%	100%
Province of Domokos	4%	28%	68%	100%	1%	62%	36%	100%
Province of Kalabaka	18%	53%	29%	100%	13%	81%	6%	100%
Province of Karditsa	8%	63%	29%	100%	32%	66%	2%	100%
Province of Larisa	11%	46%	42%	100%	20%	72%	8%	100%
Province of Trikala	2%	57%	41%	100%	1%	91%	8%	100%
Province of Tymavos	16%	11%	72%	100%	70%	29%	1%	100%
Province of Farsala	4%	44%	52%	100%	12%	71%	17%	100%
<b>TOTAL</b>	<b>8%</b>	<b>47%</b>	<b>45%</b>	<b>100%</b>	<b>20%</b>	<b>71%</b>	<b>8%</b>	<b>100%</b>

Source: Elaboration of the facts from: Ministry of Finance Department of direct taxes, *Study of the agricultural production in Thessaly, Athens 1896, p. 36 (in Greek).*

However, the cultivator also faced competition from the nomadic cattle-breeders of the meadows of the estates. The nomadic cattle-breeders, who spent the winter in the estates of Thessaly, mainly consisted of the races of Sarakatsani and Vlachi. During the period examined Albanians were also present in the region as shepherds or farm workers.

Because of the small productivity of agriculture, big parts of the land were left uncultivated in the estates. In 1881, it appears that in Thessaly thousands of acres were left uncultivated because of the lack of working hands<sup>26</sup>. In 1910 the situation did not appear to have improved<sup>27</sup>. As a member of parliament, and also one of the biggest squires, G. Hristakis admitted in 1911 that the share-croppers system in us impeded the spread of intensive cultivations<sup>28</sup>.

Shepherds felt that all forms of abolition of the economic unit of the large estate would be accompanied by their removal from the grazing grounds, either as a result of the extension of agricultural ground at the expense of meadows, or because of the growth of the flocks owned by the new squires in their henceforth privately-owned meadows<sup>29</sup>. This fear of the probability of their removal from the meadows was what the squires exploited in order to develop an extensive collaboration with the nomads who were in their properties against the demands of the land cultivators.

## **5. A collision course and the growth of the rural movement**

The vital point which caused friction in the relations between the two sides was the distribution of the, usually annual, product. This determined, to a large extent, the height of the incomes of each side and when it turned out to be, irrespective of the size of the total product, unjustly unfavourable to the cultivators it also led, among other things, to a decrease in productivity. The largest part of the income for most of the estates in Thessaly appears to have derived from agriculture and livestock-breeding. The total amount of income depended upon various financial and non-financial factors, such as weather conditions and the political situation at the time<sup>30</sup>.

In conclusion, the income of most of the estates came from agriculture, livestock-breeding, any existing quarries, the exploitation of forests, the renting and exploitation of shops and also the processing of rural products, which in most cases was rudimentary, such as that taking place at the watermills. The largest part of income appeared to originate in most cases from agriculture<sup>31</sup>.

The squires were unilaterally focused upon the increase of production through the complete exploitation of the share-croppers. In terms of modernizing their

exploitation means they did not achieve, in their majority, the same ends. In 1901 the “*Agricultural Company*”, whose goal was the upgrading of agriculture, was founded. In it distinguished squires participated whereas King George A´ was the chairman. In the company’s report of proceedings for 1902-03, where the situation of agriculture was described, not only the wrong tax policies applied but also the fragmentary and insufficient features of the modernisation of the big agricultural exploitations were stressed. In particular, the negative effects of the tax on plough animals was pointed out, as it seemed to have resulted in cultivations being accomplished with the minimal sufficient number of animals. Instead, a light tax based on surface cultivated was proposed. The new improved ploughs that had begun to be used, had led to insignificant increases in production when they were pulled by small and feeble animals. Large landowners were denounced for not using the crop-rotation system or improving the soil with the use of manure, things that small cultivators did. The practice to rest the lands on alternative years that the squires used was denounced as it left large parts of land uncultivated. In Thessaly, in particular, 1.300.000 acres remained fallow each year. The absence of many squires from their estates contributed to the exhibition of a limited interest in land improvement and a disinterest for any policies of investment in the big rural properties<sup>32</sup>.

In any case, during the period before the 1910 movement it appears that we were entering into a phase of increased tension and conflict between share-croppers and the squires. The mechanization of the cultivations and particularly of the threshing process must have contributed to this. In 1908, although a lot of threshing machines had been imported, a shortage of grain was observed as demand was big. The fee for threshing with a machine reached 7% of production<sup>33</sup>. This percentage must be considered particularly small if one contemplates that threshing was a very important part of the work that share-croppers undertook and that they were remunerated either with half or with two-thirds of the product. Moreover, another particularly important factor that must be noted is that mechanization ensured bigger speed, this implying smaller danger from changes in weather conditions. During the period examined, mechanization had already advanced sufficiently. Thus, in the region of Tyrnavo threshing was carried out almost exclusively with threshing machines<sup>34</sup>. Share-croppers appeared to be hostile towards the machines. They were afraid that the spread of mechanisation in agriculture would place them on the fringe and in the end it would drive them away from their land<sup>35</sup>.

Another factor contributing to the increase of tensions in the production relations appears to have been the international economic crisis of the period 1873-1896. In Greece the crisis coincided with an extra burden of debt, an increase in taxation, for the war in 1897, during which the habitants of Thessaly had their properties looted by the army of occupation, and the imposition of the

International Economic Control<sup>36</sup>. The crisis was followed by deterioration in the farmers' living and a rapid increase of emigration. Thus, despite the notable<sup>37</sup> economic resurgence in the beginning of the twentieth century, 450.000 Greeks emigrated to the USA from 1900 to 1917<sup>38</sup>.

Clearly more powerful, now the squires appeared to harden their attitude. The decline in the welfare of the share-croppers was so big that D. Bousdras faced great difficulties to convince the farmers to accept the objective of the expropriation of the estates during the period for the preparation of the rural mobilisations, since a big percentage of them sought the return to the conditions of the Ottoman domination<sup>39</sup>.

## **6. Concluding notes**

Based on the above given information, the big land owners and the network of productive relations that developed led to a serious delay in the exploitation of the technological improvements of the time. This also constituted a delay in the economic growth of the country, and, as a result of this, large land ownership found itself in confrontation with a number of social groups united in the demand for economic modernisation.

The oppressive and anachronistic productive relations that large land ownership had maintained, directed unilaterally towards the exploitation of the labour factor, which resulted in it finding it self in the middle of social struggles. The political environment, negative coincidence for the squires, was even worse by the international economic crisis and by the changes in the Greek political setting that had resulted from the movement of 1909 which changed the existing status quo.

Consequently, the issue of large property ownership is considered to be a subject basically connected with the demand to redistribute income in favour of the share-croppers, to redefine productive relations and to increase domestic product.

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# THE ROLE OF COASTAL SHIPPING AND TELECOMMUNICATIONS IN THE DEVELOPMENT OF THE INSULAR REGION OF THE MEDITERRANEAN ARCHIPELAGOS

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## Abstract

This paper stresses the important role of coastal shipping as well as that of new technologies towards the lift of isolation of insular regions and it emphasizes the influence of the practice of telework in insular development. It also presents and analyses Socioeconomic and technological indices for the larger islands of the Mediterranean Archipelagos for 2004 and the particularities of the existing coastal shipping system in the wider region. It proves that the creation of an effective and cohesive telecommunication network in the region, as well as the improvement of the existing transport system constitute the most appropriate strategy in the regional development and in the viability of the region.

*JEL classification: H54, O18, R11, R4, R5.*

*Keywords: .coastal shipping, new information and telecommunication technologies, telework, insular development, islands of the Aegean Sea.*

## 1. Introduction

The rapid developments in the field of new Information and Communication Technologies – ICTs provide the possibility of new ways of conducting a series of social and economic activities, mainly those which include the dissemination of information, such as work, education – training, medical care and markets.

The role of telecommunications is also significant where the provision of services in wider geographical regions is concerned. The redefinition of the

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meaning of “distance” brought about by the use of new technologies, may possibly increase the accessibility of more remote regions (mainly insular or agricultural regions), bringing about in this way decentralization of activities and contributing to the development of those regions.

Where work is concerned, the new technologies provide the possibility of applying flexible work forms (telework from home or a telecommunication center, labor while moving continuously etc). The access to labor is no longer calculated only by the relation to the physical distance, the cost or the time of move. Therefore, telework becomes a significant alternative form of labor.

Furthermore, the transport system constitutes a significant factor in the development of geographical regions, especially the more remote ones. For the insular regions where the access to and from them is mainly by the sea, the role of coastal shipping is crucial.

The purpose of the present paper is to detect the opportunities presented by common developments in the fields of transport and telecommunications in the development of insular regions, like the wider region of the Aegean Archipelagos.

The results of this paper are addressed both to the researchers that are involved in the research of regional and especially insular development, as well as to the decision makers (in the private as well as public sector) concerning investments in insular regions.

## **2. Literature Review**

In international literature, the relation of urban residential expansion with the use of telecommunications is common ground. Historians stress the important role of the development of mass transport means during the 19<sup>th</sup> century and at the beginning of 20<sup>th</sup>, in the formation of suburb spaces and in the residential expansion of cities. As an extension of this, it is considered that the rapid use of new technologies possibly brings about the unification of the geographical region and the transition of large cities to more remote regions.

Where relative studies in the wider region of the Aegean islands are concerned, plenty have been done, focused mainly on the role of coastal shipping in the regional development of the region, but very little on the influence of developments in the technological and transport sector of the insular development. Kantzos (2002), Masvoulas (2005) and Polydoropoulou (2005) developed demand models for coastal shipping in the wider region of the Aegean. Kladis, Polydoropoulou and Kitrinou (2004) devised a system with the use of the Geographical Information System (GIS) for the depiction and analysis of the

transport network in the wider region and in the examination of alternative development scenarios.

Diakomihalis (2004) stresses that “the transports, coastal connection and the lift of isolation is not just an object in itself but a prerequisite for the development process and the reversion of negative indices and phenomena observed on the islands of the Archipelagos. The internal transport market should not only depend on the market forces but should serve the needs of the inhabitants based on better economic and social terms for the region. The transport system—especially coastal shipping— should not only operate based on commercial criteria, but should promote the economic and social development evenly to the whole country”.

For the improvement of Transport Means in the less developed islands, Diakomihalis and Kypriotelis (2003) propose:

- A. Small modern transport ships of unified cargo aiming at the decrease of transport cost especially to insular ports.
- B. The connection of ports with high-speed ships.
- C. The development of Combined Transport Systems.

Few researches have been conducted for the region of the Aegean, in relation to common developments in the fields of transports and telecommunications. Most researches on the development of the region, note mainly the vital role of telecommunications for the improvement of the living standard of the inhabitants and insular development (Spilanis, 2003), Spilanis, Kizos and Iosifidis 2001, Misailidis, Spyridonidis and Spilanis 2002). Polydoropoulou and Kitrinou (2004) present the international trends and developments in relation to the influence of new technologies in the insular development and form a series of proposals for the strategic development of the Aegean region, via the application of telework from home.

Kitrinou, Kolokolov and Zaozerskaya (2004) developed a mathematical model using socioeconomic and technological indices in order to solve the problem of finding the best position of installing a group of telecentres in the wider region of the Aegean. The problem was solved for a series of scenarios, which concerned limitations in the cost or in the unfixed distance between the islands, and a total of alternatives for the technological development of the region were found. The results noted the creation of telecentres mainly on very small islands of the region.

A special research was conducted in the frame of the User Response on Innovative Transport systems –URIT (2001), aiming at the detection of those factors that may possibly influence enterprises to settle in the Aegean region. The most significant conclusion from the analysis of data is the following: the enterprises most possible to relocate on one of the Aegean islands, are Business to Business (B2B) enterprises and mainly concern the sale of local products and the provision of touristic services. The study stressed the need for further research in

order to detect the determinant factors for location/relocation of economic and social activities in the region under study, so that a successful development strategic for the region may be achieved.

Also, the project PROODOS (1996), was formed by the research team E.STRA.NET of the Aegean University, aiming at the promotion of the use of new technologies as a strategic tool in the development of the insular space of the Aegean. A section of this project concerned the creation of Local Telematic Centres (LTC) on the Aegean islands, which will provide among other services, the service of telework. The relevant study proved that this practice would contribute positively to the economic development of the wider region.

Additionally, in the framework of the research programme “Orpheas – Local Strategy for Employment in the N. Aegean in the Sector of Sustainability” (2005) a study was conducted in relation to the geographical employment mobility in the wider region of the N. Aegean. It was recorded that the socioeconomic factors determine employment mobility between the regions. Furthermore, the use of new technologies influences positively geographical mobility, while the majority of the inhabitants (employed and unemployed) wish to be trained in the use of new technologies. The application of telework in the region is non-existent (0% of the population tele-works).

The following are the most significant findings from the review of international literature, in relation to the spatial consequences of the use of new information and communication technologies in the accessibility of the regions as well as study cases which concern the application of telework practices in the insular regions and the impact on insular development:

The telecommunication policy in the U.S.A mainly concerns the meaning of “global accessibility”. The National Telecommunications and Information Administration of the Trade sector of the U.S.A (1988), in its report “Telecom 2000”, stresses the role of new technologies in the economic and cultural development of geographically disadvantageous regions. Cronin et al (1991), statistically examined this case and accepted it. Furthermore, they proved that investments in telecommunication infrastructures in such regions have a development impact, not only on these regions but at national level as well.

Huws et al (1995), studied the future trends in relation to the application of telework in agricultural regions and the consequences on the economic and social development of these regions. Lund & Mokhtarian (1994), noted that flexibility created by the possibility of telework, may possibly encourage the selection of the place of residence of the employed, away from the traditional labor place, in regions which are provided with the possibility of improving their living standard.

Furthermore, the significance of providing access to new technologies to inhabitants of remote regions and the fact that the telecommunication centers may

possibly constitute a medium for global accessibility to these people was stressed at the Seminar of Arab countries on the telecommunication centers (ITU, 1999). Telecommunication / telecentres usually provide services on information, telecommunication and accounting work, so it is possible to be used for telework, teletraining, political teleconferences, etc. The first telecentre was created in Sweden in 1995, aiming at the use of modern communication technology as a medium for the convergence of development among agricultural and urban regions in the country (Falch & Anyimadu, 2003). In other countries, the aim of creating telecentres (mainly on insular and agricultural regions) is the promotion of socioeconomic development for these regions, which are far from urban centers. In this way, we can consider that a telecentre located in a remote region constitutes a part of a chain designed in such a way that the inhabitants and the enterprises of these regions can be helped by the possibilities offered by the society of information.

Smith (1998), developed a study in relation to the application of telework on the Western Isles in Scotland and the impact of this practice on the economy of the region. The practice of telework started in 1994 via the co-operative WI-ICTAS (Western Isles Information & Communications Technology Advisory Service). This co-operative searches for opportunities for telework globally and seeks to attract investors in the region. Anderson, K. (2001), reported that during 2000: a) a data base in relation to over 550 possible teleworkers had been created, b) 180 new employment positions had been created and c) the private teleworkers had earned over one million euros income.

## **2.1 Summary of the most important findings**

The critical role of both transports and telecommunications for the lift of isolation of insular regions, of the decentralization of social and economic activities and of the further development of these regions is concluded from the above. It is also noted that the use of new information and communication technologies and especially applications like the labour practice of telework, may possibly influence significantly the redefinition of the meaning of “distance” between geographical regions and contribute to the development of the most remote, insular or agricultural regions.

From study cases concerning the applications of telework practices in various insular regions of Europe, it is recorded that this labour practice contributes to the economic development of insular regions in different ways, mainly via the attraction of new households, but also via the creation of new employment positions for the already existing households on these islands. It also contributes to the improvement of their accessibility decreasing the distance between these

regions and the continental space, in the sense of the development of more frequent communication and the improvement of trade in hinterland.

Finally, where the wider geographical region of the Aegean Archipelagos is concerned, most studies on the development of the region stress the critical role of telecommunications and transport for the improvement of the living standard of the islanders and insular development, as well as the need for further research in this specific field.

### **3. The socioeconomic state of the Aegean islands.**

The Greek insular space constitutes a special region. Some of the components of this particularity are:

- The small size of the islands in area and population.
- The physical isolation
- The limited diversity (variety) of resources.
- The high cost of creating and maintaining infrastructures.
- The absence of scales of economy for enterprises.
- The difficulty in finding employment especially by young people with high qualifications.

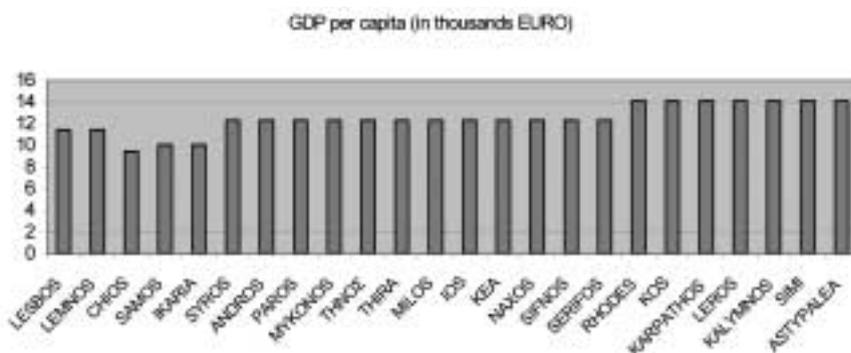
From the total of Greek islands, 112 are inhabited today, while 107 – having been inhabited in the past – maintain the character of a settlement. 81 of the islands have a self administration and are the seat of at least one Organisation of Local Self-Administration. Approximately 13% of the country's population (Census 2001) inhabits the islands (12% in the case of Italy, while it is less than 3% in Denmark, the United Kingdom and France), which cover 19% of its area.

The immigration tradition (mainly to the U.S.A and Australia) of the Aegean islands continues to exist at a slower pace since the '80s. The average density of the population is the half of the national average rate. The population of the islands, with a few exceptions, either decreased or remained steady between 1970 and 2000 (e.g since 1991 the population of the Cyclades decreases every year by 1,2% while that of Creta increases every year by 0,3%). Of course, the analysis on a larger scale (at the level of prefecture and island where that is possible) and in a larger depth with the juxtaposition of other quantitative and qualitative data, uncovers a complex state in relation to the inequalities between islands, the delays which take place in some sectors and finally the possibilities of their development.

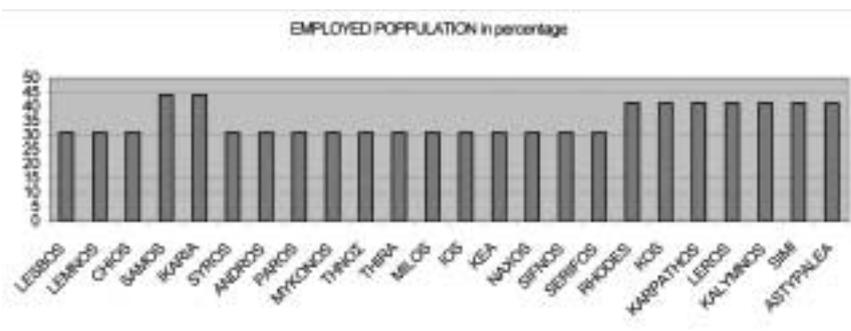
Diagrams 1 and 2 that follow, demonstrate respectively the per capita GDP (in thousands of euros) and the percentage of employed people on the 24 largest islands (those that have more than 1000 inhabitants) of the Aegean Archipelagos

for the year 2004, based on the data of the National Statistical Service of Greece (NSSG). We can conclude that the Dodecanese economically are the most developed islands, followed by the Cyclades and finally the islands of the N. Aegean. Where employment is concerned, Samos and Ikaria appear to have the highest percentages in relation to the population, while the Dodecanese follow:

**Diagram 1.** GDP per capita of the Aegean Archipelagos islands (2004) (Source:NSSG).



**Diagram 2.** Employed population (in %) of the Aegean Archipelagos islands (2004) (Source:NSSG).

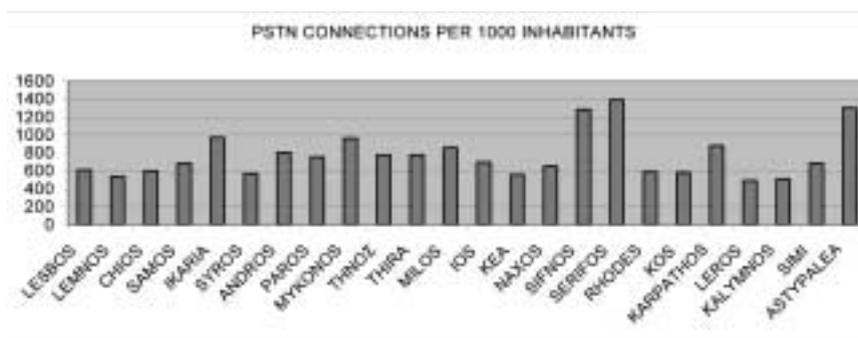


The islands of the Aegean encounter accessibility problems, and as a consequence the indices of regional inequalities deteriorate. The various indices of accessibility attempt to measure the distance between the human activities. Special attention however should be given to the correlations between these indices and the socioeconomic or regional variables, in order that the results from the improvements in different sectors in the region can be evident or that particular obstacles in the development process can be removed.

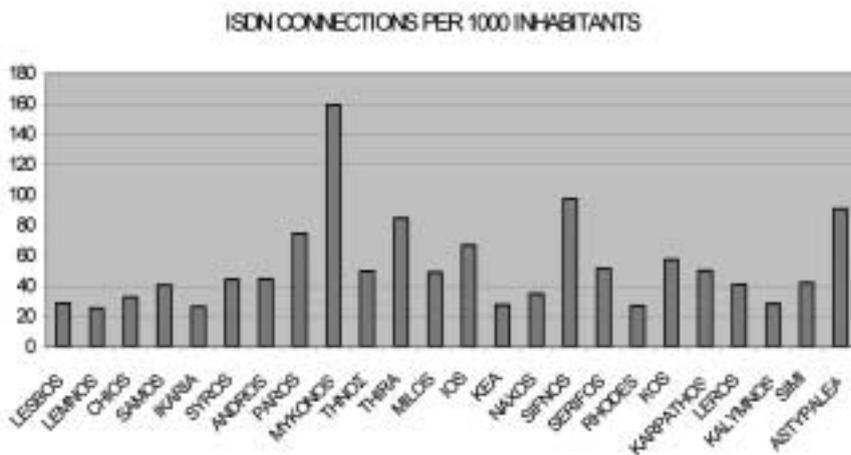
#### 4. The telecommunication infrastructures on the Aegean islands

The creation of an effective telecommunication system constitutes a significant prerequisite for the development of the Aegean region. Technological indices, like the number of PSTN and ISDN connections on the 24 largest islands of the Aegean (with population over 1000 people) for the year 2004, based on the data of the Greek Telecommunications Organization (GTO), are correspondingly presented in diagrams 3 and 4, which follow:

**Diagram 3.** *Number of PSTN connections / 1000 inhabitants in the islands of the Aegean (2004) (Source: G.T.O.).*



**Diagram 4.** *Number of ISDN connections / 1000 inhabitants in the islands of the Aegean (2004) (Source: G.T.O.).*



It is noted that as the PSTN connections are concerned, the relative index gets higher rates on small and more remote islands (like Serifos, Sifnos, Astypalea) a comforting fact for the technological infrastructures which can be developed on these islands, while it gets small rates on large islands / centers of prefectures (Rhodes, Lesvos, Chios, Samos, Syros). As the ISDN connections are concerned, approximately the same trend is observed, with the index getting a higher rate on Mykonos followed by Sifnos and Astypalea, while on large islands the index gets lower rates.

## **5. The role of coastal shipping**

A significant meaning which expresses the problem of transports on islands, is the restoration of territorial continuity which has many dimensions like (Provatas N., 1992:175):

- (a) Long duration of a voyage that increases due to many calls without the safeguard of correct connections, and the only alternative solution is by air and it is costly.
- (b) High cost of transport in relation to land transports.
- (c) Problem with the frequency, regularity, quality of service of transport means, as well as with not always possible direct connection.
- (d) Infrastructure problems at ports and airports.
- (e) The non-viability of transporters, due to the small population of islands and the intense seasonal fluctuations of demand which do not allow large scale investments in infrastructure and means of transport.
- (f) Problems of regional decentralization and particularly in the participation or not of the insular regions in the solution of their problems.

In a special research (Diakomihalis M., 2004) which was conducted on the Dodecanese in 2004, the most important problems encountered by the tourists who choose these islands for their vacation destinations were recorded. These problems are the same as the aforementioned dimensions of the system of coastal transports and the most significant of them are: a) the cost of transport, b) the distance–duration of the voyage, c) the absence of frequency–regularity–stability of the routes and d) the difficulty in getting a cabin and a car spot at peak times.

The coastal system in a framework of intense inequalities which characterize the insular regions, should become the primary medium of regional infrastructure for the promotion of their development operating towards the direction of (Diakomihalis M., 2004:381-406):

1. The strengthening of their population,
2. The improvement of their living conditions and the quality of life,
3. The realization of investments in socially desirable areas due to the existence of external economies,
4. The cultural development and
5. The alleviation of the unequal distribution of the results of the development process which sustains the inequality in incomes and in the opportunities for selecting ways of life and decreases the percentage of the social salary which corresponds to the inhabitants of these regions.

According to the theory of Pricing based on Marginal Cost, the best production level is that which equates the marginal benefits in consumption with the marginal social costs of production. That is, the social well-being is maximized when the price is equated to the marginal cost (Sambrakos E., 1997:149). The pricing policies which refer to the Distinction of prices and to the Segmentised pricing should be examined without ignoring the policy of state subsidy. According to the theory of Rationalism in the transport sector, a transport system independently of the production cost of transport services is developed on a rational base when the number of routes and the quality of provided service correspond to the real needs of the population and the production.

In the framework of determining a Regional Policy and a Transport Policy for the islands of the Archipelagos specific measures have been proposed and tested, with mixed results, such as:

- 1) The subsidy and provision of better level services
- 2) Decrease of cost for the user with direct subsidy to the line which leads to the decrease of fares.
- 3) The Pricing policy which proposes the differentiation in fares (winter–summer, daily–weekends, night– day routes) etc (Papadimitriou S., 1996:169).

The accessibility indices attempt to measure the distance between human activities or the societies which are connected by the various means of the transport system. This definition provides the opportunity to examine the main components of every accessibility index: “the measure of distance” between two points, “the connection by the transport systems” which makes possible the coverage of distance between these points, the “attempt” in time, cost, etc. which is made so that the distance is covered, and “the connection with the determined activity” in which the user wishes to participate. The insular regions encounter accessibility problems and consequently the indices of regional inequalities deteriorate. As Morris in 1978 reports, the purpose of ensuring good accessibility in a region replaces to a large degree the purpose of

avoiding conjunction. Historically, the islands of the Aegean have constituted “bridges” of accessibility with Asia Minor, the Eastern Mediterranean, Black Sea and North Africa. This contributed to their economic growth, due to which they achieved greater development (socioeconomic and cultural) in relation to other regions of continental Greece (Diakomihalis M., 2004:381-406).

The Aegean islands are not regions generally disadvantageous but regions which lost old comparative advantages. The development process imposes the highlighting and exploitation of comparative advantages of these islands. The Development policy should not aim at the one-sector development but at the spherical development of the sectors which present advantages in comparison with other regions. The state as well as Coastal Shipping will at long – term benefit.

## **6. Conclusions–proposals**

The insular Greek region and specifically that of the Aegean Archipelagos is characterized by special development conditions. The changes that have taken place at global scale, in economy, in trade, in the production of raw materials and products, in technology have differentiated the production process, have widened markets and have increased competition. As a result the small economies of islands have been wounded, and they have readjusted the sectors of their activities since with time, their comparative advantages have been reconsidered and adjusted proportionally to the more general development. Migration was an outlet for the inhabitants of many small islands and of course deteriorated the production and social cohesion.

Without a doubt, the transport (coastal and air), as well as the telecommunication network of the region is of great importance for the lift of isolation of the Aegean islands and the insular development. Additionally, it is common ground that the existing transport system connecting the islands between them and with continental Greece is insufficient. The reassurance of technological infrastructures and the creation of an effective telecommunication network in the region, are probably the key to the lift of isolation and the development of the region in the framework of the society of information. The state ought to invest on these islands, mainly where the field of technologies and communication is concerned, and as well as encourage individuals for investments via strong incentives.

The meaning of a telecommunication system in the upgrading of the islands is wider than the economic and technical role of new technologies in development since it encompasses the psychological dimensions of isolation, desertion and insecurity. National and social reasons demand a different approach to this problem, as well as the formulation of a developing strategy with main priority the increase in accessibility to/from the islands.

Additionally, the role of transports and communication in the process of regional development, in the regulation of the flow of exchanges between the geographical unities and the economic activities, is important. It is a fact that the increase in moves and the needs for exchange lead to larger flows of moves and transports which in turn lead to the development of transport systems and result in the increase of accessibility, the increase in the value of land and finally the push to development (Abakoumkin K., 1990:128). The reassurance therefore of infrastructures, the means of transport and communications are possibly the key to the lift of isolation. What is demanded is encouragement or and the creation of all those prerequisites first for the stay of the inhabitants and second for the repatriation. The desired development will be reassured by employment via the necessary investments and the creation of employment positions so that the demographic revival (recovery) is achieved. All these of course in the framework of ensuring the natural and built environment.

The policy of entry license and the subsidized Thin lines, as it is today, satisfies only the ship owners. If instead of this, the reinforcement of local coastal enterprises is promoted, where the enterprises will operate only in a framework of joint ventures and distribution of routes e.g “Joint Funds for the Exploitation of Ships”, will be in a position to connect, frequently and regularly, the small islands with the “larger” coastal lines, and the airlines of larger islands with the center (Diakomihalis M., 2004:381-406). The cost for the state will be less than that of the subsidy of coastal lines connecting the islands with Piraeus and the cost for necessary infrastructure demanded for the call of larger ships or and the direct air connection with the center. The direct air connection of small islands, will contribute at a less degree to the lift of isolation and to the attempt for Development and with a huge cost for infrastructures. This cost can be invested, by improving the existing port infrastructure and the connection with the “main” transportation arteries.

Whichever choices in the fields of transports or communication, should aim at the improvement of the living standard of the inhabitants in the first place and further than that at the creation of prerequisites for the development and the increase of attractiveness of every island, so that the desirable demographic revival can be achieved.

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# ECONOMIC, SOCIAL AND POLITICAL FEATURES OF INTERWAR GREECE

T. BRAVOS\*

## Abstract

The interwar period was most important for the future of the Greek state, since during that period the foundation for a vigorous and flexible economy based on a healthy industry should have been laid. However, despite the enormous amount of capital entering the country up to 1932, no evident change in the nature character of the economy was achieved, since the Greeks themselves did not attempt to improve their economic activity. Industry did not cast off its characteristic torpor; it was developed only nominally and survived only thanks to extremely high duty tariffs. The 1929 economic crisis exacerbated the already bad situation, making evident how inadequate the politicians were to get the country out of its stagnancy and guide it on a course of development. In that context, when politicians' lack of vision and inspiration were most apparent, the Greek people had to face a constantly increasing cost of living, receiving meagre wages and burdened with ever-increasing taxes. At the same time, the country's leadership, living in the capital, was indifferent to encouraging the growth of the remainder of the country.

*JEL classification: N14, N34, N930.*

*Keywords: Interwar Greece, economic history, social history.*

## 1. Introduction

The interwar period was most significant for modern Greece from every aspect. Along with the unfavorable economic situation, the meager land resources and low productivity, the perennially un-favorable balance of trade and the costly wars of the previous decade, the influx of about 1.5 million refugees added to her problems. The presence of the latter proved to be an extreme burden on the country, since their settlement, along with the necessary social reforms, would keep the national debt increasing, thus operating as a drain on the treasury for many years to come. Furthermore, that enormous number of ragged refugees had greatly aggravated her health problem, while ignorance and superstition were among the most serious obstacles in improving the situation. To make matters worse, the Depression had aggravated the situation enormously by sharply reducing the national income, and, after the bankruptcy in 1932, Greece defaulted on her foreign debt.

This being the case, the interwar period made Greece face not only a great deal

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of problems but it posed for her a great challenge as well. As the former Governor of Bank of Greece, A. Diomedes, put it aptly in a speech of his about the repercussions of the world economic crisis: “The people, who do want indeed to go ahead, should not fear undertaking a wide-ranging economic program”<sup>1</sup>. That opinion coincides with what this article wants to express: in Greece there were neither inspired politicians nor an inspired economic policy; only grandiose talk and schemes but no deeds<sup>2</sup>, simply a hand-to-mouth policy, with no real plan for the future. The Greek people had been paying exorbitantly both to its domestic and foreign masters with almost no tangible result. With no capable leadership and with an Ottoman-like mentality in their economic behaviour and in their relations with the state, it was to remain bound to a backward give-and-take procedure in the frame of an inadequate bureaucracy that posed more obstacles than it removed.

## 2. The burden

For Greece the 1920s began with the Asia Minor disaster in 1922 that meant not only the end of national expansion (Megali Idea), but also the beginning of most grave financial and economic troubles. The study of economic data of those years seems to be a nightmare. In 1920, when Greece’s war effort in Asia Minor was at its peak, the expenses incurred with the continuation of the war, according to the budget for 1920-1921, stood at 1.007.790.893 drachmas (£20.155.818)<sup>3</sup>, not including the ordinary budget of the Ministry of War and of the Navy. The total expenditure was 2.156.253.578 drachmas (£43.125.071), while the receipts were only 1.169.511.196 drachmas<sup>4</sup> (£23.390.224), thus leaving a deficit of 986.742.382 drachmas (£19.734.848)<sup>5</sup>. Simultaneously, the country’s public debt for 1920 was 3.533.000.000 drachmas<sup>6</sup> (£70.660.000) with the public debt service being at 166,5 million drachmas, namely 27,9% of the state’s net receipts. In 1922, the budget deficit amounted to 560.915.749 drachmas<sup>7</sup>, with the average war cost per day being 8 million<sup>8</sup>, that is, 2.184.000.000 drachmas up to September. To meet these deficits and to maintain 250.000 men at the front, while the arrangement of a loan abroad seemed to be delayed, the Government resorted to means which they would not have dared to take a year previously. Apart from several fiscal Bills<sup>9</sup>, the Bill for a forced internal loan for 1.500.000.000 drachmas was presented to the Chamber in April<sup>10</sup>. The Greek people had to pay once again. Indeed, to the surprise of many (mostly foreign) people, there were no demonstrations against it, except for the expression of some discontent, of course. As the British put it, “it seemed to be an extraordinary proof of the intelligence and patriotism of the Greek people that they accepted the measure quietly”<sup>11</sup>. This extreme measure, notwithstanding, the Government succeeded in carrying on for another three

months only. As A. Diomedes, Minister of Finance, in October, said to the French delegate on the International Financial Commission (IFC), the maintenance of a million refugees, who had already arrived, along with the five classes of troops, which they were obliged to keep under the colours, would cost them 150 million drachmas per month, or a deficit of about 1 billion drachmas in six months time. Besides, the refugees' settlement was going to cost tremendous sums of money<sup>13</sup>: along with the interest of the loans the state had raised abroad, their settlement absorbed, up to 1931, 40% of state's budget<sup>14</sup>.

Further, as is obvious from the following table, the public debt service (PDS) absorbed an extremely high percentage of the budget, for several years going beyond the critical line of 35%<sup>15</sup>. Even if the low percentage of the previous three years (1932-1935) was to be factored in, the total average still seems to be extremely high, amounting to 30,1%<sup>16</sup>.

**Table 1:**

Years	Budget (Receipts) (in millions of drachmas)		PDS (in millions of drachmas )	Percentage of the Budget <sup>1</sup>
	(1) ordinary and extraordinary	(2) Loans		
1920-21	597	572,5	166,5	27,9
1921-22	715,2	288,4	288	40,2
1922-23	1.472,1	2.827,3	660	44,8
1923-24	3.710,1	251,6	987,5	26,6
1924-25	5.088	660	1.072,5	21,08
1925-26	6.040	2.010	1.322,5	21,9
1926-27	7.317	2.257	2.401,3	31,8
1927-28	8.933	63	2.632	29,5
1928-29	9.577	1.125	4.211,5	44
1929-30	10.336	8.832	3.744,3	36,2
1930-31	10.246	919	3.712,4	36,2
1931-32	9.519	2.021	3.592,4	37,7
1932-33	8.339	1.079	1.749,3	21

Years	Budget (Receipts) (in millions of drachmas)		PDS (in millions of drachmas )	Percentage of the Budget
	(1) ordinary and extraordinary	(2) non-payable interest on the external debt		
1933-34	8.510	1.489	1.381,7	16,2
1934-35	9.410	1.458	1.557,9	18,5
1935-36				17,6 <sup>2</sup>

Source: *Annual Reports for the years 1920-1935. For the column referring to PDS, Dertilis (1960, 195-196).*

<sup>1</sup> This column presents PDS on ordinary and extraordinary budget receipts excluding loan receipts, because I consider it more representative of the country's burden, since, although the latter was, of course, income, that had to be paid off well. This being the case, it is correct that the ratio of public debt service be estimated in terms of ordinary and extraordinary budget receipts and not of the total revenue, that is, including loans.

<sup>2</sup> Angelopoulos (1937, 269).

### 3. Potentials and shortage (?) of capitals

It was the proper time to expect prosperity and welfare. The dilemma Greece had before her of solving her economic and social problems after the disaster was either to develop industry or to revitalise agriculture and thus to reverse the stream of migrants from the cities to the countryside. The first solution would certainly be more profitable but it also seemed to be more difficult. The second, which was finally chosen, seemed easier and was more relevant to what politicians and the economic elite believed about the capability and the potential of their own country. Their conviction about the nature of Greece was what impelled them to channel the majority of refugees into the cultivation of the land. Indeed, that move was of great importance for a country like Greece for whom, during the period of 1923-1927, about 58% of her needs in wheat were imported. Furthermore, the rural settlement cost less than the urban one, since for the latter, apart from housing, it was necessary to provide employment for the people without work<sup>17</sup>. Nevertheless, it should not escape our notice that the use in agriculture of that cheap labour force, which the refugees represented for the country, could not yield, as the Government expected, great profit to the national economy for two reasons: (1) The arable land covered only 18,14% of the surface of Greece<sup>18</sup>, while the marshes took up 12,16% of the total arable surface, and (2) The agricultural methods of the Greek peas-ant were primitive and the authorities acknowledged that; average yields per acre were only a fraction of those obtained in more advanced countries<sup>19</sup>. That situation was not about to be improved in the following years despite Government's half-hearted efforts and the aid of inestimable value given in this direction by the Near East Relief and the American Farm School at Thessalonica<sup>20</sup>.

Since Greece did not achieve prosperity through agriculture, could she succeed in industry? One could stress that the industrial undertaking would require capital the country could not afford. However, "Greece had not previously received such great quantities of capital in so short a period of time"<sup>21</sup>. The truth is that Greece during that particular period had been flooded by capital that she had never seen theretofore; in total 1.162,8 million gold francs. Although the network of international finance in Greece was then more confined<sup>22</sup>, the Greek state, being one of Hambros' main customers for foreign loan flotation, borrowed from the international capital market between 1922 and foreign loan default in May 1932, 907,8 million gold francs; the remainder of the sum of 1.162,8 million concerned private investments on pub-lic works (70 million) and private investments of various forms (60 million)<sup>23</sup>. However, the truth also is that tremendous sums of money entered the country in the shape of state loans either to pay off previous

loans or to settle the refugees<sup>24</sup> or, worse, to cover the deficits of successive budgets; only 60 million gold francs was invested in industry<sup>25</sup>. Besides, the foreign capital was invested almost exclusively in securely lucrative business that is to say in banks, insurances, public loans or technical works with government guarantees. The method was simple, tried and tested: regarding the investments in public works, the foreigners brought both the capital and the know-how, profiting enormously by supplying the necessary materials and the installation fixture of the machinery used in those works<sup>26</sup>. With reference to the loans, they enjoyed large profits from the high interest and the low price of issue of those loans. Moreover, they speculated on the fluctuations of titles of Greek public debt in the stock-market; it did not slip their attention that the loans functioned as a means of nailing the Greek economy so that she would never become competitive<sup>27</sup>.

Thus, the pessimistic perspective would accept that situation as unchangeable adopting the view that, since there was a desperate need of capital which only foreigners possessed and it was at their discretion to invest it in Greece or not, so the country could never see light at the end of the tunnel. Did, however, matters really stand thus? Mazower writes that a volume of Greece's external public debt, oscillating between 1/3 and the half, owed to Greek residents<sup>28</sup>, so, he concludes, there was a lot of money inside the country. Consequently, the Government could have accessed it mostly through rationalized taxation<sup>29</sup>. Although that measure could not be put into effect, because, as we know, the majority of those Greeks were emigrants abroad, living in organised communities there as Greek colonies (*paroikiakos Ellenismos*), the truth is that there was a widespread conviction among the foreigners that "there was plenty of wealth in the country"<sup>30</sup>. The British had no doubt that the majority of wealthier Greeks had practically all their capital invested abroad, much of the interest on which probably found its way back to Greece. What they had in mind, even if it was exaggerated, placed the value of the Greek deposits in the United Kingdom, France, Switzerland and the United States of America at £400 million and 2.000 million dollars<sup>31</sup>. If such capital really existed, what did the Governments do to attract them and gain from them not only purchasing and investing power, but also independence from foreign powers? Furthermore, the British Ambassador, Sir Sydney Waterlow, after having stressed the natural tenacity of life which was a characteristic of the Greek, and which enabled him, like the Chinaman, to undercut his rivals in trade while subsisting on next to nothing in any part of the world, he came to the point of comparing Greece to the United Kingdom regarding their capability to draw profit from all over the world. He underlined the fact that Greece was blessed in deriving revenue from overseas trade and from shipping, and was nourished by an economy rooted in every part of the world. Those roots were not territorial, that is, the mainland and

the islands. They represented principally the Greece of the Diaspora, namely the network which centred on Piraeus, and whose strands covered the globe from China to Peru<sup>32</sup>. This being the case, it wouldn't be odd to call into question the received view which defines the reason for the weak Greek economy then and nowadays as a shortage of capital<sup>33</sup>. Eventually, it seems that the Greek Governments did not do enough to attract this capital. However, the question here is if this capital could have been channeled into the productive sector of the economy and not only into unproductive activities, such as public loans, in the first place. While it is well known that nothing worth mentioning was done in this direction, the Greek reluctance to invest in industry, combined with their preference for short-term profit, undoubtedly would have posed major obstacles to the realisation of desirable investment.

Without any intention of excusing this peculiarity, the fact that the Greeks, as a people, were prone to making quick profits, could be interpreted by what they had been accustomed to doing under the Ottoman yoke, after hundreds of years of oppression. What, definitely, did not exist during the time of the Ottoman rule was the luxury of time in business. Consequently Greeks had not developed long-term investment perspective. For example, the renting for at least 99 years, which was both a custom and common practice in the West, was unknown to the Ottoman East. Whatever one could gain, he should gain fast, because otherwise he could be exposed to the eyes of the rulers. This of course would mean, at best, the loss of his belongings and, at worst, the loss of his own life. This being the case, it seems conceivable as to why the vast amounts of capital in the hands of Greeks both living in Greece and those living abroad were not ever channelled into industry where the profit margin was narrow and the time needed to gain even this meagre profit could prove to be extremely long – not to mention the lack of confidence people had in the politicians and the Government of their own mother country.

#### **4. The obstacles**

One more fact that troubled the would-be investors, both Greek and foreign, was the non-existence of an adequate bureaucracy, capable of acting as intermediary between administration and businessmen, or between administration and the public<sup>34</sup>. In that context, the officials, functioning in an administration characterised by creeping paralysis, according to Waterlow, wielded either too much power or too little. That state of things was most troublesome to whoever did business in the country, who found either that his business was subjected to continual sabotage at the hands of a clique of permanent civil servants or that it

was impossible to get a decision on any question in the absence of anyone to take responsibility. One had the impression that from these causes, and from departmental overlap, incoherence and waste, the machinery of the State was simply almost non-operational<sup>35</sup>. This being the case, the reputation of both the Government and of individual traders was bad, since, according to the British, Greek commercial morality was Levantine, and foreign businessmen had sometimes complained that in Greece a contract was not always regarded as sacrosanct, while a certain innate contentiousness and inability to cooperate well had on occasion caused companies to break up<sup>36</sup>. So, it was not strange that the British, in unusually sharp terms, announced through diplomatic channels that they looked on Greece as an extremely unsatisfactory country for investment of British capital in public utilities, because Greek Governments were constantly changing and generally unreliable<sup>37</sup>.

Furthermore, British traders and businessmen were advised to exercise very great care in the selection of their local agents, because not only was the average Greek an “incurable optimist” and who, when applying for an agency, described the possibilities of the market with a plausibility and eloquence to which many British firms had fallen victims, but also too many of them, seeing greater personal advantage in “keeping in” with their local customers, did not further the interests of their foreign principals<sup>38</sup>.

In interwar Greece, industry did not follow a precise plan, because there was not any. It was merely directed by the profit incentive of those interested, who benefited from a number of developments favorable to them. Although Venizelos, during his last premiership, had explicitly expressed himself to be in favour of industry’s growth as the only mean of absorbing the surplus population and of improving the people’s standard of living<sup>39</sup>, no one Greek Government seemed to have a clear policy on industry, except for the Populist Government in 1922 who passed the law 2948 “about promotion of industry and handicraft”<sup>40</sup>. The Liberal party and the Venizelists in general believed that, through the improvement of the economy, the surplus urban labour force would automatically return to the cultivation of the land<sup>41</sup>.

## **5. Anti-industrial policy**

However, neither did the Greeks themselves try to create a healthy national economy based on industry. The view, that became finally conviction, was that Greece was an agricultural country and that the Greek industry should not exceed the level of local consumption and, at the most, that of processing domestic

agricultural product. This attitude relegated Greek industry to a secondary role, playing a purely supporting role to trade, and to be an exclusive consumer of English, French or German industries<sup>42</sup>. Apart from lack of capital, the most serious excuse for those who maintained that the industrialisation of Greece was not possible, was the fact that the country did not possess raw materials<sup>43</sup>. However, Greece did have both raw materials and sources of energy. After World War II, indeed, various minerals appropriate for industrial purposes were found in the country's subsoil, while, it was understood that, if its waterfalls were used properly, it could resolve the acute energy problem<sup>44</sup>.

The most important role in the anti-industrial policy was played by the banks. The National Bank, along with the majority of Greek banks<sup>45</sup>, had no industry<sup>46</sup> policy nor did they consider its growth necessary<sup>47</sup>.

The refusal of the bankers to invest their capital in industry<sup>48</sup> meant that Greece lacked one of the most necessary means for its development: long-range borrowing. Only in January 1928 did the National Bank in collaboration with Hambro Issuing House found Hellenic Corporation<sup>49</sup> with the aim of financing development in Greece. However, the interest of the loans furnished by Hellenic Corporation was 9-10%, which, although lower than 15% of domestic market-money, was greater than 7-8% of European money-market<sup>50</sup>. This fact, combined with the peculiar policy of Venizelos Government, after 1928, towards foreign interests and the dislocation of international economy after 1929, kept foreign capital out of Greece<sup>51</sup>. Nor, until 1963, were there institutions specialised in industrial credit. So, no organised credit and investment policy, mostly for small industrial enterprises, existed, through which the most efficient of them could develop<sup>52</sup>.

It was obvious that the credit policy followed by the Greek banks, especially the National Bank, and the general economic policy followed by the Greek Government, essentially nullified country's economic capabilities in contrast to what happened in other European countries, for instance Germany, who adopted a totally different course of action<sup>53</sup>. The example of the German banking system, beyond its differences to the Greek one, could show what could be achieved when vision, will and inspired leadership exist.

Thus, in contrast to what other European peoples<sup>54</sup> had done, the Greeks not only never seriously tried to create a national industry, but seemed to have militated against its development<sup>55</sup>. Moreover, it was not an unusual phenomenon for older industrialists to undermine newcomers in the field of industry, in collaboration with their foreign competitors<sup>56</sup>.

Bearing that in mind, the remarks of National Economy Minister, G. Pesmazoglou, that Greece had not an "industrial character", therefore "industry

could not offer her possibilities of a broader development”<sup>57</sup>, no matter how seemingly infuriating today, were considered sensible at that time, although not for all Greeks<sup>58</sup>. Besides, that perspective could explain the fact that, while the total amount of industrial investments in the period 1932-1936 was roughly 620 million drachmas, and the profits of the most important industrial enterprises exceeded 2 billion drachmas, those profits were not allowed to be invested again, because the Government believed that there was no future for industry in Greece. That very non-involvement to any kind of modernization was the real cause for Greek industrial exports being negligible, namely 5% of their total<sup>59</sup>, throughout the 1930s.

## 6. Taxes

At the end of 1922, after the Asia Minor defeat, Greece, impoverished by ten years of almost uninterrupted warfare, found herself obliged to cope with an unbearable burden: that of the tremendous cost of the war and the settlement of refugees. Given that her resources were limited and the whole structure of her economy less than adequate, the huge budget deficit put the Government in a desperate position. She needed cash, but she could not raise any loan abroad<sup>60</sup>. Thus, instead of reorganising the very foundation of the economy, the men in power took the easiest route to finance the deficit, namely of imposing taxes. As the British noted “The burden of taxation (direct and indirect) imposed for 1923 was sufficiently irksome to a nation which was already in serious economic difficulties, and discouraging to those foreigners who might otherwise have helped in its restoration”. Additionally, a large number of the newly imposed taxes<sup>61</sup> had added to them a special tax of 10%<sup>62</sup> on all other taxes, with few exceptions, imposed by Law 2749, to meet the service of the forced loan established in 1922<sup>63</sup>. In 1926, another forced domestic loan for 1.250.000.000 drachmas<sup>64</sup> was imposed anew along with fresh taxation in the spring, while in June the government had recourse to borrowing a second time, in the shape of a loan from the Swedish Match Company; but nothing was done towards a permanent improvement in the finances<sup>65</sup>. It was no longer a secret that, as Spyridon Loverdos (Minister of Finance) admitted before Parliament in 1933, “Taxation in Greece was double than in other Balkan countries and approached taxation in the richest European countries”<sup>66</sup>. The people lived under the constant fear of new taxation, since new taxes were announced nearly every day as the American Ambassador, Lincoln MacVeagh, wrote in June 1937<sup>67</sup>.

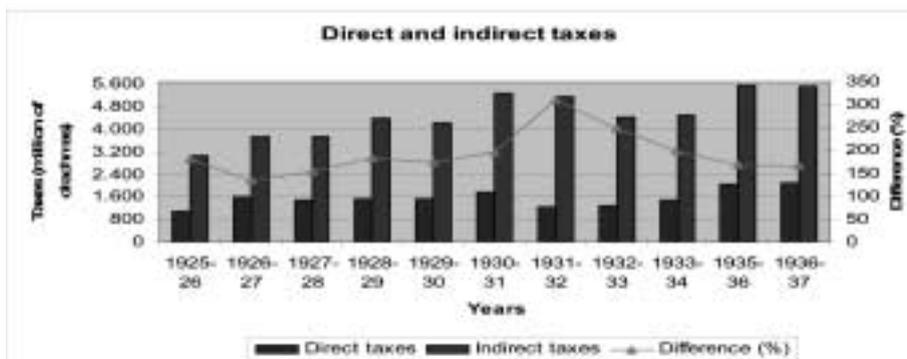
This policy of persistently imposing new and heavier taxes – especially indirect ones – continued throughout the interwar period. The authorities obviously did not consider the enormous burden of taxation<sup>68</sup>, which Greece was obliged to bear, as a great handicap to her existing trade and industry and as a barrier for the entry of foreign capital. (table 2 and diagram 1 about direct and indirect taxes and their differences).

**Table 2:** (in millions of drachmas)

	Direct taxes	Indirect taxes	Difference (%)
1925-26	1.091	3.069	281,30
1926-27	1.603	3.768	235,06
1927-28	1.483	3.774	254,48
1928-29	1.545	4.401	284,45
1929-30	1.543	4.241	274,85
1930-31	1.797	5.312	295,60
1931-32	1.267	5.188	409,47
1932-33	1.282	4.451	347,19
1933-4	1.513	4.525	299,07
1935-6	2.078	5.593	269,15
1936-7	2.082	5.532	265,71
<b>Average</b>			<b>292,39</b>

Source: Annual Reports for the years 1925-1934.

**Diagram 1:**



## 7. Cost of living

The Greek people, however, had not only to face the tax burden, but the most annoying matter of the constantly reduction in their purchasing power which was the inevitable result of a continual and rapidly rising cost of living, where the growing trend in the general rates of wages was much more slower. In the beginning of the 1920s, the cost of living index was almost six fold in comparison to that of 1914 (table 3, diagram 2), while the average wage had increased by only 30% to 50%<sup>69</sup> and the civil servants' salary had doubled. Considering galloping inflation, real wages had generally dropped below the prewar level, since the wage of a mining worker, for example, in 1922 was equal to 40% of that of 1914<sup>70</sup>.

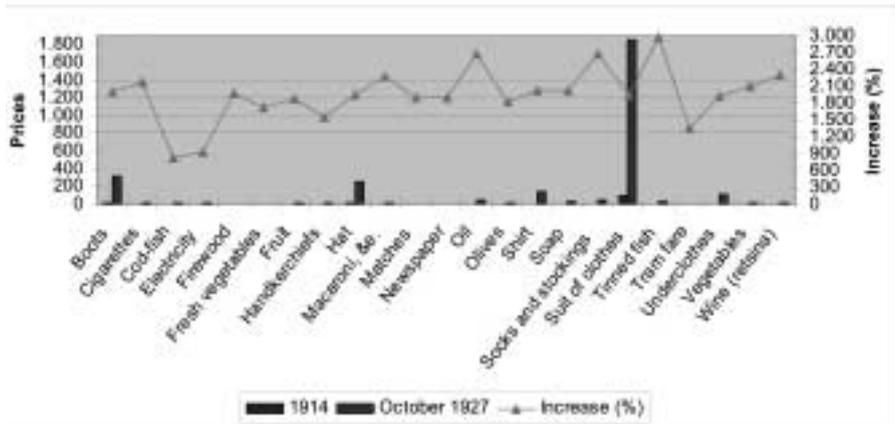
**Table 3:**

Commodities		1914	October 1927	Increase (%)
Boots		14,80	310,00	1.994,59
Cigarettes	per box	0,47	10,70	2.176,60
Cod-fish	per oke*	1,80	16,78	832,22
Electricity	per kw	0,77	7,93	929,87
Firewood	per oke	0,06	1,25	1.983,33
Fresh vegetables	"	0,31	5,64	1.719,35
Fruit	"	0,48	9,43	1.864,58
Handkerchiefs		0,50	8,25	1.550,00
Hat		12,50	256,25	1.950,00
Macaroni, &c.	per oke	0,80	19,00	2.275,00
Matches	per box	0,05	1,00	1.900,00
Newspaper		0,05	1,00	1.900,00
Oil	per oke	1,50	41,50	2.666,67
Olives	"	0,95	18,30	1.826,32
Shirt		6,37	134,91	2.017,90
Soap	per oke	1,20	25,43	2.019,17
Socks and stockings		1,56	43,43	2.683,97
Suit of clothes		90,33	1.855,00	1.953,58
Tinned fish	per oke	1,20	37,00	2.983,33
Tram fare		0,15	2,18	1.353,33
Underclothes		5,41	109,31	1.920,52
Vegetables	per oke	0,66	14,47	2.092,42
Wine (retsina)	per oke	0,50	12,00	2.300,00

Source: Annual report for 1927, 57-58

\*1 oke= 1.280 kg

Diagram 2:



The following comparison is most typical of the situation at the time: while the average increase of wages in industry between 1923-1927 was 84,52% (table 4), the average cost for buying commodities of prime necessity like bread, butter, cheese, eggs, fish, meat, and milk had increased by 183% between June and December 1922. The same commodities, almost 5 years later, that is, in October 1927, were more expensive by 104,87%: total increase between June 1922 and October 1927 by 287,87%<sup>71</sup> (tables 5-6, and diagrams 3-4). Apart from that, profiteering, particularly in food-stuffs and articles of general necessity, had been continually on the increase throughout 1923. Thus, the Government instituted a series of commissions to regulate the prices of commodities in general demand and a number of shop proprietors were prosecuted and heavily punished by fines, closure and even imprisonment; but, as was feared, such weapons in the hands of the Government were used more against political and personal opponents than in the real interests of the consumer. Increasingly, a great deal of speculation had taken place too in land and buildings in towns, some of the prices asked for building land being literally hundreds of times those at which such land had been obtainable before the war. Furthermore, house rents, not under the rent moratorium law, continued to increase, and, in the case of better-class houses, were prohibitive<sup>72</sup>.

Table 4:

Year	Wages in Industry (in drachmas)	Year	Wages in Industry (in drachmas)
1914	5,38	1926	76,76
1917	7,99	1928	76,73
1920	15,57	1930	73
1923	41,6	1931	72
1924	58,6		

Source: Annual Report for 1922, 53.

Table 5:

Commodities		June 1922	December 1922	Increase (%)
Alcohol (methylated spirit)	per oke	5,60	8,20	46,43
Bread	"	1,80	3,00	66,67
Butter	"	24,00	50,00	108,33
Coal	"	0,65	2,90	346,15
Cheese	"	9,60	18,00	87,50
Coffee	"	16,00	58,00	262,50
Eggs	each	0,45	2,80	522,22
Fish	per oke	18,00	40,00	122,22
Gas	per c.m.	1,80	3,20	77,78
Meat	per oke	9,00	26,00	188,89
Milk	"	2,10	6,00	185,71
Petroleum	"	5,40	15,00	177,78
Potatoes	"	2,00	5,50	175,00
Rice	"	6,00	16,00	166,67
Sugar	"	8,00	19,60	145,00

Diagram 3:

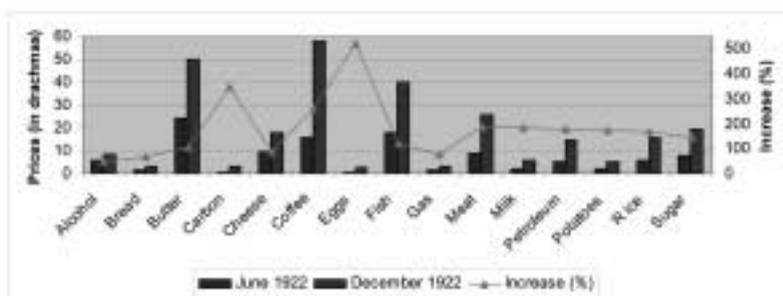
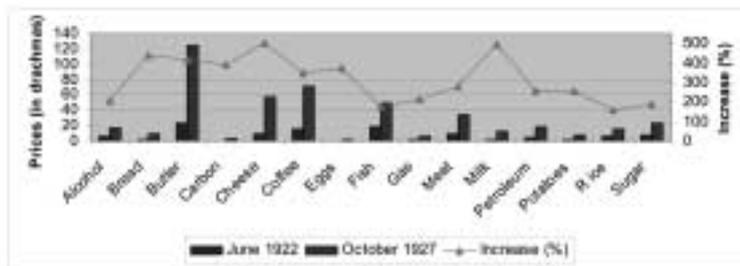


Table 6:

Commodities		June 1922	October 1927	Increase (%)
Alcohol (methylated spirit)	per oke	5,60	17,40	210,71
Bread	*	1,80	9,70	438,89
Butter	*	24,00	124,00	416,67
Coal	*	0,65	3,20	392,31
Cheese	*	9,60	57,83	502,40
Coffee	*	16,00	71,50	346,88
Eggs	each	0,45	2,12	371,11
Fish	per oke	18,00	49,90	177,22
Gas	per c.m.	1,80	5,70	216,67
Meat	per oke	9,00	34,50	283,33
Milk	*	2,10	12,50	495,24
Petroleum	*	5,40	19,20	255,56
Potatoes	*	2,00	7,15	257,50
Rice	*	6,00	15,38	156,33
Sugar	*	8,00	23,25	190,63
Average				314,10

Source: *Annual Reports for 1927*, 57.

Diagram 4:



As was the case with taxation, the cost of living rose constantly throughout the period in question<sup>73</sup> regardless of whether the drachma was devalued and the economy severely suffered, or whether the drachma was improving and Greece, economically and financially, was in pretty good condition. Furthermore, it was a well-known fact that whenever one component of the cost of living index rose, the price of practically every article in the country increased, and no semblance of an effort was made to effect a reduction of prices when this figure dropped<sup>74</sup>. Undoubtedly, that fact could be considered as solid evidence of the underdeveloped nature of the Greek economy, where no protective mechanisms for consumers existed and speculation was a common practice<sup>75</sup>.

The consequences of the Depression eventually hit Greece especially after the gold standard was abandoned by Britain in September 1931, a move which brought about massive depreciation of the drachma initially. As far as the agricultural community was concerned, an unavoidable side effect was that, although crops on the whole were good, the prices were low, with the result that a considerable amount of produce remained on the producers' hands. As was to be expected, that situation caused considerable distress amongst a fairly large section of the agrarian society. This being the case, both the Government and the Agricultural Bank introduced various measures to relieve this distress by granting various debt moratoria and by supplying seed on loan to the small-holders peasants<sup>76</sup>.

The world economic crisis demonstrated how superficial the increase of the purchasing power of the Greek people was. The British did not fail to notice that the importation of foreign capital for the development of industries and public works had somehow artificially increased this purchasing power, since a great deal of this money had been absorbed in the shape of wages, a procedure which had temporarily increased the buying power of the people. With the exhaustion, however, of these funds and until new finance was available for the continuance of public works and local industries, the country's buying power would undoubtedly diminish; that, of course, meant more poverty and misery for the people, especially the working class who saw their real wage reduced by 13% between 1930 and 1935<sup>77</sup>.

The general situation had considerably deteriorated after Venizelos' Government abandoned the gold standard on 26 April 1932, with the result that the drachma had lost almost 60% of its value by the end of the year<sup>78</sup>. The British Minister in Athens, Patrick Ramsay, wrote in May that the cost of living in the towns had risen about 30% since September 1931 and in the country about 15%, and that the rise tended to increase rapidly. He added that unemployment had considerably increased, and out of about 250.000 unemployed, 70.000 of them alone were in the Athens-Piraeus district<sup>79</sup>.

The average wage in 1932 was estimated at about 75 drachmas a day<sup>80</sup>; through the following years it was reduced instead of rising<sup>81</sup> (see Collective labour agreements, tables 7-12). Thus, although the minimal required annual income for a family in 1938 was 60.000 drachmas, only 17% of the families had an income equal or greater than that of the minimal limit. The remaining 83% had annual income which barely reached 18.727 drachmas<sup>82</sup>, that is to say less than 1/3 of the annual income considered as absolutely necessary. Yet, from quite inadequate income, the state was annually subtracting, in the form of direct and indirect taxes, a percentage that fluctuated between 15% and 26%<sup>83</sup>.

Table 7:

Collective labour agreement	men-age			women-age		
	18-21	21-24	25-	18-21	21-24	25-
	a day's wage / salary in drachmas			a day's wage / salary in drachmas		
12/8/1936 (Private sector employees)	33,5 / 1000	50 / 1.500	60 / 1.800	33,3 / 1000	38,3 / 1.150	43,3 / 1.300

Table 8:

Collective labour agreement	(new employed) men	(new employed) women
	a day's wage / salary	
23/6/1937 (Bank employees)	68,3 / 2.050	50 / 1.500

Table 9:

Collective labour agreement	men (20 years old and over)	women (20 years old and over)
	a day's wage / salary	
16/9/1937 (Limited companies, private enterprises, office employees)	60 / 1.800	50 / 1.500

Table 10:

Collective labour agreement	a day's wage in		
19/8/1938 (Workers)	Athens-Pireaus	Thessalonica	The rest of the country
	58	55	53

Table 11:

Collective labour agreement	from 23 years old and over
	a day's wage / salary
15/12/1938 (General store employees)	63,3 / 1.900

Table 12:

Collective labour agreement	men	women
	average day's wage	
10/10/1939 (Tobacco industry workers)	90	35

Source: Tsiboukis (1947, 5-6, 9, 19, 31, 86).

It was indicative, indeed, of the sharp fall in the value of the drachma that MacVeagh, in his initial report to the President Roosevelt, on November 21, 1933, referred to the effects the Depression had on the purchasing power of the Legation's personnel salaries by mentioning that it had reduced by more than forty percent of pre-Depression levels<sup>84</sup>. Even if the ever-rising cost of living could not be considered the sole cause, since the salaries of the Legation's personnel had incurred cuts in allowances, not to mention the depreciation of the dollar, the fact that the diplomatic personnel of the greatest debtor-country of the world had strongly felt the reduction of their purchasing power, what dreadful ordeal the Greek people were going through, one could only imagine. The Dutch unionist Walter Schevenels not only had imagined it, but he knew it well; addressing his Greek colleagues in 1931, he said: "Your wages are the lowest in Europe and the conditions of work here could not be compared to those of civilised countries"<sup>85</sup>. He was, indeed, right.

## 8. Budgetary receipts and a weak industry: a one-sided relation

The protection of industry was not considered an objective, but merely as a means to re-establish the budgetary and exchange balance. This being the case, the words of G. Cafantaris', Minister of Finance, were typical of the situation: "I am absolutely indifferent to industry and I consider her contribution to collect half of the budgetary income as her sole usefulness". The same Liberal politician, accusing industry, maintained that "she was the reason for diminished state receipts, since she was the cause for fewer products being imported and consequently for less duty revenues"<sup>86</sup>.

Thus, the motto of those in power at that time could be seen as the following: "As long as industry is weak and undeveloped, so much more would the imports and the duties be, and therefore so much more the state income". So much for pioneer political leaders of original thought.

They were so incapable of contributing to the country's development that, even in trade, a field which Greeks are supposedly so apt in, they did not manage to retain Greek control of the leading export commodity of tobacco<sup>87</sup>.

Notwithstanding the chaotic conditions in Greece, after 1922, some efforts to develop industry were made. Certainly, the growth of industry in 1923-1939 was directed by the profit incentive of those interested, who benefited from a number of favorable developments, especially the influx of refugees, thus providing industry with ample cheap labor, and increased tariffs. In 1923, although thirty-nine new factories and building works were established, the progress expected during the year was not realised, partly owing to the instability of the exchange and the abnormal domestic situation<sup>88</sup>. Industrial development continued in the following year<sup>89</sup>. In 1925, however, according to the British legation in Athens, industrial development was considerable: some 216 factories were in operation, forty-three of which had been newly established. In 1926 there were about 34.000 industrial undertakings, of which some 8.000 had power installations, developing approximately 15.000 h.p. from electricity and 96.000 from other motive forces, with the total number of hands employed amounting to about 155.000<sup>90</sup>. In 1930 there were in existence 76.591 industrial establishments, to which 292 more had been added by the end of 1934, according to the available figures of that time<sup>91</sup>.

Nevertheless, and despite the assistance given by the Government to industry, on the whole, the new factories were disappointing, in terms of their organisation and especially their technical staff, whose expertise was below the modern standard<sup>92</sup>. It was evident to an objective observer, such as the British diplomats in Athens, that there was a distinct imbalance between quantity and quality in Greek industry.

In the majority of cases, the newly-established industries were, in view of the cheapness of labour and the protection afforded by the tariffs, able to count on disposing of their products on the home market; but, it was well known that in other cases, particularly where the standard of quality was necessary, Greek businesses found it difficult to survive<sup>93</sup>.

There would seem reasonable to doubt the possibility of such industries carrying on – in contrast to those regarded as “natural” to Greece, such as wine, currants, oil, silk, cement, tobacco, textile and carpet ones – as electric lamps, gramophone records, &c., the majority of which had been started under the lee of various protective measures and of the advantageous situation of using the cheap labour refugees offered them. The irony is that the British noted just in 1929, the year of international bankruptcy, that it was then that Greece was in the process of emerging from a semi-lethargic state to one of modern development in commerce and industry<sup>94</sup>.

When the world economic crisis started and Greece lost the power to raise fresh

loans abroad, in order to effect, among others, the necessary imports, it became obvious that the country, whose imports in the interwar period were on average almost double her exports (table 13, diagram 5), would have to adopt radical measures to improve the balance of trade. The only way to achieve that was to foster the development of domestic industries – thus boosting the export trade –, while limiting imports as far as possible. Indeed, the country reached the point of covering, in 1935, 75% of national industrial consumption by Greek products as compared with 58,6% in 1928<sup>95</sup>.

Table 13:

Years	Imports		Exports		Adverse balance	Difference (%)
	drachmae	£	drachmae	£	£	
1920	2.177.529.995	43.550.600	686.310.909	13.726.218	29.824.382	217,28
1921 <sup>3</sup>	1.371.840.141	26.381.541	700.967.205	13.480.138	12.901.403	95,71
1922	3.085.474.528	19.224.140	2.485.080.174	15.470.904	3.753.236	24,26
1923	6.035.345.777	21.632.065	2.545.110.111	9.122.258	12.509.805	137,13
1924	7.965.684.031	32.247.639	3.469.771.052	14.046.746	18.200.893	129,57
1925	10.209.523.691	32.618.285	4.541.360.152	14.509.138	18.109.147	124,81
1926 <sup>4</sup>		12.595.460		5.265.664	7.329.796	
1927 <sup>5</sup>		17.003.465		7.561.838	9.441.627	
1928	12.308.122.600	53.480.220	6.282.072.200	17.531.625	15.948.595	90,97
1929	13.272.369.000	55.392.984	6.984.977.000	18.626.605	16.766.379	90,01
1930	10.850.608.000	28.934.954	5.917.846.000	15.780.922	13.154.032	83,35
1931 <sup>6</sup>	7.510.998.000	20.029.328	3.284.979.000	8.661.944	11.365.184	131,18
1932 <sup>7</sup>	7.073.431.000	18.862.483	4.090.929.000	10.909.144	7.953.330	72,91
1933	8.431.531.000	22.484.082	5.141.066.000	13.709.509	8.774.573	64,00
1934	8.792.400.000	23.446.400	5.474.200.000	14.597.866	8.848.534	60,62
1935	10.681.388.000	28.483.466	7.101.289.000	18.936.533	9.546.933	50,42
1936	11.898.884.800	31.490.357	7.371.143.000	19.656.381	11.833.976	60,20

Source: Annual Reports for the years 1921-1936. For 1920 figures, Zolotas (<sup>2</sup>1964, 174).

<sup>3</sup> The figures concern 10 months.

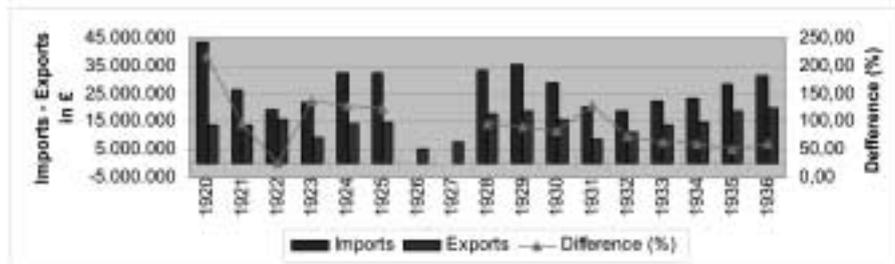
<sup>4</sup> As the Statistical Department was suspended during the Pangalos régime, the 1926 import and export figures were not available. The figures cited, refer only to the first half of the year.

<sup>5</sup> As for 1926, the figures cited, refer only to the first half of the year.

<sup>6</sup> The figures concern 10 months only.

<sup>7</sup> The figures concern 11 months only.

Diagram 5:



Nevertheless, it can not go unnoticed that this process was more a product of necessity, than a well sounded decision to develop national industry. The Greek governments' policy was based more on strict country development. That might be the answer to the fact that, despite factories of various sizes having sprung up in various parts of Greece, thus realising the conviction that there were very few manufactured articles which were not produced in Greece at the time, the surplus of imports over exports showed a marked increase just a year after the 1932 crisis. So, whereas exports of finished industrial products decreased by about 12% in 1935, imports of the same class increased by 9%<sup>96</sup>. In the last analysis, the protection, which the State afforded to industry, intensified by many trade restrictions, gradually made the Greek industry totally dependent on governmental support. Thus, the Greek industry matured in a protected environment not in a competitive one, as the rules of a free market dictate. That may be the reason for the country being far from attaining self-sufficiency even in traditionally Greek industries, such as the textile one, since, in spite of Government protection, the import of textiles and textile materials remained the largest item in Greek customs returns. At this point, it would be useful to note that the industrial production index of Greece (1923 = 100) rose to 127,8 in 1934 and to 143,17 in 1935. For the first eleven months of 1936, however, the index dropped to 141. In this respect the figures agree with the index of economic recovery which, with the same year as a basis, was 97,9 in 1934 and 113,1 in 1935, but only 104,6 for the first eleven months of 1936<sup>97</sup>. Furthermore, although industrial production on the whole continued to increase quantitatively during 1938, the building, leather and paper industries recorded lower production, and exports of locally manufactured articles fell away by over 20%<sup>98</sup>. The course, therefore, which Greek industry had taken, was rather obvious rendering the dream of being self-supporting, in respect of certain categories of goods, a goal which could only be achieved in a very restricted sense.

Thus, even if industry was constantly developing through the interwar period,

and its development was the favourite theme for government spokesmen at that time<sup>99</sup>, the British assiduously noticed its ever-increasing inherent problems: it was young, weak and undeveloped, inefficiently organised and, while cheap unqualified labour was abundant, it suffered from a lack of specialised workers and also from a lack of working capital at tolerable interest rates. Moreover, the fact that industry was working almost exclusively for the home market under the protection of substantial tariff walls, showed that it was not capable of rapid development<sup>100</sup>. Waterlow used a successful example, indeed, for describing the Greek economy: "It was like an unskilful tightrope-walker who keeps his balance only at the cost of increasing his speed. Just as his rate of progress mistakenly appears to the spectator as additional proof of skill, so the external signs of economic expansion blind the casual observer of Greece to the fact that progress on an insecure basis is artificial and dangerous"<sup>101</sup>.

An over-indebted people, squandering their monies, and an inadequate, Athens-centred, political leadership

What, first of all, should be emphasised is that the Greek people deserved a better life and a better country than what they actually had, because they paid a lot for that, an excessive amount, after all. The writer of this article upholds the theory that it was not the backward economy which was to blame – besides it found the way to turn around eventually – but the politicians who were not capable of facing the challenge posed<sup>102</sup>. Greece carried a tremendous burden: the public debt (table 14 and diagram 6) became even more onerous because of high interest<sup>103</sup> and the low price of the issue of loans which comprised it<sup>104</sup>. To make matters worse, the Greek Governments used this capital to serve more party-oriented interests than the long-term ones of the country. They did not ever learn that the raising of loans for reasons of consumption, that is, to finance the regular expenses of the budget, was essentially a "criminal act" because the future of oncoming generations was thus mortgaged; or that it could be done only to construct the country's infrastructure, and acquiring fixed assets or investments, such as railway-construction and other necessary and important public works<sup>105</sup>.

Table 14:

Year	Drachmae	£		
1920	3.533.000.000	70.660.000		
1921	5.544.000.000	106.615.385		
1923	9.845.000.000	99.038.486		
1924	10.298.000.000	103.487.745		
1925	10.465.000.000	115.140.676		
1926	11.202.000.000	117.858.507		
1927	10.543.000.000	102.317.333		
1928 <sup>9</sup>	37.100.000.000	98.933.000	494.666.667	2.473.325.000
1929	39.001.000.000	104.002.000	520.013.333	2.600.050.000
1930	40.837.000.000	108.898.000	544.493.333	2.722.450.000
1931	42.283.000.000	112.755.000	563.773.333	2.818.875.000
1932 <sup>10</sup>	43.116.000.000	114.976.000	574.880.000	2.874.400.000
1933	43.111.000.000 <sup>11</sup>	114.962.666	574.813.333	2.874.066.650
1934	42.979.000.000	114.610.667	573.053.333	2.865.266.675
1935	46.454.000.000	123.877.104	619.386.666	3.096.927.600
1936	47.449.000.000	126.530.011	632.653.333	3.163.250.275

Source: *Annual Reports 1921 – 1936*.

<sup>8</sup> The figures in ff column derive from the basis of the 1932 25:1 pound-franc parity.

<sup>9</sup> In 1928, the Ministry of Finance adopted a new form for its statement of the public Debt. Instead of showing the debts was converted into drachmae at the rates of 375, 75 and 3 for sterling, dollars and francs respectively. FO 371/13659 [C 1736/1736/19], Annual Report for 1928, 49.

<sup>10</sup> Mazower (1988, 604) states that, according to an enquiry of the Supreme Economic Council, the total debt in foreign currency in 1932 was estimated at around £149,4 million, a figure far greater than the almost £115 million given by the British in the Annual Report of 1932. It should be noted, however, that, even if the Supreme Economic Council's figures were accepted, then the total foreign debt should be £151.485.882 (\$15.052.000:3,40, being the conversion rate of pound sterling to dollar). If, however, the sterling amount, present in the Annual Report, was less than that of the Supreme Economic Council's, the corresponding amount in dollars was greater: 574.880.000 instead of 515.052.000. Furthermore, to complicate matters further, the Supreme Economic Council's enquiry stated that in 1931 the debt in drachmas was 45.321 million, while the respective figure in the 1931 Annual Report was 42.283 million. It is obvious that there is a distinct discrepancy between the figures given by the two respective sources. The writer's opinion is that the figures given in the Annual Reports are more accurate, since the British had not any reason to doctor them. Furthermore, the fact that the British Legation was taking the figures directly from the Ministry of Finance renders it less likely that the figures were falsified from the beginning. Besides, the British had a low opinion of Greek statistics, which they considered to be notoriously inaccurate, those of the Supreme Economic Council included, as A.N. Cumberbatch, Acting Commercial Secretary, noted in the 1932 Annual Report, 75. For the Supreme Economic Council's figures see Ministère des Affaires Etrangères (1933, 37, 39).

<sup>11</sup> This figure corresponded to stabilized drachmas. According to the Minister of Finance, if it was calculated in drachmas at current rates of exchange, it would have amounted to 68.488.000.000.

Diagram 6:



It was not strange, then, that Greece had the highest per capita public debt among all the Balkan countries (Table 15) and the highest public debt service (PDS) on the national income, just behind Britain (Table 16); in addition, Greece's PDS as a percentage of public spending was comparable with that of developed countries rather than the Balkan States (Table 17), while she had the smallest per capita income among the Western European countries (Table 18)

Table 15

Countries	Per capita public debt (in gold ff)
Britain	4.166
France	2.283
Italy	1.006
Belgium	1.005
Greece (1930)	422
Rumania	305
Bulgaria	294
Yugoslavia	257

Table 16

Countries	PDS as (%) of national income (in gold ff)
Britain	10,20%
France	6,7%
Italy	5,20%
Belgium	6,30%
Greece (1931)	7,3%

Table 17

The public debt service (PDS) as (%) of public spending			
Averages of 1929-1932			
Britain	56,6	Italy	25,8
Belgium	36,5	Bulgaria	17,6
Greece	35,9	Rumania	15,9
France	33,5	Yugoslavia	11,7

Table 18

Countries	per capita national income (in gold ff)
Britain	2.087
France	1.039
Italy	600
Belgium	882
Greece (1931)	522

Source: Zolotas (1931, 28, 43, 48).

Additionally, in 1932 the annual PDS absorbed 81,08% of foreign exchange that the country earned from her exports and 9,25% of her gross national product; at the same time the latter figure for Bulgaria stood at 2,98%, Rumania at 2,32% and Yugoslavia at 1,68%<sup>106</sup>. While in Greece, in 1934, the per capita invested foreign capital was the highest in the Balkans: it was estimated at 293 golden francs, against 123 for Rumania, 122 for Bulgaria, 105 for Yugoslavia, and 97 for Albania<sup>107</sup>. Yet, by 1929, per capita public debt had reached \$100, which was more than the average per capita in-come of Greeks<sup>108</sup>. Eventually, Greece, as was evident, had been living beyond her means for almost the entire period of her independent life; too self-concerned about her internal problems, she had made no serious attempts to find out what her economic situation was, with a view to setting her house in order. Since maturing obligations were normally met by additional borrowing, there was no reason to doubt that both the country and the Government were living on borrowed money of which only a portion was really productive; and what was rather obvious about her foreign debt was that Greece had given little thought as to how to reduce it<sup>109</sup>.

So, although the total foreign debt was disproportionate to the resources of the country and, to meet its obligations, she was to make great sacrifices which would cause considerable hardships for many years to come, Greek politicians, whether in office or not, paid more attention to securing popularity with the electorate than to the efficient management of public affairs<sup>110</sup>. Then in 1932, while the country was sinking slowly but surely into a state of complete bankruptcy, its legislators were debating the advantages or disadvantages of proportional representation with a view to the following elections<sup>111</sup>. Waley's words regarding what could be done after abandoning the gold standard, were typical of the British view of the Greek politicians' capability of dealing with the great difficulties their country faced at that time: "If the Greeks are sensible enough to fix the rate at its real value, the dealings on the Black Market will disappear and it should eventually be possible to relax the exchange restrictions, but no doubt the Greeks will continue to make it illegal to pay outstanding debts and to remove capital out of Greece"<sup>112</sup>. There was a constantly increasing rumour across the country that people's money had been squandered by Liberal Ministers and their coterie; even if Venizelos was deemed to be perfectly honest himself, his entourage, however, was condemned as corrupt almost to a man<sup>113</sup>.

For the Popular Party, too, the picture was pretty much the same. They dismissed civil servants of Venizelist sympathies, nominally on the grounds of economy, replacing them by more who voted for the Popular Party; the result was an increase in government employees, a number which had always been too large, owing to the desire of the Popular Party to find good positions for their supporters.

That situation made Cavendish-Bentinck to word the following scornful characterisation of both the Liberals and Populists: “I used to think that the politicians who surrounded Venizelos were the greatest crooks in the world, but during the past four months I have reached the conclusion that the present crew are as bad, if not rather worse”<sup>114</sup>.

In that context of venomous and unscrupulous party politics, the tendency of politicians to try to outbid one another in financial extravagance, in order to curry popular favour, increased, manifesting itself not merely in financially unsound legislation but in an increase in corruption, jobbery and useless governmental extravagance generally. The situation was disquieting, also, from the point of view of the smooth working of the established foreign interests in the country<sup>115</sup>.

British officials, continuing their discerning remarks on political behavior in Greece of that time<sup>116</sup>, noted, astonished as they were, that the majority of Greek politicians were “merely a congeries of leaders concerned either to keep or to get power in the interests of their parties”. The result of such behavior was that they, and the country behind them, “lived from hand to mouth, with no plan for the future and with neither the inclination nor the ability for constructive work. Furthermore, in every sphere, grandiose talk and schemes was the order of the day with no prospect of anything serious being done, with the government having no consistent idea beyond that of remaining in office”<sup>117</sup>. Greece of that time, one of the few remaining homes of parliamentary democracy in the world, being in the throes of a régime crisis, desperately needed leaders to get out of her stagnancy. Nevertheless, instead of facing and ameliorating the troubled conditions, they “left the army up to the neck in politics, and, given the extreme individualism of the Greek character, they left the country as an amalgam of diverse elements, only superficially united for national purposes. The national structure was fluid and without backbone. The old-fashioned peasant of the Peloponnese or the Cyclades, the merchant or industrialist of the towns, the discontented refugee from Anatolia, the Venizelist peasant of New Greece, the impoverished Athenian upper classes – beyond a sentimental nationalist tie – had little or nothing to bind their component parts together. The bonds of common interest and common political outlook that make an effective nation were lacking”<sup>118</sup>. Yet, how could the Government unite the country when it punished the provinces, which had not voted for the populist candidates, by their not being included/ represented in the cabinet?<sup>119</sup> Or how could it possibly achieve that when the government, especially the populist one, treated Macedonia and Thrace as despised colonies? As MacVeagh noted “the central government’s disregard of Macedonian interests had been so conspicuous, except for short periods immediately preceding elections, that there was probably no one in the North of Greece who was not convinced that Athens took no interest

in the country's most productive region beyond what it could get out of it in the way of taxes and votes"<sup>120</sup>. The fact that Macedonia and Thrace were not yet fully integrated with the rest of Greece was deeply resented. At the same time, the Athens-centred state "milked them of the high tobacco tax which it spent in old Greece, and obstructed the efforts of conscientious governors-general to develop local government in accordance with local needs"<sup>121</sup>. After restoration was effected, there was still some hope among the people of those provinces that the King would move to help matters. However, he had not even paid a fleeting visit to the region six months after his return to Greece. Hopes were in vain, anyway, for a King who did not seem to like being King of Greece and who felt good when he could, even for a while, not to have to see any Greeks<sup>122</sup>.

## 9. Conclusion

If one were to venture an assessment of interwar Greece, he could perceive the enormous problems the country faced at that time, further compounded by opportunities for development which had not been taken advantage of. However, what could be difficult to dispute is the finding that the desire and the vision for the country to become great did not exist, nor the inspiration in economic thought that could add wind to the sails of the Greek economy or, at least, steer it out of the vicious circle of indebtedness and continuing borrowing. Finally, there are not small or big countries. There are only politicians who are content with being leaders of small countries and politicians who have the flame and desire to make their countries great. That greatness, however, is not achieved only in the corridors and in the lounges of international conferences (as applied to Venizelos), but also through the results of economic policy. Innovative economic thought in combination with the will for success, could turn the Treasury of a country into a more significant interlocutor on the table of negotiations than that of the Foreign Office.

MacVeagh's opinion on the Greek people's vitality and their response to ideas, which still stand for a single Greek, does not seem to apply to the Greek state in the long run. On the contrary, although the Turkish people were oppressed and of an oriental persuasion, their vitality was a cerebral force<sup>123</sup>. Turkey's future seemed to have lost that huge question-mark which had been looming for decades, simply because her leaders – political or military – did want to make her powerful and respectful. Sadly, the same could not be said for the Greek leadership, who characterised by foreigners as spineless and inert, just as the Americans did after they replaced the British as the dominating power in Greek policy. They were,

indeed, dumb-struck by the unwillingness of Ministers to even contemplate reducing their popularity by taking any of the disagreeable steps which were necessary to place the country on a sound footing economically<sup>124</sup>. Nor is it accidental that the British Ambassador, Sir Charles Peake, reached the point of writing, in 1954, that “the mental calibre of the Greek Cabinet was not very high”, thus stressing how inadequate were the politicians, who held the fate of the Greek people in their hands. At any rate they had got to pull together, or it would be worse for Greece. Unfortunately, it seemed that Greek politicians, over the years of Greece’s independent life, found it most difficult to succeed for the sake of the country<sup>125</sup>.

## NOTES

1. Mazower (1989, 255).
2. Only a very small number of scheduled works was finally carried out. Minoglou (1988, 160).
3. In a parity 1£=50 drachmae.
4. That figure included the sums derived from loans too. Without them, the net receipts would be 597.011.196 drachmas (£11.940.224)
5. FO 371/6096 [C 15954/14841/19], Annual Report for 1920, 16-17.
6. According to an enquiry of the Supreme Economic Council, published in a Foreign Ministry’s edition, the country’s public debt for 1920 stood at 4.452.000.000 drachmas. Ministère des Affaires Etrangères (1933, 37).
7. FO 371/9896 [C 15199/15199/19], Annual Report for 1923, 53.
8. Giannouloupoulos (1978, 300).
9. One for increasing, and even doubling, the income tax, for doubling postal and telegraph rates, for increasing the tax on the production of tobacco and the taxes on Government monopolies.
10. FO 371/8832 [C 15167/499/19], Annual Report for 1922, 46-47.
11. Annual Report for 1922, 47.
12. Annual Report for 1922, 45.
13. Morgenthau (1929, 10-12). Bravos (2004, 45-46).
14. Petsalis (1930, 66).
15. As French economist, P. Leroy-Beaulieu wrote, when the service of public debt absorbs a percentage of income equal to 35%, then the ratio is

exceptionally high, but when it exceeds this percentage, that means the state has reached the verge of bankruptcy. Leroy-Beaulieu (<sup>8</sup>1912, 657).

16. Dertilis rightly maintained that up to 1932, the public debt service absorbed almost 35% of the budget receipts, with the exact average percentage being 33,1%. Dertilis (1960, 196); Angelopoulos (1937, 270) maintained too that, before the economic crisis of 1929, the public debt service absorbed almost 37-40% of the budget receipts.
17. Dritsa (1989, 40).
18. Roucek (1935, 93, 94) ; Zolotas mentioned that the arable land covered a bigger part of the surface of Greece, namely 22%. Zolotas (<sup>2</sup>1964, 53).
19. Roucek (1935, 99). Comparison of yield in cereals per hectare in various countries shows that Greece fell short not only of the Western European countries but also of Balkan ones. Zolotas (<sup>2</sup>1964, 54).
20. It was founded by John Henry House in 1904. In the 1930s the American Farm School was the only one that pasteurized milk in Greece. Marder (2004, 177-179).
21. Stefanides (1930, 299).
22. Minoglou (2002, 40-64)
23. Nikolinakos (1976, 55).
24. Dritsa (1989, 34).
25. Dritsa (1990, 424).
26. Dritsa (1990, 204, 424).
27. Loans and external debt rather than industrial investment are what solidify the dependence of weak countries on Great Powers. Girault-Thobie-Bouvier (1986); For the official German efforts to stop the foundation and development of iron metallurgy in Greece, in Hatziosif (1993, 169-174).
28. At first Mazower (<sup>2</sup>1992, 173) does not mention the source of this figure and secondly the enquiry of the Supreme Economic Council to which Mazower refers regarding the public debt, reported that out of \$382.833.000 of the public foreign debt in 1932, \$282.100.000 owed to bond-holders resident abroad and the rest \$100 million owed to bond-holders resident in Greece, namely a ratio about 1:4. Ministère des Affaires Etrangères (1933, 37, 39).
29. Mazower (<sup>2</sup>1992, 173).
30. With these words Charles Bentinck, Counsellor to British Legation, summed up the financial situation in August 1922. Annual Report for 1922, 45.

31. FO 371/12924 [C 780/132/19], Annual Report for 1927, 46. At the same year, the total public debt was £102.317.333.
32. FO 371/15916 [R 646/646/19], Waterlow to Sir John Simon, Athens, January 22, 1935.
33. Zolotas (21964, 109); Veremis (1982, 118); Sakellaropoulos (1991, 194); Hatziosif (1993, 26-27) Panayiotopoulos (<sup>2</sup>1999, 221) Louri-Minoglou (2002, 321-348).
34. Bravos (2003, 35, 67-68); Mazower (<sup>2</sup>1992, 171).
35. FO 286/1123/140, No. 243, Waterlow to Simon, Athens, June 14, 1934.
36. FO 371/43787 [R 19473/19472/19], Foreign Office Research Department (FOR.D.) paper on Social Structure of Greece, 17/10/1944, p. 5.
37. FO 371/16768 [C 10224/17/19], Conversation between O' Malley and D. Caclamano (Greek Ambassador in London), November 16, 1933.
38. FO 371/12178 [C 3697/3697/19], Annual Report for 1926, 43.
39. Stephanou (1969, 483, 485, 487).
40. Zolotas (<sup>2</sup>1964, 138); Tsotsoros (1993, 104).
41. Hatziosif (<sup>2</sup>1992, 448).
42. Dritsa (1990, 241); Hatziosif (1993, 166, 339).
43. Stefanides (1938, 25, 37, 41).
44. Charitakis (1927, 65, 239 onwards); Financial Messenger (Οικονομικός Ταχυδρόμος), 28/11/1968 (issue 762) about Greece's mineral wealth and its industrial processing; Zolotas wrote that, up to 1926, only 15.000 hp were produced from waterfalls, while, according to research, if proper constructive works were effected, 1 ½ millions could be produced hp. Zolotas (<sup>2</sup>1964, 62).
45. From 1841 to 1900, 40 banking institutions were founded, only four of which survived. From 1900 to 1931, 48 new banks were founded, 40 of these between 1921 and 1931. Dritsa (1990, 234-237).
46. Sakellaropoulos (1991, 198); Hatziosif (1993, 404).
47. Even in 1930, when the tremendous importance of industry for the prosperity of country had been appreciated, the Governor of National Bank, Ioannis Drosopoulos, in a confidential note to the Prime Minister, Eleftherios Venizelos, among others, expressed the opinion that industry was saturated with credits. Dritsa (1990, 215).
48. Mazower (2002, 138).
49. One year later, realising the limited possibilities of Greece, the company was

renamed Hellenic and General Trust Ltd, in order to be able to invest in other countries as well. Mazower (2002, 137).

50. Dritsa (1990, 413).
51. Dritsa (<sup>2</sup>1992, 190).
52. Coutsoumaris (1963, 218).
53. Dritsa (1990, 231-233).
54. Hatziosif (1993, 314).
55. FOR.D. paper, op. cit.
56. Hatziosif (1993, 398).
57. Mazower (2002, 336-337).
58. Georgios Strigkos, Chairman of Commercial Chamber of Piraeus, maintained that “the development of industry was essential for the country’s welfare, if the ratio between the population and the arable land was to be taken into consideration, given that the immigration had already stopped”. Mazower (2002, 338).
59. Mazower (2002, 328).
60. According to 10th February 1918 agreement between Greece, on the one hand, and Britain-USA-France, on the other, Greece could not raise any loan in the foreign capital market if previously she had not paid off the war credits given to her by her allies. Soon after King Constantine’s restoration in 1920, the abovementioned powers demanded the return of those credits. Thus, until the question of their reimbursement was resolved, Greece could not raise any loan in the international capital market. Pantelakis (<sup>2</sup>1992, 405-415); Minoglou (1988, 150-154).
61. Annual Report for 1923, 60.
62. FO 371/11357 [C 5755/5529/19], Annual Report for 1925, 48.
63. Annual Report for 1923, 60.
64. Annual Report for 1926, 9, 29.
65. Annual Report for 1926, 40.
66. FO 371/16765 [C 8233/2/19], Cavendish Bentinck (Chargé d’ Affaires) to Simon, September 11, 1933; Vergopoulos (1978a, 95).
67. Iatrides (1980, 105, 112).
68. The per capita tax in 1915 was 43 drachmas, while in 1925 had risen to 927, namely it was increased by 21½. Veremis (1982, 46).
69. In some cases the wage had been doubled, tripled or even quadrupled, but this

- increment related only to a small percentage of the workers. Leontaritis (1980, 73).
70. Mavrogordatos (1983, 145); Leontaritis (1980, 73).
  71. It is obvious that the statistical figures were not used in the same way, varying in view of what one wanted to prove. Thus, it was maintained that the average increase in prices between 1922 and 1926 was 65,5%, wanting to prove that the cost of living level was lower than that of wages increase, so the Greek workers earned more than they spent for their living. Charitakis (1927, 116), as cited in Riginos (1987, 170).
  72. FO 371/10771 [C 7036/7036/19], Annual Report for 1924, 53.
  73. Even on 7 June 1937, as MacVeagh wrote, the cost of living was going up rapidly. Iatrides (1980, 112).
  74. Annual Report for 1923, 65; FO 371/13659 [C 1763/1763/19], Annual Report for 1928, 56.
  75. Governor of the Bank of Greece, E. Tsouderos, noted in 1935 that prices of certain domestic products went up without any increase in raw material having taken place or in other cost figure that could influence their production. Mazower (2002, 340).
  76. FO 371/15970 [C 1621/1621/19], Annual Report for 1931, 56; Mazower (2002, 182).
  77. Mazower (2002, 341).
  78. Bravos (1993, 23).
  79. FO 371/15962 [C 3999/324/19], No. 99, Ramsay to FO, Athens, May 19, 1932.
  80. FO 371/16774 [C 1121/1121/19], Annual Report for 1932, 75; Mazower (2002, 297).
  81. Only in 1930 the purchasing power level was equal to that of 1914-1916 to drop again the following years. In 1935 was lower by 9% than that of 1914-1916. Riginos (1987, 225).
  82. Mazower mentioned a 1938 research according to which the average annual labour income hardly reached 15.109 drachmas. Mazower (2002, 341).
  83. Vergopoulos (1978a, 94).
  84. Iatrides (1980, 17).
  85. Liakos (1993, 60).
  86. Vergopoulos (1978a, 79-80).

87. When the 1931 crisis erupted, the small independent Greek tobacco traders were already ruined by heavy taxation and the lack of assistance on the part of the government, so that they did not manage to withstand the competition of big overseas purchasers. The result was that 80% of tobacco trade fell into foreign hands. Mazower (<sup>2</sup>1992, 177); Nikolinakos (1976, 56); Apart from that, the British wrote about the carpet industry that most of it was carried on by four big firms, of which two were British. Annual Report for 1925, 53.
88. Annual Report for 1923, 64.
89. During 1924, out of 40 limited companies established, 28 were of manufacturing concerns. Annual Report for 1924, 45.
90. Annual Report for 1926, 45.
91. Annual Report, Economic (A) for 1936, 14.
92. Annual Report for 1925, 53. The same is referred also by Zolotas (<sup>2</sup>1964, 63-64).
93. Annual Report for 1926, 46.
94. FO 371/14391 [C 5972/5972/19], Annual Report for 1929, 68.
95. FO 371/20386 [R 3777/39/19], Economic Annual Report for 1935, 5.
96. FO 371/19518 [R 1081/1081/19], Annual Report for 1934, 45.
97. Annual Report, Economic (A) for 1936, 15.
98. FO 371/23768 [R 3482/46/19], Annual Report, Economic (A) for 1938, 3.
99. Annual Report, Economic (A) for 1936, 14; Nevertheless, from 1923 to 1927, industrial production increased by only 20,87%, that is, from 4.467.590.000 to 5.400.000.000 drachmas with an annual rate 6,87%. In contrast, for the same period, agricultural production had increased by 94,24%, namely from 6.950.008.000 to 13.500.000.000 drachmas. Moreover, trade showed an increase by 83,33% and communications and transport by 53,33%. So, it was not odd that industry's contribution to the GNP (Gross National Product) from 10,33% in 1921 decreased to 10,17% in 1928 and 10,06 in 1932. Dritsa (1989, 52); see also Faciolas (1989, 163); Louri-Minoglou (2002, 321-348) note that the manufacturing sector reached a level of only 8% of GDP.
100. FO 371/16764 [C 6139/2/19], Report of League of Nations' Financial Committee, London, July 6, 1933.
101. Economic Annual Report for 1935, 1.
102. Mazower (2002, 379).
103. Bantaloukas (1961, 15); Katsoulis - Nikolinakos - Filias (1985, 234); Petrakis (1994, 31).

104. Dertilis (1960, 19, 21-27, 206-209).
105. Dertilis (1960, 47, 49).
106. Mouzelis (1980, 12); Vergopoulos (1978b, 337).
107. Kapetanaki-Sifaki (1985, 44).
108. Iatrides (1980, 21).
109. Annual Report for 1928, 49, 57 Iatrides (1980, 22).
110. FO 421/322 (I), No. 269 / No 279, Ramsay to Simon, Athens, June 5 / June 10, 1932.
111. FO 371/15961 [C 3279/324/19], No. 169, Ramsay to Simon, Athens, April 15, 1932.
112. FO 371/15961 [C 3468/324/19], Waley to J.H.Woods (Lord Snowden's private secretary), April 28, 1932.
113. FO 286, 1118/140 (part I), No. 15, Memorandum of Consul in Patras to Ramsay, Athens, March 7, 1933.
114. FO 371/16765 [C 7755/2/19], V. Cavendish-Bentinck to Ralph Wigram, Athens, August 17, 1933.
115. FO 371/18393 [R 875/19/19], No. 48, Waterlow to Simon, Athens, January 31, 1934.
116. A thorough analysis of that in combination with the recent scholars' works on the matter, in Bravos (2003, 35, 61-80).
117. FO 286/1123/140, No. 243, Waterlow to Simon, Athens, June 14, 1934.
118. FO 371/18393 [R 3452/19/19], No. 243, Waterlow to Simon, Athens, June 14, 1934.
119. FO 371/16771 [C 2780/399/19], No 100, Ramsay προς Sir John Simon, Athens, March 13, 1933.
120. Iatrides (1980, 86).
121. Iatrides (1980, 88).
122. Iatrides (1980, 86, 121).
123. Iatrides (1980, 34-35).
124. As American Ambassador, John Peurefoy, confidently said to his British colleague. FO 371/101799 [WG 1017/12], Sir Charles Peake to Anthony Eden, Athens, 19 March 1952.
125. FO 371/112128 [WG 1017/8], Sir Charles Peake to W.H.Young (Southern Department), Athens, 24 November 1954. A. Ntanos (2002, 267-275).

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# MAKING SENSE OF SUSTAINABLE TOURISM PRACTICES: TOWARDS INTEGRATION OF THEORY AND PRACTICE

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## Abstract

The past years have proved to be a challenging period for the Worlds' Tourism Industry. It is widely recognized that conventional tourism practices have failed to safeguard the most valuable assets of tourism and it is now, more than ever that sustainable tourism policies are recognized as a one-way solution. However, in order to solve a problem someone has to first recognize it. In this light, we address basic contemporary issues on sustainable tourism development and Tourism Policy practices.

*JEL classification: L83, Q56*

*Keywords: Tourism, Sustainable Tourism Development, Tourism Policy, Social Impacts of Tourism*

## 1. Introduction

This paper aims to comment on the various issues arising by the increasingly pressing call for the adoption of sustainable development practices, in tourism planning. It is now acknowledged more than ever, that tourism related business activities may have an immense impact, positive or negative, on natural as well as socio-cultural environment (Garrod and Fayal, 1998).

It is also true that tourism activities are no longer a privilege of the few, but a mass phenomenon spreading throughout the globe in many different forms, applying to different tastes and expectations. In fact travel and tourism as a sector now offers 7.6% of total global employment while it also accounts for 9.6% of total global investment (WTTC, 2003).

The past few years have proved to be a challenging period for the Worlds' Tourism Industry. Following the terrorist attack in the US, the industry is facing once more, serious threats such as the consequences of the recent war in Iraq and the generally recognized contemporary global economic downturn. Furthermore, the rather unexpected outburst of the S.A.R.S. crisis has exacerbated the already dim situation in the Travel and Tourism Industry (WTTC, 2003).

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It is common ground that tourism related business activities can be highly vulnerable to exogenous pressures, of various nature and source. At the same time, it is also clear that in past occasions the industry managed to fully recover, undoubtedly with considerable cost. Along these lines, recent estimates (WTTC, 2003) reveal relatively restrained optimism concerning the immediate future of the Tourism Industry.

Whatever the case may be, tourism related activities still represent a large and constantly growing market, claiming a major share of the global service sector. It is also understandable that any economic activity of this size has an equally major impact on the involving parties thus making it absolutely necessary to assess the relative importance of these effects, in relation with the well being of the industry and its constituents on a long term bases.

In these turbulent and uncertain times, modern business practices tend to focus their priorities mostly on enhancing competitiveness and viability which in some cases may be contradictory to the preservation of social and natural environment.

Moreover, the sudden growth of tourism worldwide has not been managed and controlled with proper planning, if and where there was any. In fact “With the weakening of many other aspects of the economy , nations and areas see tourism as a quick and easy solution.” (Gunn, 1994, p. 3).

## **2. Conceptualizing and Analyzing Sustainable Development Components**

Before actually getting into the concept of sustainable tourism development it is essential to approach the subject on the basis of understanding the generic use of the term ‘sustainable development’.

The concept is definitely not a new one. Analysing relevant literature we can identify several definitions on the subject, starting with probably the most quoted one, provided by W.C.E.D. in 1987 where sustainable development is described as: “... *development that meets the needs of the present generations without compromising the ability of future generations to meet their own needs.*”

This approach, as analysed by the so called Brundtland report was aiming to promote mostly a model of viable economic development that would, at the same time, take seriously into account issues of environmental conservation (Garrod and Fayal, 1998).

Obviously we are dealing two concepts with arguable compatibility but this is also one of the issues that sustainable development needs to address on several different dimensions and aspects.

Another more comprehensive approach is being provided by Gunn as developed

in British Columbia Canada whereby sustainable development is strongly linked with the socio-economic effects on host communities and society while he also provides a connection with policy related issues:

“Sustainable development is positive socio-economic change that doesn’t undermine the ecological and social systems upon which communities and society are dependent. Its successful implementation requires integrated policy, planning, and social learning processes; its political viability depends on the full support of the people it affects through their governments, their social institutions, and their private activities.” (Gunn.C,1994;p. 84)

At this point it is more evident than ever, that sustainable development is a complex and multidimensional subject requiring a multidisciplinary approach in order to come up with real time feasible working patterns. Thus it has to be treated as such, avoiding isolated component development policies. Dealing with such issues in a profound manner only exacerbates the possible adverse effects of development.

### **3. Tourism and sustainable development**

In order to understand the relationship between sustainable development and tourism it is essential to present a picture of what tourism is and a good start would be given by defining tourism. So tourism may be best described as following:

“The means by which people seek psychological benefits that arise from experiencing new places and new situations that are of a temporary duration, whilst free from the constraints of work or normal patterns of daily life at home” (Ryan, 1991)

Furthermore, considering the more technical aspect of the issue, and the element of developmental impacts in general, tourism is a business activity and in this context:

“Any form of industrial development will bring with it, impacts upon the social and physical environment in which it takes place. In view of the fact that tourists have to visit the place of production in order to consume the output, tourism is clearly responsible for such impacts.” (Cooper, 1993)

Rapid tourism growth in developing as well as developed countries led to the generic belief that tourism can be, under certain conditions, a positive agent to the social development of host communities (Tapper, 2001). Furthermore and especially in cases of rural areas, tourism is considered to be a catalyst for local regeneration (Sharpley, 2002). However such an approach can be proven to be something less than sufficient since contemporary tourism development policies call for more complex and sophisticated models (Burns, 1999).

The consideration of the well-being of the host community is crucial to the successful development of sustainable tourism. It is more than important to establish:

“...a better understanding of what constitutes tourism as a phenomenon, as an industrial-economic activity and structure, its relevance to a world in transformation, and its impacts and consequences on destinations and people.” (Tourism Concern, 1992)

However, the above quotation is still a proof that tourism policy patterns have generally failed to address the issue of social compatibility to tourism development. In fact, 12 years later WTTC launched the so called *blueprint for new tourism* where focus is shifted, once again, on “benefits not only for the people who travel, but also for the people in the community they visit, and for their respective natural, social and cultural environments” (WTTC, 2003).

In many cases the ‘visiting’ culture is very different from the one that the local community may have thus creating problems and modifications in the national identity and heritage (R. Davidson, 1992; p. 126). Unfortunately for the sake of tourism: “... a destination’s culture can be exploited to the extent that it becomes divorced from the inhabitants’ everyday life, and is degraded and devaluated in the process. Traditions and lifestyles can become fossilized if they are over-adapted to suit visitors’ needs.” (Davidson, 1992; p126). This may be one among several reasons that lead contemporary tourism policies towards sustainable tourism practices.

#### 4. Sustainable tourism

Tourism, as quoted before, is expanding as an economic phenomenon very fast. However, sudden growth evolved tourism into mass tourism which, if we take into account the last twenty years or so, proved to be unplanned leading in several occasions to serious environmental degradation (Toh, Khan and Lim, 2001) and social retention and rejection.

Sustainable tourism is ... tourism and associated infrastructures that, both now and in the future:

- Operate within natural capacities for the regeneration and future productivity of natural resources.
- recognise the contribution that people and communities, customs and lifestyles, make to the tourism experience;
- accept that these people must have an equitable share in the economic benefits

of tourism;

- are guided by the wishes of local people and communities in the host areas. (Tourism Concern, 1992)

Sustainable tourism can be implemented through sustainable tourism development.

Earlier on we gave a definition of what is sustainable development and it is important to present a definition of sustainable tourism development. According to Tourism Canada reports in 1990 *sustainable tourism development* was envisaged as:

“Leading to management of all resources in such a way that we can fulfil economic, social, and aesthetic needs while maintaining cultural integrity, essential ecological processes, and biological diversity and life support systems.” (in Murphy, 1994)

Sustainability in principal might be deriving by a rather straight forward concept; however, the process itself is very difficult to be measured and therefore managed. In this light, one of the basic concepts contributing towards measuring and assessing the impacts of tourism development is this of the carrying capacity of a destination. The concept is definitely not a new one since the question was raised in 1936 but since the core remained almost the same, despite the evolution of extensive relevant literature. (Stakney, 1981; Sowman, 1987 in Saveriades, 2000)

By tourism carrying capacity we mean the: “*level of tourism activity that can be sustained into the long term without creating serious or irreversible changes to the destination.*” (Cooper, 1993).

The accuracy of this method is questionable but it gives a pretty good idea of some theoretic borders in which development policies have to be confined.

Studying sustainable tourism is one thing and achieving sustainable tourism development is another. According to Stanley (1991) (in Gunn 1994) sustainable development can be achieved when:

- The interests of the stakeholders meet the interests of sustainable developments nicely described by Gunn: “Sustainable development depends largely by what the stakeholders want it to be-*a wilderness or a developed resort*” (Gunn, 1994).
- The different components that consist the tourism industry find a way of working together. This means that if we want for a resort hotel to implement sustainable development the other sectors of the system that support the function of the hotel have to be sustainable oriented to.
- Further training must be pursued for the people that work within the industry

supporting thus smaller scale businesses that are not in the position to conduct a research.

- A study of previous cases where sustainable development has been achieved would be very helpful. Working for the future in consideration of the past.

## **5. Managing sustainable development**

The only problem is the unanswered question “Who is going to see to it that everything is working properly;”

There are two schools of thoughts in Europe regarding this issue. The first is that let the private sector protect their own interest which of course is to sustain the environment of the industry for a long term viable industry. The other option is to actually impose the rules by government regulation and intervention. As far as the first opinion is concerned there is plenty of room for doubts.

However there has to be an inter co-operation within the industry and everyone has to play its part. Governments should have a responsible attitude toward the issue of sustainable development and work as a regulatory force through legislation for healthy development.

Considering the complexity of the notion that describes sustainable tourism development, it is easy to understand that managing or developing such forms of tourism is even more difficult. Tourism policies throughout Europe seem to have failed to address the issues of sustainability in large. It has to be clear that mass tourism is not necessarily unsustainable and thus should not be lightly abolished as an option to tourism development. Integrated planning involving all the stakeholders is not enough either. It is imperative to end up with a function that is attractive for both the investors of any nature, the host community and the tourists. At the same time there has to be a clear structure of authority in the destination management process offering a solid basis for responsible and powerful decision making.

## **6. Conclusions**

It is interesting to note that the wave of the future is once again the use of sustainable tourism development. Basically, it seems that all these years we are still wondering around the unknown paths of operational sustainability in tourism. What we could safely conclude is that sustainable tourism development is not an

option any more but an imperative. We can also recognise that a critical role to achieving sustainability will be played by E.U. as well as national Tourism Policy Issues. The keywords here are commitment and consistency to policy plans with the power to enforce where necessary regulatory legal frames.

Concluding, it is imperative to propose further research directions on two major directions:

1. The integration of social values into sustainable tourism planning and policy, bearing in mind that such a model will have to be also resilient, viable and overall attractive in conditions of fierce competition.
2. The operational linkage between Conventional and Sustainable tourism development models (Tsiartas, 2003)

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## PROMOTIONAL ACTIONS IN CULTURAL COMPANIES

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### Abstract

Every action and function which reinforces directly or indirectly the disposal of a (cultural) product of a cultural company is characterized as promotional. “Promotional combinations” in the international bibliography offer a wide range of possibilities as far as the utilization of this term is concerned.

In this perspective, the following analysis refers to these media that contribute in any possible way to the promotion and circulation of the (cultural) product.

In Greece, the promotion of cultural companies is practically non-existent and the possibilities offered by modern Marketing are not deployed. There are therefore vast margins of promotion of the “cultural product”, in order for it to become known to a wider public and in order to activate people of all social classes.

This study analyses the advertising message and the way it is formed. Significant promotional media are then mentioned, such as the display, the catalogue, the outdoor and printed advertising, the radio, which contribute significantly to the promotion of the product.

*JEL classification: .M31.*

*Keywords: Advertising message, window display development, outdoor advertising, catalogue planning.*

### 1. Promotion of a (cultural) product

Communicational media differ from each other as far as their reference point and the methodology followed are concerned. The semantic distinction between Advertising and Public Relations, as well as Corporate Identity (Mavrouleas, 1993 b, 71)<sup>1</sup> is accomplished through the relationship developed with the client.

According to this fact, Advertising is considered as the formation of an impersonal communication between the enterprise and the client through the mediation of specific communicational media. This, of course, has as a result the exclusion of any personal media, such as face-to-face communication or advertising gifts which are not used just as media of communication.

In cultural units the effect of impersonal media is important, such as displays, window display development and advertising brochures and/or printed forms.

Therefore, the reception of an advertising message requires that it is received in

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a natural way by the communicational recipient and that the possibility and will for decoding is taken for granted and the message is perceived. During the transmission of the message the reception is made difficult by interferences in the communication channel, thus the codification of the advertising message must contain in a great degree verbal extensions, that is explanations, so that its reception is guaranteed.

Through the function of learning by means of information, the change of opinions and/or conduct is achieved, which are expressed as a reaction and constitute for the communicational recipient a check element about the effect of the advertising message.

Advertising normally addresses the common objective or the visitor in a cultural company and differentiates itself from the industrial advertising in the following points:

- the cultural company can affect the visitor through its own actions
- the cultural company has the direct possibility to check the advertising effect through the daily promotion of the exhibits
- the cultural company promotes products which it does not produced itself and as consequence, the responsibility for the quality derives from the quality of the displays.

### **1.1 Advertising message**

Two are the problems that need to be dealt with here:

- Phrasing of the advertising message, that is the content of the advertisement (what to say)
- Presentation of the advertising message, that is the transmission way of the message (how to say).

The way to deal with these, of course, varies depending on the advertising media, since the preoccupations are different when advertising in press, television and window display development.

The following can constitute possible advertising messages:

- information about the functioning of cultural company without any reference to the (cultural) products. That is, advertising of the cultural company exclusively.
- information about the benefits of the cultural company, for example about the variety of the (cultural) items offered, the services, etc.
- information about specific advantages, for example invoice cost or the uniqueness of specific cultural goods, as well as other less important ones, such as easy road access and/or ample parking space.

An advertising message is chosen based on the main objectives of the cultural unit, whereas in the meantime the uniqueness of the environment is taken into consideration as well.<sup>2</sup>

The following points separately or in combinations may constitute objectives of the advertising:

- attention incitement of the common objective
- transmission of information
- creation of purchase motives/turnout of visitors
- revenues and profit increase
- reputation reinforcement of the cultural unit.

Practically, the objectives constitute the guidelines for the pursuit of the sole benefit for the common objective (usp)/the visitor and its allocation into smaller advertising messages.

## **1.2 Window display development**

The window display, indoors and outdoors, is the most characteristic advertising media of cultural companies regarding on-the-spot promotion of (cultural) products. With the assistance of the modern technology<sup>3</sup> the degree of its effect on the visitor has increased and it has been distinguished as an object of specialized art.

It is, of course, restricted to the establishments of the cultural company and it addresses the passing-by audience, without the possibility of distinguishing and choosing it.

Spots with high passing-by frequency favour the upgrading of the window display into more important advertising means. Its development with quantity and quality criteria is based mainly on the frequency and the level of the passers-by, as well as on the character of any other window displays at the immediate environment. It is obvious that a remote cultural company must pay special attention to the development of the window display as a motive of attracting visitors.

Aesthetics are an important factor in the development of the window display. However the decorator must not be led only by his imagination, but he must be taking into account the aspirations of the cultural company as well, since the visitor combines the presentation of the window display with the quality of the contribution and function of the cultural company (Richter, 1980, 467).

Therefore, the window display constitutes the beginning of the “dialogue”, of the “communication” with the common objective/visitor, whereas its mission has two parameters:

1. It forms the first impression about the exhibit. The visitor wants a window display in order to examine visually the various offered items. Not every object, however, is suitable to be displayed in the window display.

The following are considered especially suitable:

- Seasonal items, which are offered periodically, regardless of the field in which they belong. These can be additionally combined with other (cultural) products, which complement them. The visitor knows that he can “combine” an offer with another one; however he cannot easily distinguish the possible combinations.
- Pioneering items, which inform the visitor about the future tendencies or developments in a specific field
- Representative items, which indicate the character of the cultural company and coincide with its philosophy.
- Presentation items, which provoke in a positive way the aesthetics of the visitor and attract his turnout to the exhibition area.

The way and originality of the decoration as a conveyor of the message substantially affect the proper transmission of the desired image from the cultural unit to the visitor.

The window display as a medium is practically used in the following ways:

- incorporation of the window display in the exhibition area. In this way, the entire area becomes a window display, like for example in cases where no consultative personnel is needed.
- expansion of the window display in the exhibition area. In this way, a passage of window displays is created.
- traditional arrangement. It expands throughout the whole front outer side, regardless of the interior arrangement.
- minimum useful area. It is a component of the façade, which is however vastly covered in posters or other ornaments.

When the visitor observes the exhibits of the window display, he is in the phase of forming an opinion and he prefers being alone for a short while, instead of hearing the opinion of any expert. In the second phase, he will seek the informative dialogue in order to specialise his knowledge concerning the exhibit he’s interested in, so that he is able to form his opinion in the third phase.

### **1.3 Outdoor advertising**

It constitutes the advertising activity which is realized in free space outside the cultural unit and normally addresses passing-by audience. The most common types

are posters and signs, which are distinguished into periodical or less frequently into constant ones, as far as time is concerned. They cover areas of various dimensions in buildings or transport vehicles, having the picture as a prevalent element.

Most of the times, they are “en passant” advertisements and therefore the message must be short and distinguishable, whereas the picture must have vivid colours. Although it usually doesn’t contribute to the selective approach of the passers-by, its development must be orientated to the common objective.

The quality of communication about the reception and elaboration of the message by the passer-by is decreased based on the degree his attention is drawn away by other factors. The fast paces of life function as a deterrent factor, having as a consequence the restriction to a low level of the person’s receptiveness regarding the messages of the environment.

The advertising effect is calculated with simple methods<sup>5</sup>, which ascertain whether the advertising communication has been achieved or not and what the recipient of the message has retained in his memory.

#### **1.4 Catalogue planning**

The catalogue constitutes a communicational medium. The following are important factors (Johnson, 1989, 117) contributing to its creation, within the advertising budget:

- selection of the (cultural) products offered
- space they will occupy
- number of available (coloured) pages
- print quality
- price determination, if there is a market possibility, like for example, regarding art catalogues.

Therefore, the objective is to distribute, within the given volume of the catalogue, the available pages to the offered items in such a way that the positive effect is maximized. The “decision calculus” method (Little, 1987, 122) is of help here, according to which the revenues of the selected actions must be calculated in a specific way when in a (cultural) product (alternatively):

- the same space is offered as in previous years
- the available space is doubled
- the available space is sufficient and no important revenue increase can be accomplished through its further expansion.

The model follows a central economic and social train of thoughts, that is to say that the factors available restrictedly must be used for the catalogue planning in

such a way that the relatively biggest benefits for the cultural company and the incitement for the common objective are achieved.

During the evaluation of the procedure special attention must be given to the following points:

- the benefits should (not) be ascertained only financially, but also as far as the (expected/pursued) satisfaction of the visitors is concerned
- some selected items are sometimes presented in the catalogue in order to create a specific “image” or to incite greater attention
- links between various (cultural) products should not necessarily be taken into account
- the model is based vastly in the ability of predicting the maximization degree of the benefits/incitement.

### **1.5 Press advertising**

This concept here includes the advertising in newspapers/magazines and is distinguished from the printed/inlaid advertising, which for systemization reasons is mentioned separately.

Advertising through press often constitutes an integrated element of the cultural company’s policy regarding the development of special offers and is characterized by the following elements:

- size/place of the listing
- number of offers
- number of (coloured) pictures
- font size
- number/combination of pictures
- advertising message

In the selection of the size of the listing the fact that the degree of interest attraction is in direct (positive) relation to its size must be taken into account. In cultural companies with a wide range of offers, advertising is restricted to specified selective offers and its development essentially depends on the policy followed by the Management.

### **1.6 Inlaid advertising**

Its significance as advertising medium has increased considerably during the last years. It comprises of one or more illustrated pages, which are promoted within

newspapers or magazines. The advertising inlaid pages are many times provided in such frequency and to such extent that there is “over-supply” of the public.

Researches in Europe have shown that 75% of the readers are not annoyed by the addition of inlaid pages in the newspaper. However, 40% does not take them into account, whereas only 25-30% is interested in any kind of information through the inlaid presentation. The scenery gets worse if there are inlaid pages of various enterprises offered in a newspaper or magazine.

Therefore, inlaid advertising is many times more useful for cultural companies than press advertising. The possibilities offered concerning the presentation of the events, the colour, the quality of the paper and the development of messages are in specific cases definitely more attractive.

### 1.7 Radio and television advertising

The oldest electronic mass medium is undergoing a rebirth regarding its communicational usefulness during the last years. It is especially ideal for (lower middle class) cultural companies with restricted budget.

The reason for this is that the radio:

- is the fastest and most timely electronic medium
- has been accepted and is used by all people
- has many forms, having as a consequence its usage to be possible any time and in any occasion.

The following table (Kiefer, 2004, 138) shows the evolutionary course of the radio in comparison to the other important mass media, press and television.

Table 1. Usage of Mass Media.

People using (for every 100 people):	Total population					TV set owners				
	1980	1986	1990	1995	2002	1980	1986	1990	1995	2002
Radio	68	67	68	69	78	63	68	70	70	79
Television	47	72	76	77	72	78	82	82	79	73
Press	69	70	78	76	73	69	72	74	76	74

The table shows a stable course of the press, whereas since 1985 the radio has been occupying the first place, formerly occupied by the television.<sup>6</sup> In the radio there is definitely no visual communication, however the extravagant number of commercials in television diminishes this advantage greatly.

The next table (Kiefer, 1987, 139) shows that the radio is preferred in the distribution of the daily time as well.

Table 2. Available time (hours / minutes) for the use of mass media.

Available time	1980	1986	1990	1995	2002
Radio	2:11	1:47	2:41	3:15	3:22
Television	2:29	2:17	2:40	2:42	2:50
Press	0:52	0:48	0:52	0:51	0:45

With the foundation of (private) local radio broadcasting stations the monopolistic status of the state institutions was abolished. Since local radio stations fund their programs exclusively by commercials, the advertising prerequisites were liberated from many restrictions. For example, in most European countries today, the intervention of a sponsor/advertiser, the transmission of commercials 24 hours a day, as well as the disposal of up to 1/5 of the total time to commercials are allowed.

Local radio stations are able to react faster and in a much simpler way to the demands of the (cultural) market. This practically means that the waiting time is rarer and that the advertising message is immediately transmitted. In this way, enterprises have, especially in a local level, bigger margins of short-term planning.

Local radio stations also have the advantage that their programs are received by people who do not read or/and watch television as well.

## 2. Conclusion

In this study we have referred to the way the promotion of the product in cultural companies can be achieved. We have initially referred to the significance of the advertising message as well as to the factors that form it. Then specific advertising means, which are especially important for cultural companies, were analyzed.

The window display, indoors or outdoors, is not suitable only for information about the selected products of the enterprise/cultural unit, but its development influences the visitor. The main mission of the catalogue is to attract the attention in the first place and then inform about specific products. The printed advertising offers in various forms the possibility to make one or a few products widely known to a bigger group of people interested and its planning is affected by technical and economic factors.

The advertising choice between television and radio takes into account, apart

from the cost, the uniqueness of the items offered and the common objective which it addresses.

## NOTES

1. Here it means the identity of the cultural company.
2. For example, the public's attitude or the unique selling proposition (usp).
3. For example, the quality of the glass area, lighting composition, variety of decorative accessories.
4. The average passer-by usually gives the outdoor advertising a "fleeing" glance, that is to say a period of few seconds.
5. For example with the Recognition (recognition) and Recall methods.
6. According to more recent data, the difference today has been enlarged in favour of the Radio.

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# THE CHANGES OF THE AGRICULTURAL POPULATION, THE FARM-SIZES STRUCTURES IN THE PERIOD 1971-1981 AND THE CONSEQUENCES IN THE REGIONAL ECONOMIC DEVELOPMENT (RED) IN GREECE

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## Abstract

This paper examines the changes of the Agricultural population, the farm-size structure in the period 1971-1981 and the consequences in the Regional Economic Development (RED) in GREECE. The following variables are analyzed as follows. Changes in farm-size inequality  $\times 1$  (Gini Coefficient), changes in population density  $\times 2$  (persons per squared agricultural cultivated area), changes in average farm size ( $\times 3$ ) etc. It examines the changes of the above mentioned variables in every province and the consequences in the RED in GREECE. The method used here is based on the principal Component Analysis (P.C.A.), with the Statistical Package Social Program (SPSS) among the rates of change recorded in a number of indicators.

The results proved that the regions and province which have better structure, higher public and private investment, dynamic cultivation (cotton, fruit, vegetables), have better economic development than the regions and province which are in the disadvantaged place (frontier, mountains, island). According to the results of a forecast made for the decade 1991-2000.

*JEL classification: J11, O11, O13.*

*Keywords: Changes, agricultural, population, structures, consequences, regional economic, development, Greece (period 1971-1981).*

## 1. Introduction

Greece since 1981 is a full member of the EEC. In the 1990's important changes will be made in the economic, political monetary etc. sectors and it will create a big free-market for the labour force, the capital and production. An increase in the number of new members in the EEC such as Norway, Cyprus, Hungary etc. is expected.

Greece is located in the southern part of Europe and it has a very important geographical position because it's in the crossing of three continents

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(Europe–Africa–Asia). Greece, has a great history but now it is one of the countries of the EEC with special regional problems, like Portugal and Ireland (Manolopoulos 1992, pp. 3, EEC report 1986).

Greece had the lowest per capital income and the highest rate of inflation of all countries of the EEC (EEC report 1986).

Greece in the 1985 had the highest employment in the agricultural sector, that is 1.037.000 people or 28.9% of the economically-active population and the smallest average cultivated area per farm, 4.1 hectares. The agricultural sector contributed to the GNP 16.8% which was the highest in EEC (EEC report 1986).

The contribution of the agricultural products and foods to the total exports was 28.9% (EEC report 1986).

Agriculture in Greece is an important sector in the RED and will continue to be in the following years (Manolopoulos 1992, pp. 267).

## 2. Methodology

The method used here is based on the Principal Component Analysis (Johnston 1960, pp. 341-375, Rummel 1974, Harman 1976, Koutsogiannis 1984 pp. 424-436) with the Statistical Package Social Sciences (SPSS) program among the rates of change recorded in a number of indicators.

The period chosen was between the last two national censuses of agriculture 1971, 1981. This decade offers particular interest given that it was a period before Greece became a full member of the EEC.

The selected variables are all specified in terms of the percentage changes between the values recorded by each province in 1971 and in 1981.

The selected variables are

- 1) Changes in farm–size inequality, x1 (Gini Coefficient).
- 2) Changes in population density, x2 (Persons per Squared Agricultural Cultivated Area).
- 3) Changes in average farm size, x3 (acres per farm).
- 4) Changes in the number of farms, x4.
- 5) Changes in agricultural land, x5 (number of hectares).
- 6) Changes in agricultural population, x6. (Table 1)

It is applied the GinI Coefficient (G.C.) in the form:

$$G = \frac{E_{\text{Lorenz}}}{\frac{1}{2} 100 \cdot 100} = \frac{E_{\text{Lorenz}}}{5.000}$$

$$E_{\text{Lorenz}} = \frac{1}{2} \left[ \sum_{i=1}^{k-1} X_i Y_i + 1 - \sum_{i=1}^{k-1} X_i + Y_i \right]$$

Where EL = area of Lorentz curve

X<sub>i</sub> = distribution of the frequencies of the number farms.

Y<sub>i</sub> = distribution of the frequencies of the total farm area.

The data comes from the National Statistical Service of Greece (NSSG), from the Center of National Programming and Research (KEPE) and from the Agricultural Bank of Greece (ATE).

### **3. The Model**

Many studies have being made in explaining the average farm size, the optimum farm size and the farm size structure. So under competitive conditions, the farm sizes will tend to concentrate around a certain optimum size, defined as that which meets the condition that each factor be used until its marginal coast equates its marginal value product (Heady 1967), the achievement of minimum average costs per unit of output (Madeen and Pertenheimer 1972).

The average farm size were influenced by the political and social forces (Bachman and Christensen 1967, Bery and Cline 1979) and it is significant for productivity and farm income (Butcher and Whittlesey 1966 pp. 1513-1519).

Also the lackof significant economies of scale has been documented in many studies (Boussard 1983, pp. 53-70, Hall and Levine 1988, pp. 589-600, Johnston and Ruttan 1994, 691-700), which leads to the existence of a fairly wide range of farm sizes within which the optimum size can be determined. The purpose of this study is to examine the changes of the variables x1, x2, x3, x4, x5, x6 and the consequences in the regional economic development in Greece.

### **4. Principal Component Analysis and Results**

Both the extend of the changes and the dispersion around the mean vary considerably among the six variables. The more uniform changes have been an increase of 12.64 per cent in the farm-size inequality x1 (Gini Coefficient), a small increase in the average farm-size, x3 while the other variables have a small decrease (Table 2, Table 3) shows the correlation matrix for the six variables considered. It is seen from the table 3 that there is a negative correlation coefficient between the variables, population density (x2) and agricultural land (x5) and a

positive correlation coefficient between the variables average farm-size ( $x_3$ ) and agricultural land ( $x$ ). The correlation coefficient between the variables  $x_2 - x_4$ ,  $x_2 - x_6$ ,  $x_3 - x_4$ ,  $x_3 - x_6$ ,  $x_4 - x_5$ ,  $x_4 - x_6$  and  $x_5 - x_6$  are low.

#### 4.1 Identification of the components

As it seen from the tables 4 and 5 the component variance (Eigenvalue) and commonalities of the first components represent 89% of the total variance. The first has eigenvalue (Component Variance = CV) 2.51 or 41.9% of the total Component of variance (TVC), the second has CV = 1.80 or 30% of the TVC. The two first three components is 89% of the TVC.

It applied and combined two tests. The first test is the eigenvalue test and the second is the screen test. Then it is keeping the third first components because according to the first test they have eigenvalue larger than one (1) and according to the second test the eigenvalue line tends to become parallel. These third components are named respectively 1) changes in population density-average farms-size-agricultural land (P1), 2) changes in the number of the farms-agricultural population (P2), 3) changes in the farm-size inequality (P3).

I name the third components according to the naming of the variable or variables that have the larger loading.

The first component (P1) is heavily loaded against the variables, populatin density ( $x_2$ ), average farm-size ( $x_3$ ) and the agricultural land.

As it is seen from table 9, the first component P1 has the highest z- scores in Florina province (2.18), Grevena (1.94), Kastoria (1.41), Thesprotia (1.40), Hios (1.39), Euritania (1.20) and Iraklio (0.90) while the lowest score have the Keffalonia (-3.01) and Fokidda (-1.21).

The regions which have the highest z-scores are West Macedonia and West Ipiros. The explanation of the results are attributed to the fact that in the forementioned province with the highest z-scores, the agriculture was the basic sector in the economy. The majority of the active population were farmers but the per capita income in the agriculture was low. The emigration was high in the period 1950–1965. The population left their villages and went to Athens, Thessaloniki, USA and Western Europe (Germany). But the next years some of them came back to their villages (NSSG 1951, 1961, Glytsos 1988, pp. 76-78).

Generally the agricultural population increase more than the agricultural land or the agricultural land decreased less than agricultural population and the agricultural land increased more than the number of farmers or the number of farmers decreased less than the agricultural land in these regions.

The Ionian Islands were the regions with the lowest z-scores (Table 9, Figure 2).

The second component (P2) had the highest z-scores in the provinces: Attiki (2.11), Kastoria (1.92), Grevena (1.42), Arta (1.40), Imathia (1.50), Samos (-1.92), Biotia (-1.74), Evros (-1.69), Keffalonia (-1.68), Drama (-1.30) and Messinia (-1.17). (Table 9, Figure 3)

The explanation of the results are attributed to the fact that in Attiki the population continue to increase. This raise was more in the rural regions of Attiki than in the center (Athens) which is the capital of Greece. In this way the number of farms increased. The population continuing to increase and in the period 1981–1992 (NSSG 1991).

A high percentage of this population lives in the rural region of Attiki. They are farmers but at the same time they are working in the big companies, in trade, in the state in Athens etc. Argued that urban systems play an important role in the integrating national market (Friedman 1966 and Berry 1967). This phenomenon was also observed in the industrialized countries i.e. France, Italy, Spain etc. and it is known as culturalist approach (Mendras 1970).

The province of Kastoria, Grevena, Arta, Imathia and Pieria are agricultural regions. The agricultural population of the mentioned provinces emigrated to Germany, Belgium, Usa, Australia and in Athens and Thessaloniki in the period 1950–1965.

The next years 1966–1981 a percentage of them returned to their villages and they works in their farms. At the same time they worked in the industry (Imathia), in the furntrade (Kastoria), in the tourism (Pieria) and in the stage. It is suggested that one of the most effective and efficiency strategy for promoting rural development is to develop a well-articulated, integrated and balanced urban hierarchy. That is the basic premise of the functional integration approach (Johnson 1970, Rondinelli and Evans 1983, pp. 31-53). In Euvia which is a big island close to Athens there were unemployed in the farms and in the industry. In the provinces with the lowest z-scores the agricultural population left their village because the per capita income, the output per hectare, the output per farm were low and general they were poor. In Euritania the emigration continue and the next year 1981–1991 (NSSG 1991) and there was a basic problem of isolation in this mountainous region.

The agricultural active population were employed in the tourism during the summer period in the Samos and Keffalonia because in these islands have developed tourism. Evros is a frontier regions close to Turkey and it has the lower per capita income of the Europe region. Drama has the similar problems with the province Evros. All the frontier regions in Europe have the same problems (Vanhorne R–Klaassen IH 1984). These regions had the highest percentage of emigration in Greece in the years 1950–1980. This phenomenon continues the next years 1981–1994. The low z-scores in Biotia is attributed to the fact that this region

have developed industry and the active agricultural population were employed in the big companies. These regions are close to Athens and many big industries were carried from Athens to Biotia. In this case applies the dualist models (Lewis 1954, pp. 139-191, Jorgenson 1961 309-334, Schultz 1964) Kelly, Williamson and Cheetham 1972).

Samos is a small island close to Turkey. It had a high percentage of emigration in the period 1950–1970. The majority of the population are navals and now they are employed in tourism during the summer period. Keffalonia is an island in the Ionian Pelagos and had the same problem as Samos. Additionally in this island the big earthquake in 1954 obliged the people to emigrate.

The third component (P3) had the highest z-scores in the province Ioannina (2.13), Drama (2.40), Halkidiki (1.86), Grevena (1.71), Pieria (1.58), Thessaloniki (1.42), Serres (1.23), while the lowest z-scores had the nomos Ilia (-2.15), Magnisia (-1.80), Fokida (-1.38), Iraklio (-1.29), Karditsa (-1.20) and Imathia (-1.05) (Table 9, Figure 4).

The explanation of the results are attributed to the fact that Ioannina is the capital of the regions Ipiros. This region is poor and problematic, the agricultural population of this province left their villages and were established in Ioannina, Athens, Thessaloniki, USA, Germany and Australia. Ioannina is the frontier region close to Albania and in the years 1990–1994, a high percentage of this country, mainly of Northern Ipiros came to Ioannina to try and find work.

The province Drama, Pieria, Halkidiki, Serres, Thessaloniki belong to the region Macedonia. Thessaloniki is the capital of the region. Its population has increased and it has been industrialized. It could be considered as pole industry (Peroux 1970). The rural population of this region were gathered in Thessaloniki or were emigrated from abroad. Halkidiki and Pieria have developed in tourism the last few years and the price of the land now is very high. The demand is high and many hotels have bought large areas.

The province with the lowest z-scores in the inequalities of farm size Ilia (-2.15) has developed the agricultural and tourism sectors and the active agricultural population combined the two employing in farms and in tourism. Olympia is one of the places in this province.

Magnisia has developed mainly from industry and tourism. This nomos is in the center of Greece and it could be realized as a pole where the development is defusing (Peroux 1970).

Pilio is also found in this province and has developed the agriculture and the tourism.

Iraklio is the capital of Crete. This island has developed the agriculture and tourism too. This phenomenon which is described above can provide explanation for the nomos Fokida, Fthiotida, Imathia while Karditsa is mainly an agricultural

place. It is recognized that an entrepreneur can only supply a good service at a location if there is a sufficient minimum level of demand to support it and if the demand occurs within the maximum distance that people are willing to travel to avail of it. The following variables determine the level and composition, of demand for a central function at a given location of the social and cultural characteristics of the population in and around the place by the purchasing power of the population, which is in turn determined by its income level 81 the number of people willing and able to travel to the function the preexisting location at firms determined by the costs of providing it by supply and demand.

A similar approach is made and by Beaumont (1987). As it had estimated the highest per capita income in the agricultural sector in the year 1981 had the province Biotia 247.024, 46 drachmas (DR), the province Larisa 254.453,74 DR, the province Imathia 252.164,32 DR, the province Attiki 250.491,26 DR, the province Thessaloniki 229.407,62 DR, the province Pella 236.129,14 DR and the province Karditsa 198.756,52 DR. The lowest per capita income in the year 1981 had the province Samos 47.389,16 Dr, the province Euritania 52.975,52 Dr the province Hios 54.228,05 DR, the province Thesprotia 57.120,6 Dr and the province Keffalonia 64.290,24 DR (Manilopoulos 1992, p. 125).

According to other indexes as output per farm, output per hectare, per capital gross regional income, the employment in the industry sector, the change of GNP, the per capita consumption of electrical power, the per capita consumption etc. (Manolopoulos 1992, Theodoridis–Markogiannakis 1986, 68-69), it was proved that the regions and provinces which had better structure, higher public and private investment, dynamic cultivation (cotton, fruit trees), good organization, have better regional economic development than the provinces and regions which are in a disadvantaged place (frontier, mountains, islands). Specifically for the islands, they have begun to develop rapidly in tourism for the last years.

## **5. Conclusions**

In this century, agriculture in Greece is a basic economic and social sector. It is forecasting that it will continue to be important in the next year where it will create a great European economic market.

In this paper it is considered that Greece should divide into nine (9) geographical and administrative regions. Every region is divided into smaller subregions which are called provinces. The provinces in Greece are 51 (or 51 with Agio Oros that is State–Monastery).

1. The method of PCA was applied together with SPSS package. The components

were determined and evaluated as follows.

- i) Changes in population density–average farm size agricultural land (P1).
  - ii) Changes in the number of farms–agricultural land (P2), and
  - iii) Changes in the farm size inequality (P3).
2. The higher z–score in the first component (P1) had the provinces which the agricultural sector was basic in the contribution to the Regional GNP and in the economic active population, while the lower z–score had the provinces which had developed the industrial and tourist sectors. In the second component (P2) the higher z-scores had the provinces which had developed the industrial and service sector and the agricultural farms are operated in an enterprising way with modern technology, while the lower z–scores had the provinces where there were mountain isolated or closed to great urban centers and had developed the industry. In the third component (P3) the higher z–scores had the provinces where there are a high degree of emigration, they were in the frontier or they were agricultural and in the last years the tourism was developed. The lower z–scores had the provinces which the agricultural, industrial and tourist sectors were developed in a balanced ration or the agricultural with high degree of trading and modern technology was developed.
3. There was an ubalanced regional economic development. The regions and provinces which had a good structure and a modern technology in the agricultural sectors were more developed than the regions and provinces which were frontier, mountainous and the agriculture were operated traditionally.
4. It is necessary to improve the structure, the investment and the organization of the problematic regions and provinces. To apply a better distribution of the Aid that came from the EEC.
5. These problematic regions must mobilize their indigenous sources and apply development from below, as it is known as new theoretical approach.

The development of agrotourism will benefit these regions because they have competitive advantages.

**Table 1.** Data used in the Principal Component Exercise.

PROVINGES	X1	X2	X3	X4	X5	X6
1. ETOLIA	10.42	- 8.32	-1.78	3.61	1.77	-4.86
2. ATTIKH	5.08	25.00	-11.36	8.15	- 4.11	12.66
3. BIOTIA	25.53	- 20.00	-3.80	-9.44	-13.37	-50.55
4. EVIA	13.04	0.0	-8.43	4.90	-3.97	0.99
5. EVRITANIA	2.56	-13.63	23.99	-20.00	-0.83	-15.81
6. FTHIOTIDA	8.70	-16.66	1.78	0.97	2.76	-8.86
7. PHOKIDA	4.17	18.18	-4.52	-5.03	-9.31	3.45
8. ARGOLIDA	-2.00	14.28	-9.92	1.71	- 8.38	-2.25
9. ARCADIA	5.13	-12.50	13.54	-9.14	3.16	-10.33
10. ACHAIA	12.76	-10.00	1.55	4.61	6.24	-2.06
11. ILIA	- 9.0	14.28	-11.60	-3.22	-14.45	-10.28
12. KORINTHIA	13.04	0.0	4.42	-0.82	3.56	0.43
13. LAKONIA	9.09	14.28	-3.50	-2.77	- 6.24	-4.07
14. MESSINIA	7.14	-12.50	7.92	-8.57	-6.72	-14.01
15. ZAKINTHOS	4.88	0.0	-1.00	-2.27	-3.26	-2.85
16. KERKYRA	18.42	19.04	-14.23	-0.64	-14.82	5.48
17. KEFFALLINIA	7.14	41.67	-15.77	-21.00	-33.47	-9.59
18. LEFKADA	15.38	-13.33	0.30	0.57	0.84	-13.02
19. ARTA	10.35	-5.26	5.26	5.95	11.87	3.89
20. THESPROTIA	13.95	-18.75	15.90	1.40	15.76	-3.46
21. IOANNINA	28.21	15.78	-0.82	-7.79	-8.60	6.28
22. PREVEZA	28.68	-12.50	9.43	0.77	10.23	-2.65
23. KARDITSA	4.44	-12.50	4.12	-5.40	-1.52	-12.21
24. LARISSA	7.84	0.0	-2.81	4.25	1.13	-4.95
25. MAGNISIA	-6.67	0.0	0.19	1.28	1.47	-0.37
26. TRIKALA	15.00	0.00	-0.86	2.36	1.47	-3.78
27. GREVENA	28.57	-16.06	31.13	0.06	31.25	7.44
28. DRAMA	36.36	-12.50	26.00	-17.22	4.27	-9.48
29. IMATHIA	4.55	-11.11	5.10	4.99	10.33	0.70
30. THESSALONIKI	26.19	0.0	11.99	-12.70	-2.24	-8.63
31. KAVALA	13.33	0.0	12.57	-11.70	-0.62	3.00
32. KASTORIA	19.05	-11.11	19.67	5.88	26.72	9.81
33. KILKIS	17.07	-16.66	11.08	-9.61	0.41	-4.31
34. KOZANI	22.73	-12.50	10.01	-13.33	- 4.66	-7.79
35. PELLA	15.79	-11.11	10.36	-2.41	7.74	-0.06
36. PIERIA	23.68	-12.50	-0.40	-3.07	- 3.47	8.33
37. SERRES	21.43	0.0	8.20	-11.32	-4.05	-1.20
38. FLORINA	11.90	-22.22	35.78	-9.67	22.66	-2.11
39. HALKIDIKI	29.17	0.0	11.69	-4.59	6.55	3.76
40. EVROS	18.92	0.0	8.77	-8.82	- 0.83	-4.01
41. XANTHI	13.21	0.0	-12.50	-9.11	-20.56	-20.70
42. RODOPI	11.36	0.0	-0.31	-3.77	-4.07	-7.29

43.	DODEKANISSA	7.40	18.18	-12.76	-4.90	- 17.05	0.37
44.	CYCLADES	8.33	0.0	20.83	-22.24	- 6.05	-7.69
45.	LESVOS	13.21	-10.00	15.86	-12.75	1.08	-11.05
46.	SAMOS	4.35	6.25	2.32	-12.66	-10.65	-5.10
47.	HIOS	4.65	-18.75	26.89	-18.72	3.13	15.90
48.	IRAKLION	0.0	0.0	2.50	4.21	6.88	0.37
49.	RETHYMNON	11.90	-11.11	12.56	-0.40	12.10	0.20
50.	LASSITHI	21.95	11.11	-9.47	-5.05	- 14.07	-1.92
51.	CHANIA	10.42	0.0	-8.94	4.50	- 4.84	-4.14

**Table 2.** Mean and standard Deviation of the six variables.  
(x1, x2, x3, x4, x5, x6)

	Mean	Std Dev
<b>x1</b>	12.64490	9.36390
<b>x2</b>	-1.93314	13.32429
<b>x3</b>	4.65333	12.16423
<b>x4</b>	-4.50902	7.73883
<b>x5</b>	-5.6137	11.34945
<b>x6</b>	-3.73294	7.36203

**Number of cases = 51**

**Table 3.** Correlation Matrix

-----FACTOR ANALYSIS-----

**Correlation Matrix:**

	<b>x1</b>	<b>x2</b>	<b>x3</b>	<b>x4</b>	<b>x5</b>	<b>x6</b>
<b>x1</b>	1.00000					
<b>x2</b>	-.20389	1.00000				
<b>x3</b>	.29033	-.70423	1.00000			
<b>x4</b>	-.15133	.01198	-.36476	1.00000		
<b>x5</b>	.20266	-.67692	.72657	.36683	1.00000	
<b>x6</b>	.14818	.34292	-.05771	.53151	.35176	1.00000

**Table 4.** *Component Variance (Eigenvalues)*

-----**FACTOR ANALYSIS**-----

Extraction 1 for Analysis 1, Principal–Components Analysis (PC)

**Initial Statistics:**

Variable	Communalit	*	Factor	Eigenvalue	Pct of Var	Cum Pct
<b>X1</b>	1.00000	*	1	2.51473	41.9	41.9
<b>X2</b>	1.00000	*	2	1.80265	30.0	72.0
<b>X3</b>	1.00000	*	3	1.02557	17.1	89.0
<b>X4</b>	1.00000	*	4	.59025	9.8	98.9
<b>X5</b>	1.00000	*	5	.06279	1.0	99.9
<b>X6</b>	1.00000	*	6	.00401	.1	100.0

**Table 5.** *Communalities and Eigenvalues of the first, second and third component*

-----**FACTOR ANALYSIS**-----

**Final statistics:**

Variable	Communality	*	Factor	Eigenvalue	Pct of Var	Cum Pct
<b>X1</b>	.84511	*	1	2.51473	41.9	41.9
<b>X2</b>	.89988	*	2	1.80265	30.0	72.0
<b>X3</b>	.87741	*	3	1.02557	17.1	89.0
<b>X4</b>	.87451	*				
<b>X5</b>	.97884	*				
<b>X6</b>	.87721	*				

**Table 6.** *FACTOR MATRIX*

-----**FACTOR ANALYSIS**-----

**Factor matrix:**

	FACTOR 1	FACTOR 2	FACTOR 3
<b>X1</b>	.41306	-.00363	.82127
<b>X2</b>	-.87027	.17048	.32163
<b>X3</b>	.91413	-.19660	.05591
<b>X4</b>	-.06356	.87746	-.31705
<b>X5</b>	.86423	.45900	-.14581
<b>X6</b>	-.01324	.86851	.35034

**Table 7.** *Rotated Factor Matrix, Component Loadings of the first, second and third component.*

-----**FACTOR ANALYSIS**-----

Varimax Rotation 1, Extraction 1, Analysis 1–Kaiser Normazation, Varimax converged in 4 iterations

**Rotated Factor matrix:**

	<b>FACTOR 1</b>	<b>FACTOR 2</b>	<b>FACTOR 3</b>
<b>X1</b>	.15425	.00834	.90623
<b>X2</b>	-.92747	.15470	.05048
<b>X3</b>	.85894	-.18680	.32363
<b>X4</b>	.02610	.87373	-.33229
<b>X5</b>	.86583	.46632	.10828
<b>X6</b>	-.12114	.87161	.32067

**Table 8.** *Component Score Coefficient Matrix.*

-----**FACTOR ANALYSIS**-----

**Factor Score Coefficient Matrix:**

	<b>FACTOR 1</b>	<b>FACTOR 2</b>	<b>FACTOR 3</b>
<b>X1</b>	-.07763	.00724	.81374
<b>X2</b>	-.42343	.09403	.19730
<b>X3</b>	.33232	-.10486	.15993
<b>X4</b>	.06308	.48353	-.30882
<b>X5</b>	.36848	.25673	-.03830
<b>X6</b>	-.10840	.48493	.31927

**Table 9.** *Normalised scores of the P1, P2, P3 Components.*

	<b>P1</b>	<b>P2</b>	<b>P3</b>
<b>1.</b>	.204441	.494378	-.753389
<b>2.</b>	-1.48406	2.11272	-.251399
<b>3.</b>	.196578	-1.74945	.338663
<b>4.</b>	-.525654	.948607	-.268201
<b>5.</b>	1.02642	-2.02651	-.700036
<b>6.</b>	.650195	-.245733	-1.05086
<b>7.</b>	-1.21357	.457147	-1.97449
<b>8.</b>	-1.01695	.538110	-1.38167

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9.	.821093	-.696698	-.806543
10.	.441136	803724	-.464548
11.	-1.12015	-.440331	-2.15959
12.	.314991	.613890	.793075
13.	-.873737	.139953	-.240898
14.	.398952	-1.179697	-.854755
15.	-.233872	.193383	-.762438
16.	-1.79731	.841304	.857419
17.	-3.01459	-1.68108	.413879
18.	.445804	-.303826	-.599212
19.	.525739	1.40354	-.349341
20.	1.40490	.541760	-.266777
21.	-1.27664	.456925	2.13525
22.	.752260	.538063	.665189
23.	.475685	.712047	-1.20534
24.	-.754194	.583701	-.895681
25.	.403811	.666352	-1.80058
26.	-.108943	.535025	-.122206
27.	1.94748	1.42520	1.71832
28.	.860248	-1.30371	2.42677
29.	.736707	1.05700	-1.05705
30.	-.224523	-.911447	1.42234
31.	-.101633	-.609801	.771357
32.	1.41979	1.96904	.698839
33.	.605345	-.490659	.426229
34.	.253301	-1.02404	.980264
35.	.654007	.449341	.259966
36.	-.948529	.972640	1.58178
37.	-.243449	-.347768	1.23211
38.	2.18919	-.102345	.24270
39.	.113703	.615117	1.86138
40.	-.407714	-.310674	.788989
41.	-.971709	-1.69551	-.632513
42.	-.241892	-.212058	-.320201
43.	-1.67035	.160839	-.137731
44.	.151817	-1.62180	.420812
45.	.651686	-1.11284	.829983

46.	-.828885	-.756090	-.330321
47.	1.39136	-1.92240	-.624443
48.	.236825	1.00579	-1.29366
49.	.900471	.668707	-.132805
50.	-1.34717	.103153	.961876
51.	-.473838	.568937	-.706164

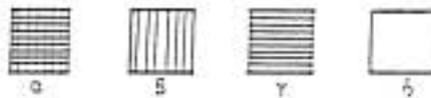
**Figure 1.** *The map of Greece.*



Figure 2. Principal Component Scores (P.C.S.) for the changes in Population Density –average farm size– agricultural land (P1).



Score Rance



$\alpha: > 1$   
 $\beta: 1 - 0$   
 $\gamma: 0 - -1$   
 $\delta: < -1$

**Figure 3.** *P.C.S. Changes in the number of the farms–agricultural population (P2).*



**Figure 4.** *P.C.S. Changes in the farm –size inequality (GINI-COEFFICIENT).*



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# A THEORETICAL VALIDATION OF THE THEMATIC ANALYSIS OF THE VARIABLES OF THE LEADING ROLE OF THE MANAGEMENT OF A HOTEL UNIT, WITH THE AIM OF EFFICIENCY IMPROVEMENT

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## Abstract

Hotel management is a form of complete career advising that demands special education and daily training inside the hotel. And of course, in order for the management to be effective it needs to be based on planning, operational control of the exploitation department, proper financial policy, a long-term business plan, the correction between co-workers, the often problem solving, timetable scheduling, dynamic solutions' practices with responsible information, target identification and announcement, co-workers motivation for advanced efficiency and in promoting the assistance and importance of co-workers.

*JEL classification: M10, O21.*

*Keywords: hotel, management, administration, development, viability.*

## 1. Introduction

The bibliography studied for this paper is, in a broad manner, indicative of the bibliographic references in the area of the hotel organizational structure, while it does not represent the total of the available bibliography. It is formed, however, using a specific approach, according to which it should include elements used not only in theory, but also different practices with a) books and articles of Greek and foreign authors, whose topic is about the leader attitude of hotel staff and b) translations of foreign works that deal with hotel administration, while simultaneously enriching the hotel area with important aspects and approaches from the international hotel area. So, we defined the need of promoting the theoretical speculation on the matter along with the available ways of organizing, operating and administering hotels, through the findings of two empirical field researches, one performed by us in our country, and through bibliography. We

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wish to point out the wide spectrum of subjects covered in our research expresses the inter-scientific aspect of the matter, that stems from the need created by the posture of businessmen and scientists, leaving the subject open for feedback.

## **2. Lodging facilities executives – the dimensions of the leader attitude**

A basic parameter affecting to the maximum the operation and evolution of a hotel is the posture and attitude of its executives. Therefore, it is vital to analyze the leading role so as to identify the basic areas of responsibility of a manager, his duties, as well as the required skills. Leadership, as a separate field of management's activities, begins to evolve in the 1960's, when the hotels, besides other operations, include leader attitude as part of the administration/organization. However, this is a specifically vague field of activities, which is characterized by the great variety of administration forms. Bibliographic research in Germany and Austria (mainly in the University of Vienna at the end of the 80s and 90s [1,2] that the content of the leader attitude, is mostly about the personal administration capabilities and that its fundamental receptors are the direct subordinates and those dealing with the lodging enterprise. Newer research did not show any important qualitative variations, while the axiom that a leader is made through the conditions and is not born[3]. In this case, leadership is examined by a different perspective, that is the leaders could create a set of moral values and which would also include their attitude. To sum up, the leader template should propose the aspects that could, on the one hand foresee efficiency, and on the other hand adopt subordinates' opinions.

## **3. Two empirical researches as a speculation basis**

The analysis of our subject includes a number of findings from field research that were realized in Evvoia (1996-98) [4] while the same field research with the same subject, on an extended form for the island of Crete. The subject of research is "the dimensions of leader attitude of hotel executives".

## **4. The methodological research framework**

The target of the two empirical researches was the identification and registration of the space of the hotels, whose realization was achieved through a) the organization

of a researchers' archive, b) organization of a hotels' archive and c) organization of new teams of executives from a great number of hotels so as to continue research. Parallel activities were the concentration of the corresponding bibliography. With regards to the organization of research archive, the vast majority that formed the archive were men, while women were less. Maybe, the registered numerical superiority of men is related to specific social characteristics, which are easily discriminated in the area of enterprises of lodging, and especially hotels.

With regards to the broadening of the work area, the majority of the researchers were students, who had expressed interest as researchers, and hotel staff from Crete and Evvoia. It seems that this subject did not only intrigue students but researchers as well. Procedurally speaking, the researchers provided questionnaires that dealt with the registration of personal activities inside a hotel. The relative handouts were either given personally or were mailed for completion, while on return those who desired undertook a private, non- planned interview. By the start date of the research an attempt to approach other businessmen of the work sector, in order to process more ideas on this subject. At this proposal 20 more people responded. The process of the handouts/questionnaires and non-planned interviews provided useful information with regards to the identity and experience of those who filed them in. The oral account, as means of approaching the hotel reality, especially through the accounts of administration experiences, does not refer to any common tool selected by all the available in the economical and social sciences [6], but rather to research strategy that reflects the scientific sensitivity for qualitative research (or at least some qualitative elements).

## **5. Findings – in general**

A basic parameter affecting to the maximum the administration functionality and evolution of the hotel is the posture and attitude of the leader towards the workforce. The basic reasons for this immaturity in the hotel industry could be the inefficiency and lack of appreciation for the needs and reasons of hotel evolution as well as a lack of ideas and fantasy. The need for synchronization between client's requests and the hotel unit can be very stressing for the hotel units. It can be extremely stressing for the hotel since the hotel industry, as industry has great development expectations [7].

It is therefore important to identify and analyze the leader role, so as to check the basic area of responsibility of hotel managers, his duties, and define the required skills. The need to turn to this methodology stemmed from the fact that this results both as theory and as action, and it is very developed abroad,

in contrast to hotel units in Greece, where this kind of questions only the last few years came up. It is more than obvious that the Europeans and Americans always develop with greater speed and in order for us to reach them or get closer, we must learn their methods, adjust our measures and with their aid to case them. After that we check the relationship between manager and hotel and the needs for mutual satisfaction. And of course the people in command can be categorized according to their character, personality and motivation to different groups as: financial, social, self-motivated, complicated and complete.

The relationship of a manager to the hotel and his subordinates is analogous to the aforementioned. Nowadays, the hotels stress out the the impact ratio of the human factor to their organization, since without the conscious and active participation of their executives and the cooperation with the workforce it its impossible to produce work. Besides that, it should be pointed out that theoretical approaches for payment are not enough, but it is rather necessary, in order to successfully apply strategies and modern organizational methodology and systems. Another result was the fact that in a hotel there are three special needs: work needs, team spirit and personal needs. These circles cut one another as it is natural [10]. It is therefore natural that every action of an executive on one of these circles activates a reaction on the other two. For this exact reason it is necessary to identify these relationships in the framework of successful leading in order for the hotel to develop. Thus, life is a constant educational field and it is vital to keep it constant as a post graduate educational field that would allow us to evolve and transform in our business life[11]. Successful leadership was considered as an inborn characteristic of the leader. Today, it is more widely accepted that leaders become. Of course, fundamental role have their capabilities, morale and personality. However, there are two parameters that promote this aspect: the members of the team and its characteristics, and the general conditions in which the leader tries to operate and establish. The successful executive of a hotel is a product of all the aforementioned parameters, and can overcome problems easily and effectively.

## **6. The connection between work and research field**

The present research paper tries to point out as generally and concisely as possible, all the psychological and obscure complexities of the human soul, in which there is great vagueness, which constitutes the basis for human resources administration. Due to the evolution the human resources administration undergoes the greatest changes in its history. One could say that today the work subject of the hotel executives is transformed slightly. For years, the hotel

managers dealt with administration and employment (work management) while nowadays they deal with performance administration. Nowadays, the proper executive should stick to that and work using the clear results of performance figures that any person can understand without any scientification, that can only trouble instead of clarify. These observations are remarks of a post hotel manager, through long-term and intensive experience with all the psychological factors of human resources administration (through the diagnosis of characters and experience). It is therefore the statement of long-term practical activity on all levels of hotel organization and administration.

In the well renowned book taught in the University of Vienna by Professor Hoffman [12] one can find a great number of details of elements of our research paper, and naturally, it is easy to reach conclusions of the international bibliography. According to our opinion, human resources administration is always performed in real life. Theoretically speaking, perfect administration cannot be of assistance since it does not exist. First of all, based on that the manager of the hotel resources can, by using self-estimation, perform better administration. Anyone can be taught to administer human resources to a sufficient level. As any dexterity, human resources administration skill can be developed. Through dexterity you can acquire specialty. And, as most people believe experience can only be gained through fundamental relations between knowledge and experience in order to have a positive result.

## **7. The present of hotel executives**

In order to interpret the role of executives of the present we should define tourism. There is a number of definitions for tourism, each one of which points out specific characteristics, while there are others reflecting research initiatives of different research fields. For example, tourism shares a lot of common characteristics with leisure and recreation sector. Terms recreation, leisure time and tourism reflect a very broad group that targets on empirical and active characteristics that standardize these terms. On the other hand, the financial-technical and statistical terms most of the times, lessen the importance of human experience, pointing out the importance of human transportation to and from countries and the expenses of this transportation.[13] After all that and since we are talking about arrival and departure figures, a number of questions arise. The first question of figures regards the number of people working on the facility, and to be more precise whether it is enough for the leader to cope with the demands of the hotel industry? A next question is whether it should be extended or altered? Is

there trust between coworkers? Is the owner on his side? What does he do to honor them? Is there a departure phenomenon and on what frequency? Is this the reason he cannot remember the names of his colleagues?

It is true that nowadays hotels assure the younger people of an esteemed employment, but as every successful hotel manager or executive knows, hotel employment positions are full of adventure, financially well-paid but also interesting due to the constant flow of human communication, and this is the reason why there is a higher responsibility morale in relation to the bureaucratic administration models of other units. It offers the capability of dexterity identification, decision making and creativity and leaves open space of working autonomy even for the younger employees. However, despite these, both greek and foreign hotels are understaffed. This is why there are different causes with different importance. As in months of tourist jam, when a lot of the times due to necessity several hotel units employ untrained workers. This is the reason why we refer to unreliability, lack of seriousness and the insolvency of hotel expertise as opposed to the qualitative demands of the modern tourist-customer.

Work time due to work intense is extended even on a shift level when opposed to other employments. So, because of work intensity even intra-family conflicts (as quarrels or in extreme cases divorces), because work time and strain from the hotel employment (regardless of the payment) can initiate unhappy consequence. There is lodging problem in many seasonal hotel resorts. Insufficient staff lodging facilities contradicts to the work space fundamentals that are represented by high standards, while at the same time it advertises the perfect organization with consistence and glamour. Work joy may disappear, with concurrent relationship intensity. This results to a lack of efficient care for the colleagues. Another case is the constant change of staff. It is a fact that every unnecessary staff change, can cause client dissatisfaction and even negative effects on the work climate. Customer care must be vivid inside the living working environment, In addition to that, in seasonal hotels administration time, is very limited, and thus there is a very small number, of especially specialized, capable manager, as most of the available ones, along with enterprise unwillingness to hire staff condemn a hotel unit. Finding specialists is a very difficult task for the hotels, while the capabilities of certain social strata are primarily corresponding to theory rather than practice. [14] On the 21<sup>st</sup> century the human factor will be very important for "human capital" investments and will constantly rise. However, the righteous confrontation of the staff, hiring, education, care and recognition, as well as career possibilities with satisfactory income are the necessary actions in order to avoid leaves, and the surplus cost and difficulties that stem from a potential leave and replacement. This phenomenon naturally affects the whole of the business world and more specifically hotels.

## **8. Trouble about the righteous human resources administration**

The problem of the righteous human resources administration – sometimes regarded as the cooperators problem – was never as great as today. The capability of the tourist market to absorb properly trained staff per branch and specialty is a difficult case and especially to connect through this capability the educational system with the work market. [15]

With regards to that there are mostly three reasons there are three reasons to interpret the aforementioned: the high-level and constantly rising specialization of our era. The great scientific inventions and the conclusions from our previous centuries have led to an increase in knowledge beyond imagination. For this reason several capable scientists to the conclusion that the level of knowledge of humanity has doubled during the west Christian civilization: from the birth of Christ till the year 1500 (in 1500 years), from 1500 to 1800 (in 300 years), from 1800 – 1900 (in 100 years), from 1900 – 1950 (in 50 years) and from 1950 – 2005 (in 55 years). Even an outrageous mind with the best of intentions and greatest possible attempts can not engage in every problem. And it is even more intense if we discuss about things for which hotel administration is not only fundamental but of decisive importance. This is the reason for which hotel administration requires all the more the motivation of all the cooperators and the special knowledge of every sector of service provision and hotel operation in general. However, despite the importance of administration in the proper and efficient function of a hotel, it is proven that the participation of the scientific approach is essential for any hotel administration unit. The best organized plan of administration for the hotel is managerial control on two areas: coordination of activities and ethics. Tourist activities need to be organized and programmed in order to maximize the possibilities of hotel exploitation departments. Sales could be coordinated with specific social events in order to attract a broader spectrum of tourists. The operation hours could be redefined so as to provide activities that would attract visitors 24/7. On the other hand, poor service, poor quality of food and drink, and increased prices would lead to problem for the enterprise. So, because tourists return to their home country/town after a short travel do not have the opportunity to criticize the defective food and services, and cannot complain about improvisations or overvalued services. However, later on whole societies understand the importance of service provision in the hotel unit they lived in degrading the hotel unit itself. Certain questions are raised at the time: What legitimate actions can be taken by the hotel staff? Are these legitimate actions fair? Even if they were fair, was this attitude justified and honest?

## **9. The viability of lodging enterprises**

Planning the viability of hotel and hotel industry should not be kept in secret. The society should know what happens. Quarrels and problems should be directed earlier, in order for everyone to feel more part of the hotel and the hotel would get greatest support. Successful hotel development can be measured in multiple ways: local enterprise profits, increase in employment, beneficiary treatment from the local society, social acquiescence even development of approval and pride spirit. But work life is on a high level dehumanized. Nowadays, a hotel executive and his colleagues' relations, despite being very close to one another with the human virtue, are conquered by automation, a control watch a signal or a business note from a computer. So the hotel manager is up in the skies. He is maybe in front of a glass box observing with the hand, eyes and brainwaves in order to directly register a premature break of a worker. As a result, cold thinking prevails, a senseless thinking on human. With discussions we had with hotel executives on the secondary field research, we concluded that the primary mental skills, the mental powers and values from which a human is made up remain deeply unsatisfied. This attitude should be fought back and characterized as a dangerous annoying factor for the proper route of the righteously directed working processes, which endangers success. And the empty soul always seeks desperately totality, happiness and security, inner balance from the working environment of a hotel and never finds them.

Mental powers however cannot disappear with magic tricks or be suppressed to extinction, thus standing up with all their power. So a number of human stresses, a deep dissatisfaction and emotionality, all the increasing psychosomatic diseases of our era appear.

## **10. Tourist industry as a generator of public income and employment**

Hotel industry has extended, and problem exists to its organizational structure. Tourism is nowadays one of the greatest generators of income and employment. While the lodging industry of our country continues to fall, the number of enterprises increases. Areas that never imagined themselves as tourist attractions are in mutual relation to them. With the arrival of tourists, the need to provide the best we have to the provision of the visitor is created [17]. On all levels, visitor service is made up by the local elements. These differ between lodging enterprises, and most of the times, due to seasonality, no motivation to hire leader executives, so as to assist in the totality of the visitor's experiences and offer a great number

of experiences and descriptions.

The service memories are those the visitor will usually tell to their family and friends at home. The stories of the holidays are made up from personal experiences by meetings and communication, instead of descriptions of the landscapes or the hotel room. The memories tend to be positive or negative, and remain stable in the mind, mainly the negative ones, especially if they are not in contradiction to more positive experiences. Because of this tendency of the human nature, it is the responsibility of those that are related in the structural organization of hotels, to do their best to provide the best to the visitor. It may sound as an impossible task, while our aspect is that it may happen in some cases. So the majority of the visitors will rest and respond in good mood, when they are treated with the necessary respect. The leader of the hotel, the manager, should treat his subordinates as equal. All the perception behind the services seems to be beyond the tourist with the rent-a-room, the food and parking and whatever is aggregated in the offer of a total experience. Service provision for the visitor begins with an analysis of the needs. It includes not only the necessary abilities, but the need for surplus services as security, servicing staff and hygiene facilities, staff for every information and sufficient signing. Touristic education must have a totalistic character, in order to cover all the sectors of tourist activities, both those covering basic tourist needs and those the cover secondary needs. Ideally, visitor service planning should be included in a basic touristic plan. Visitor service provision can be very expensive, and many members of the society would defy the legitimacy of these costs and ask “what is included in there for me”. Is it the parking and entrance on a greek night or picnic. On the other hand, the locals wonder what exactly comes for us from tourism. This is the reason why the education of the local society is the key for the successful touristic planning. The way with which the locals understand the importance of the hotel of the area is a great advantage for the hotel unit, as it is better for people to understand the importance of the tourist leaving an area a happy satisfied client.

From the waiters and waitresses, taxi and bus drivers, restaurant employees, fast food and local malls; everybody should be willing to answer visitor questions. The better the answer the visitor gets, the more satisfied he will be, and the more possible it would be that he would return and propose this area as a destination. The local enthusiasm is transmissible and transfers willingly to other visitors. If the visitor observes a positive image of the society, their impression would be positive and the experience happy. Of course, education and information are not without role. Educational programs must be applied on people that have a leader role in the hotel. Education should target on hospitality and the ability to communicate. The recognition of the customers’ needs and motives through educational programs should include schedules, time schedules and space diagrams with specific

people, those who provide, perform specific services, and those who staff the centers of tourist information. It is easy to say that, the complete visitor service must be settled, but it is for more difficult to apply. Tourist destinations wish to increase arrivals, while at the same time there should be a primary aspect for the protection of the tourist-consumer. This is the theory of increased responsibility of the producer according to which the consumer's protection is assured. According to this theoretical approach, the tourist consumers have basic rights which are translated to moral responsibilities of the producers as the right for security, lodging and information.

## **11. Key factors of hotel executive's success**

The subordinate cannot estimate the hotel in which he is employed as a unit, but only to approach the immediate work space and naturally his immediate supervisor. The supervisor is the hotel to the subordinate, the name. How could it be different? On a daily basis he is connected to his supervisor, follows his directions, his ideas, and personal perception. All the development possibilities and border limits are here. Very few supervisors can understand the great radius of effect they have on the existence of the subordinates. If they could, they would probably treat in many cases differently: more correctly, more kindly, in a better-disciplined manner, as they would want their supervisor to be. And how many difficulties would be extinct with their own initiative. However, the fact that the department managers have the greatest role in most hotel enterprises is important. These people that deal with human resources, as they are the managers of the staff of each department, for which they have the responsibility of supervising the staff and representing the enterprise to the customers[19]. In the school of business administration in the University of Vienna, an old Austrian saying was used "as the lord and the slave". If you extend the meaning of this saying, it should be the main characteristic of the operation of the modern hotel unit. If the manager of an exploitation department (restaurant, bar, tavernas, etc) of a hotel is selfish and sullen, then the subordinates would become the same thing: selfish and sullen. If there are intermediate executives, then they would become copies of their boss. If this does not happen, then they either mock him, or ignore him or both. But if he employs a subtle tone and is friendly in his human attitude, then his subordinates would become that way. The first of who would be the intermediate executives that are closer and more directly connected to him. Managers are of influential importance for the success of a hotel. Everyone looks on top either obviously or less obviously. And if something from the attitude of their supervisors is wrong,

this is shown to the work climate and finally to the zeal with which everyone approaches his subject. Even the last part of the working staff can understand if everything is ok or not.

## **12. Conclusions**

In the hotel industry, the leadership care for the satisfaction of the needs of the workforce should be fully adopted. There is a contradiction between the old and new concept on the stature of the hotel executives against the working people and the position each member of the staff has in the hotel. However, the correct leader attitude of the hotel executives for the satisfaction of the staff needs should be included in the general care as for those of the effective dealing of unpleasant conditions, taking correct decisions, quick adaptations to changes, as well as imagination, ambition and initiative. And, of course, this which is more important is to make clear to the subordinate staff, that it recognizes them as personalities worthy of respect and the possibility of participation in the happenings of the work space, fact which initiates mostly the hidden sense of honor, especially of the Greek hotel staff. Either way, the executive tries to gain the heart of the subordinates, even their mind in total; a fact which initiates another change in the history of management. One could state that the work of the hotel executives is gradually shifting. While for years they dealt with the administration on employment terms, while nowadays they must deal with performance administration [20] Maybe, this way there would be no need for special wisdom to define the “ideal attitude of the hotel leader executives”. However the organizational structure of the hotel demands more work. So this approach of the hotel’s administration deal with the trouble of the hotel directions, that is a development strategy[21]. Nowadays, the righteous executive should provide real help on the daily practice of hotel administration that would assist every willing supervisor from reading enormous books. Especially that part of employment should propose a practical application of the administration hotel model that is nowadays adopted.

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# MODERNIZATION AND EVOLUTION OF EUROPEAN COMMUNITY COMPANY LAW AS A PRECONDITION FOR ENHANCING COMPETITIVENESS OF ENTERPRISES

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## Abstract

The fact that the establishment of a modern and dynamic legal framework governing the operation of the companies and the development of their activities, at community scale, is a necessary element for the enhancement of the competitiveness of enterprises, constitutes a common ascertainment within the EU. An integrated approach procedure, which is formulated in two main components – trends, is carried into effect for the attainment of the aforesaid goal.

The first one concerns the modernization of the European Community Company Law aimed, on one hand, with the issue of new legislative acts (Directives) or the amendment of existing ones by European Union organs, through which a new impetus is given to the harmonization and approach procedure for the Member States' national laws, and on the other hand, with the promotion of qualitative financial reporting and entrenchment of the audit quality within the European Union.

The second one signals the evolution of the Community Company Law, and specifically, the transition from the Member States' company law harmonization to the creation and development of new European (supranational) legal forms of enterprises, which will serve more effectively the development of economic and commercial activities within the united Europe. This goal is carried into effect with the establishment of a necessary institutional framework for the creation and operation of new business (corporate) forms of European law, and in particular, of the European Company, which contributes to the development of the cross-border cooperation of the enterprises and the business groups, the European Economic Interest Grouping and the European Cooperative Society.

*JEL classification: F15, K20, M42, M48.*

*Keywords: European Union, Company Law, Corporate Governance, Financial Reporting, Company audit.*

## 1. Introduction

The conditions of a modern and interconnected industrialized society and a globalized economy make it more and more exigent for a dynamic and flexible

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legal framework to be established, aiming at the regulation of corporate operations and the development of company activities. At EU level, modernization of company law is a prerequisite for the purpose of promoting the deepening of the unite internal market (Panagou and Tsountas, 2004: 193-223, corruble 1998: 57-93), building up a truly integrated capital market (Favret 2001: 91-103 Clergerie and Gruber 2006: 343-351) and enhancing the competitiveness of enterprises, with a view to create new jobs, to attain sustainable development and to ensure the protection of shareholders' and third parties' rights. In parallel to the reform of the European community company law, a legal framework is being established for the incorporation of supranational European corporate forms, so that the restructure and cooperation of enterprises coming from different member states does not impinge upon legal hindrances which have not been totally eliminated by the harmonization of the company laws in such member states.

A concise, global and synthetic examination of the basic drifts and aspects of the reform of the community regulatory framework for company law is the major objective of this report, which comprises two sections corresponding to the said drifts.

The first section deals with the creation of a modern institutional framework of corporate management and operation within the European Union which is mostly pursued through the establishment of rules for good corporate governance, the promotion of qualitative financial reporting, to the direction of entrenching transparency and ensuring audit quality in the EU.

The second section deals with the establishment of a necessary legal framework for the incorporation and operation of new business (corporate) forms of European law, which signals the evolution of community company law and in particular, the transition from the harmonization of member states' company law to the creation and development of new European (supranational) legal forms of enterprises.

## **2. Creation of a modern institutional framework of corporate management and operation within the European Union**

The intervention of the European Community in the company law sector was focused, for a long time, on the harmonization of the Member States' law (Pampoukis 1981: 149, Kotsiris 1980: 221, Leontokianakos 1985: 1349, Favret 2001: 85-88). Indeed, from 1968 onwards, several Directives were published with a significant influence on national company laws (Gavalda and Parleani 2006: 141-154, Kotsiris 2000: 781-800) mainly to the direction of their approach, or

otherwise, to the direction of establishing identical or similar regulatory frameworks in order to facilitate the freedom of establishment of companies in the various Member States on one hand, and enhance the legal security of the intra-community trade through the establishment of guarantees<sup>1</sup> on the other hand.

In the early 2000s, a reform – modernization trend regarding company law was developed, at EU level, a trend dictated by the need for

- drawing the maximum possible benefit from internal market;
- integrating capital market;
- maximizing the positive influence of modern information and communication technologies;
- ensuring greater transparency and better information for companies.

The main goal of this new approach<sup>2</sup> is the promotion of enterprise competitiveness for the attainment of which it is necessary, *inter alia*, to form a common European set of company law rules which will give a chance to the freedom of establishment and the cross-border restructuring. Another factor contributing to the enhancement of enterprise competitiveness is the establishment of a stable system for the protection of shareholders' and third parties' (creditors') rights from improper activities of companies' management in order to restore the reliance regarding their operation. This new integrated approach mainly includes the establishment of a good corporate governance framework (2.1.), and also the establishment of a legal framework for ensuring the qualitative financial reporting and entrenching a reliable company audit system (2.2.).

## **2.1 Establishment of rules for good corporate governance**

Over the past years, the issue of the system by which the enterprises are administered and audited, or otherwise, the corporate governance issue, has been highlighted, at international level, as a major and critical issue, following the corporate scandals that took place in the United States of America (USA), for the purpose of the operations of the listed limited companies. It is necessary to withdraw the uncertainties caused by the discrepancies between the corporate governance rules applied in Member States<sup>3</sup> in order to effectively integrate the capital markets at EU level. However, it was the adoption of a joint approach for the establishment, through Directives and Recommendations, of certain basic and substantial principles and rules, as well as the assurance of an appropriate coordination of the internationally established corporate governance codes, that were adopted as a resolution method of these problems and not the elaboration and compilation of a European corporate governance code.

The main issues giving cause for consideration and legislative interventions by European Union bodies, is the information assurance for corporate governance practices, the enhancement of the legal framework for the exercise of shareholders' rights, the restructuring of the administrative structure of listed limited companies, but also the redefinition and emphasis on the responsibility of management board members.

### **2.1.1 The obligation for provision of information on the applied corporate governance practices and the role of institutional investors**

The European Commission<sup>4</sup> provides that the establishment of the obligation of the listed companies to publish annually, among the annual documents, reports and accounts, a corporate governance statement including all the main issues connected with the applied corporate governance practices shall constitute a subject of a proposal for a Directive. In particular, information on the operation of the general meeting of shareholders and its competencies, the shareholders' rights and the way of exercising such rights, the composition and operation of the board of directors, the main shareholders and their voting and control rights, as well as the relations connecting them with the company, according to the applied national corporate governance code, shall arise from this statement.

The establishment, with the adoption of a Directive, of the institutional investors' obligation to provide information, on one hand, on their investment policy and their policy on the exercise of the voting rights in the aforesaid companies, and on the other hand, on the right holders regarding the way of using these rights in a particular case, is deemed important and necessary, in view of their particularly decisive role in the governance of the companies in which they make investments. The fulfillment of these obligations results in the enhancement of the institutional investors' participation in the affairs of the abovementioned companies.

### **2.1.2 Assurance in case of a public takeover bid for the acquisition of a company's securities**

A main issue regarding the external corporate governance<sup>5</sup> is the acquisition of a company control through a public bid for the takeover of shares. It is stressed out that the fundamental principles applied in English Law (Rokas 2005: 25-26) were adopted, at EU level, with the adoption of the Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004<sup>6</sup>. Before examining these fundamental principles, it should be clarified that the Directive on the public takeover bids determined the minimum guidelines for making these offers and ensuring the protection of security holders within the entire EU. The aim is to

make equivalent, in all the EU Member States, the guarantees required by these Member States, in order to protect the interests of partners and third parties, by the companies governed by a member state's law and whose securities are admitted to trading on a regulated market of only one Member State. In particular, coordination measures are determined for the rules governed by the Member States<sup>7</sup> regarding the public takeover bid for the acquisition of securities of a company subject to the laws of a Member State in case these securities, as a whole or partly, are admitted to trading on a regulated market of one or more Member States<sup>8</sup>.

The Member States must ensure, within the framework for the establishment of rules on the adjustment of offers, the implementation of the following general principles:

- equal treatment for all security holders, of the same class, of a company the securities of which are the subject of a bid;
- assurance of the necessary time and information for security holders in order to make the decision making possible, on their part, regarding the offer following the provision of appropriate information;
- obligation of the aforesaid company's Board to pursue, through its actions, to satisfy the company's interest in its total and not to deprive security holders from the decision-making capacity regarding an offer's significance;
- prohibition of the capability to create false markets of the securities of the offeree company, of the company that proceeds to a bid or another related with the bid, which (capacity) results in the false increase or decrease of the value of these securities
- obligation of the entity (natural or legal) making the bid to ensure the capacity of fulfilling the obligation of paying the cash consideration in case of a bid of such consideration
- exclusion of the obstruction, resulting from the bid for the securities, of the exercise of the activities of the offeree company longer than the reasonable period.

The Member States must impose the controlling natural or legal entity, the obligation to address the bid to all its security holders for the takeover of the total of their participations in a fair price<sup>9</sup> in order to principally protect the persons holding minority participations (the company's minority shareholders).

A network of rules on the entrenchment of transparency and irreproachability of the market for the securities of the offeree company is established. In particular, the establishment of the obligation of the bidder, on one hand, to announce without delay his/her decision to submit a bid and to inform the supervisory authority on

the bid, and on the other hand, to prepare and make public on time a bid document through which the security holders of the offeree company will be informed on the bid terms in order to be able to make a decision regarding this bid, is provided. In this way, it is pursued to prevent or at least limit the capability of the holders to exploit confidential information and to make public or disseminate false or misleading information.

Of particular importance for the prevention of acts that could result in the bid's cancellation are the provisions aiming at the limitation of the powers of the company's board of directors<sup>10</sup> the securities of which are the subject of the bid, regarding the conduct of exceptional acts. Analytically, the Member States take the necessary steps in order to abide by the rule imposing to the board to get in advance the authorization by the general meeting of shareholders before proceeding to any action that may lead to the bid's cancellation and before issuing shares with the aim of impeding for a long time the bidder to acquire control of the aforesaid company. The period during which an authorization must be given, starts from the moment when the company's board receives the information concerning the bid and ends when the bid result is disclosed or the bid forfeits. Besides, the rules established by Member States must ensure compliance of the offeree company's board with the obligation it has to prepare and publicize a document which refers to its justified opinion regarding the bid, the grounds of this opinion and its views regarding the impacts of the bid realization in the overall company's interests and (regarding) the strategic plans of the bidding entity for the company in question

### **2.1.3 Enhancement of the legal framework for the exercise of shareholders' rights**

A basic requirement for the effective corporate governance is the assurance of the shareholders' capacity to really participate in the general meetings of the listed companies and to vote therein. A first step to this direction was made with the adoption of the Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC<sup>11</sup>. With the Transparency Directive it is pursued to ensure the information of the shareholders of listed companies through electronic media that make possible their access in the necessary information before the holding of general meetings. However, its provisions do not effectively regulate the issue of the access of foreign shareholders to information before the general meeting and the problems in relation to the shareholders' voting procedure. Indeed, the problems faced by the EU citizens, who hold shares of companies listed in stock exchanges of other Member States, every time they Ref.k to exercise the voting rights connected with these shares, are so important that

finally their exercise is impossible. The factor that intensifies this problem is the increase of the cross-border character of the investments in shares, a character enhanced by the tendency of creation of integrated financial markets at European and international level. The resolution of the problems related to the cross-border exercise of the shareholders' rights is a main goal of the Action Plan 2003 on the modernization of company law and corporate governance. In particular, it is necessary to entrench the access in general meetings and the exercise of other rights in relation with these meetings of the shareholders of listed companies regardless of the EU Member State where they live and to resolve special problems induced by the cross-border vote. The aim is to establish an integrated legislative framework for the promotion of actual communication with the shareholders and enhance their role in decision-making processes. In particular, as far as the shareholders' cross-border vote is concerned, this is hindered mainly by the requirement of binding shares before a general meeting, by the hard and delayed access in the information regarding the general meeting and by the complicated nature of the cross-border voting procedure particularly in case of a proxy vote. These obstacles have an important impact on the cross-border vote cost.

With the proposal for a Directive regarding the exercise of voting rights by shareholders of companies with registered office in a Member State the shares of which are admitted to trading on a regulated market and amending Directive 2004/109/EC<sup>12</sup>, is proposed the introduction of minimum standards ensuring the prompt access of shareholders to information regarding general meetings and the simplification of the cross-border voting procedure without requiring the shareholders' presence to these meetings. In particular, this Proposal sets certain main goals that the Member States are called to carry into effecting by taking the necessary measures that will bring on the necessary amendments and adjustments to the respective national legislations. The first goal is the assurance of the prompt convocation of all general meetings and the prompt provision of all the documents submitted to them so that the shareholders may, wherever they live, receive justified decisions and vote in time. The second goal is the annulment of any form of binding shares, which prevents investors from exercising their voting rights, given that it hinders the sale of their shares for several days before any general meeting and the introduction of a recording system as a way of determining a shareholder's right to participate and vote in a general meeting. The third goal is the lifting of all legal obstacles regarding the electronic participation in general meetings and the assurance of the shareholders' right to submit questions, within a cross-border framework, to the administration remotely, by post or electronically. The fourth goal of the proposed regulations is the entrenchment of the capacity of foreign shareholders to exercise their voting rights by providing them with simple voting means without being present in the meeting (proxy vote, vote in absence, collective vote).

#### **2.1.4 Restructuring of the administrative structure of public limited listed companies**

The restructuring of the administrative structure of the public limited listed companies is necessary for ensuring flexibility, enhancing transparency and establishing an appropriate framework for performing an effective control over the management in order to protect the shareholders' and the investors' interests. It is stressed out that, within the EU framework, the right of choosing between two governance systems, i.e. single-tier and binary system<sup>13</sup>, is granted. Particular importance is attached to the explicit delimitation of the competences and the tasks of the directors, who do not participate in the company's daily management, i.e. in the case of the single-tier system, the non-executive directors towards the executive directors, and in the case of the binary system, the members of the supervisory board (supervisory directors) of the company towards the members of the management board (management directors). Indeed, the 2003 Action Plan provides as an element of the modernization of the administrative structure of the listed companies, the introduction of the abovementioned distinction and the enhancement of the role of non executive directors or supervisory directors<sup>14</sup> in the conduct of supervision on executive or management directors. The promotion of this role is particularly important for restoring confidence in the financial market given that the subordination of the administration in an effective and sufficiently independent supervision is a protection means for shareholders' and third parties' interests. With the aim of ensuring that the company's administration is subject to the aforesaid supervision, the administrative and supervisory boards shall be organized in such a way to include a sufficient number of non-executive and supervisory directors who are not involved in the management-administration of the company or its business group and are independent given that they are free from any substantial conflict of interest. In particular, it is necessary and advisable to promote the abovementioned members' supervisory role in three sectors where conflicts of interest in the administration are possible to occur: appointment of directors, salaries of the directors and control. For this purpose it is recommended to form, within the administrative or supervisory board framework, committees of competent persons for appointments, salaries and controls consisting of non-executive or supervisory directors. EU Member States are called, with a Recommendation of the Commission<sup>15</sup>, to take the measures required for the establishment, at national level, of provisions regarding the role of the non-executive and supervisory directors and also regarding the committees of administrative or supervisory boards. The minimum criteria that should govern the composition, the establishment and the role of the aforesaid committees, and particularly, of the audit board under the authorities of which its would be advisable to fall, inter alia, the selection of the external auditor in order to be appointed by

the shareholders, the review of the company's accounting policy, the control and monitoring of the company's internal audit, are all defined in the Recommendation.

### **2.1.5 Redefinition and emphasis on the responsibility of Directors**

A main element that may contribute to the assurance of the company's smooth operation and the effective protection of corporate lenders is the establishment of an appropriate system regarding the responsibility of its directors. The Commission laid emphasis on the need for redefinition and emphasis of this responsibility in 2003 Action Plan. A Proposal for Directive has been already issued, which establishes the collective responsibility of all Directors against the company for the financial and the basic non-financial statements<sup>16</sup>. In particular, Member States must take the appropriate steps in order to set up the collective responsibility of the administration, management and supervision members of a company vis-à-vis the company regarding the preparation and publication of its annual accounts and the management report. A collective responsibility shall also lie on the members of the abovementioned company bodies, which prepare consolidated accounts, regarding the compilation and publication of these accounts. The obligation of Member States to make sure that their legislative, regulatory and administrative provisions regarding responsibility issues are implemented on the members of the aforesaid bodies, but also the obligation to define the rules on the imposed penalties in case of breaching the national provisions, established in application of the proposed directive, and to take the necessary measures for the implementation of these rules, are all provided.

The introduction of the abovementioned provisions on collective responsibility is, at long-term level, the first main element of the EU action to the direction of enhancing the responsibility of directors. In the medium-term, the issue of a Proposal for Directive is provided, the main goals of which are suggested to be firstly the entrenchment of the shareholders' right to represent a certain percentage of share capital, to submit a request to the court or an administrative authority in order to permit the conduct of a special investigation regarding the company's affairs, secondly the establishment of a personal responsibility of the directors who, despite the fact that it was possible to predict the company's failure to fulfill its obligations (to carry on settling its debts), nonetheless they were inactive failing to make any decision in order to restore viability and ensure the payment of its debts or to set it in a winding up status. For this purpose it is recommended to establish the unjustified omission rule according to which the aforesaid directors are deemed personally liable for the consequences of the company's failure to fulfill its obligations. The third goal is the enforcement of the

prohibition to perform a director's duties in the EU as a sanction form in case any director provides misleading financial and non-financial information. The abovementioned upcoming strict regulations regarding the emphasis on the responsibility of management members derive their core from English law (Rokas, 2005: 32).

## **2.2 Establishment of a legal framework for ensuring qualitative financial reporting and entrenchment of a reliable audit system**

The establishment, within the EU framework, of Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of International Accounting Standards<sup>17</sup> also serves the goal of ensuring a high level transparency and the effective and efficient operation of the capital market. Analytically, the application, by listed companies, of uniform and high quality international accounting standards, or otherwise, international financial reporting standards for the preparation of their consolidated financial statements is pursued. It concerns world-wide acceptable standards that are elaborated by the International Accounting Standards Board. The provision of article 1, Regulation No. 1606/2002, determines its central goal which is the adoption and use of international accounting standards within the European Community so that the financial information presented by the companies governed by a Member State's law is harmonized, in order to ensure a high level transparency and comparability of the financial statements, thus, the effective operation of the capital markets of the Community and the internal market. The standard that is adopted and applied must lead to a true and impartial representation of an enterprise's financial statement and performance. The European Commission, assisted by a regulatory committee on accounting issues, makes the decision for the applicability of the international accounting standards (IAS) within the Community. For each fiscal year beginning on 1 January 2005 and onwards, the aforesaid companies prepare their consolidated accounts according to the IAS that are adopted, in case that, on their balance sheet date, their securities are admitted to trading on a regulated market of any Member State. The Commission passed Regulation No. 1725/2003 on the adoption of certain international accounting standards<sup>18</sup> according to Regulation No. 1606/2002. This Regulation was amended by the following Regulations: Regulation (EC) 707/2004 of the Commission of 6 April 2004<sup>19</sup>, Regulation (EC) 2236/2004 of the Commission of 29 December 2004<sup>20</sup>, Regulation (EC) 211/2005 of the Commission of 4 February 2005<sup>21</sup>, Regulation (EC) 1073/2005 of the Commission of 7 July 2005<sup>22</sup>, Regulation (EC) 1751/2005 of the Commission of 25 October 2005, Regulation (EC) 108/2006 of the Commission of

11 January 2006<sup>23</sup>. According to article 134, par. 1 of the Greek codified law 2190/1920, the public limited companies, the shares or other transferable securities of which are listed on a regulated stock market, prepare annual financial statements according to the IAS adopted by the European Commission as provided by the aforesaid Regulation 1606/2002. The abovementioned statements that must be prepared based on the IAS adopted by the Commission, are the ones covering the fiscal years starting after 31 December 2004. Moreover, parent companies prepare annual consolidated financial statements according to the abovementioned IAS.

The Directive on the statutory audit of annual and consolidated accounts and amending Directives 78/660/EEC and 83/349/EC (modernized 8<sup>th</sup> Directive) (Koulouridas/Lanfermann 2004: 871) was adopted for ensuring a reliable audit system as a means for preventing financial scandals and enhancing investors' confidence. In particular, this Directive aims at enhancing the reliability and the validity of companies' financial statements, broadening the scope of the previous 8th Directive 84/253/EEC on the approval of persons responsible for carrying out the statutory audits of accounting documents, clarifying the duties of statutory auditors, as well as their independence and ethics, establishing the requirement for external quality audit and robust public supervision over the audit profession and improving the cooperation between supervisory bodies of the EU. The following are some of the main elements of this legislative intervention:

- establishment of the obligation for registration of statutory auditors and audit offices, which have been approved for carrying out statutory audits, in a public register of each Member State;
- adoption of the rule by virtue of which all statutory auditors and audit offices are subject to the principles of professional ethics covering their overall responsibility towards the public, their integrity and impartiality, as well as the rule according to which the aforesaid auditors and offices must, during the performance of a statutory audit, be independent of the audited entity and not to participate in the decisions made by its management. The Member States must take, at national level, the necessary measures for the observance of the abovementioned rules;
- establishment of the obligation of statutory auditors and audit offices to carry out statutory audits in accordance with the International Standards on Auditing (ISA) elaborated by a private organization, the International Auditing and Assurance Standards Board (IAASB). It is necessary to examine whether international standards on auditing are generally accepted at national level and whether these standards are formed with the appropriate procedures, with public supervision and transparency, whether they attach a high level of

reliability to the annual and consolidated accounts and whether they promote the European public interests in order to be adopted by the European Commission for application in the EU;

- the introduction of a rule according to which statutory auditors and audit offices are subject to an independently organized quality assurance system, given that in order to ensure the steadily high quality of the statutory audit it is required to carry out regularly quality audits;
- the obligation of Member States to create an effective public supervision system for the auditors and the audit offices<sup>24</sup>.

### **3. Creation of European corporate forms**

The reorganization of enterprises' activities, at community level, made necessary the unification of the potential of existing enterprises from various EU Member States, through consolidation. However, the restructuring and cooperation of enterprises from different Member States collided with legal and fiscal obstacles, which were not possible to override satisfactorily, through the approach of the Member States' company law, which was pursued with the adoption of directives. Despite this harmonization, Member States' enterprises, which are subject to different laws, must still choose a corporate form subject to a specific national legislation.

Common, European and uniformly regulated corporate forms, which would serve more evenly and effectively the development of economic and commercial activities in the united Europe (Papayiannis 1997: 100, Favret 2001: 88-89) should be established, as generally accepted, in order to raise the abovementioned restriction. So, supranational business (corporate) forms of European law were created, and in particular the form of European Companies, which is not a substitute of the national public limited companies of the Member States (Rokas, 1996: 19-20) but a corporate form that will contribute to the development of the cross-border cooperation of the enterprises and the business groups, the European Economic Interest Grouping, which was established by Regulation (EEC) 2137/85 of the European Communities Council of 25 July 1985<sup>25</sup> and the European Cooperative Society.

#### **3.1 The legal framework for establishing a European Company**

The European company is not a substitute of the Member States' national public limited companies, but a corporate form the establishment and operation of which is governed by the Community regulation with direct and uniform application in all the Member States and in an auxiliary way by the legislation of each Member State (Panagou and Tsountas 2004: 215-216).

After many disputes and arguments within the Union (Papayiannis 1997: 99-111, 1994: 1448), Regulation (EC) 2157/2001 of the Council of 8 October 2001 on the statute for a European Company (*Societas Europaea* - SE)<sup>26</sup> was adopted. This Regulation, which was supplemented by Council Directive 2001/86/EC supplementing the Statute for a European Company with regard to the involvement of employees (Sinanioti-Maroudi 2004: 698-699), is the minimum necessary legal regulation framework of the European Company given that this new institution of the Community Company Law is also governed by national provisions that the Member States may establish especially for its regulation, and also by the Member States' legislation on public limited companies. In Greece, Law 3412/2005 has been already voted, which establishes the regulation framework for the establishment, operation and management of the European Company<sup>27</sup>.

The European Company has the form of a shareholding (public limited) company and its registered office and headquarters are located in the same Member State of the Community.

The Regulation 2157/2001 provides only the ways of incorporating the European Company and defines the preconditions for its establishment, which is possible to be promoted only by enterprises that plan the reorganization of their activities at community level. These ways, the main element of which is the "the cross-border necessity"<sup>28</sup>, are:

- consolidation of public limited companies of Member States,
- incorporation of a holding company,
- incorporation of an affiliated company,
- conversion of a Member State's public limited company into an SE,
- incorporation of a European Company as an affiliated company of another European Company.

The Regulation also provides the possibility to freely determine in the Statutes for the European Company which management system will be applied, i.e. the single-tier system that includes the general meeting and a single administrative body performing the company's management or the binary system which, in addition to the general meeting, includes, on one hand, a supervisory body, and on the other hand, a management body.

### **3.2 The legal framework for establishing a European Cooperative Society**

The assurance of a level playing field for competition and the promotion of the Community's financial development require, *inter alia*, the establishment of appropriate legal means that will facilitate the cross-border activities of the cooperatives that constitute an acceptable organizational form in the European Community's Member States. In particular, the development of the activities of cooperatives in the Community's entire territory will be possible and the legal and administrative obstacles with which the cross-border cooperation of the cooperatives within the Community collides will be lifted by introducing a European legal form for cooperatives, which is based on common principles but takes into consideration their particular features.

Within the framework of the abovementioned aim, Regulation (EC) 1435/2003 of the Council of 22 July 2003 on the Statute for a European Cooperative Society (SCE)<sup>29</sup> was adopted, having as its main objective to make possible the incorporation of a European Cooperative Society.

#### **3.2.1 Legal Framework for the Incorporation of a European Cooperative Society**

The potential to incorporate, in the European Community's territory, a cooperative society in the form of a European Cooperative Society (SCE) is established; its key objectives are:

- meeting the needs of the members and/or developing their economic and social activities mainly by concluding agreements, with the members, on the provision of goods or services or the performance of tasks that it carries out or assigns their performance;
- meeting the needs of its members by promoting their participation in the economic activities of one or more SCE and/or national cooperatives.

The subscribed capital of the SCE, the minimum limit of which is 30,000 Euros, is represented by the members' shares and each member is responsible up to the amount of the capital it has covered.

The shares, in which the capital is divided, will be held by named persons whereas the statutes determine their nominal value that is the same for each class of shares<sup>30</sup>. It is noted that the capital of a SCE is formed of assets capable of economic assessment. It is forbidden to issue shares in exchange of a promise to perform a work or provide services. Shares issued for cash shall be paid for on the day of the subscription to not less than 25% of their nominal value. The balance shall be paid within five years, unless the statutes provide for a shorter period. Full payment of the value of the shares issued for goods is made on the day of the capital subscription.

In order to establish a SCE, the founder members must draw up the statutes<sup>31</sup> of the SCE in accordance with the provisions for the formation of cooperative societies laid down by the law of the Member State in which the SCE has its registered office.

The SCE statutes shall include provisions regarding:

- the SCE name, preceded or followed by the abbreviation “SCE” and, where appropriate, the word “limited”,
- a statement of the objectives and the address of the registered office. This registered office of the SCE is located within the European Community in the same Member State where its headquarters are located, whereas it is possible to transfer the registered office to another Member State without the dissolution of the SCE or creating a new legal entity,
- the names of the natural persons and the names of the entities which are founder members of the SCE, indicating their objectives and registered offices,
- the conditions and the procedures for the admission, expulsion and resignation of SCE members. The admission of a member must be authorized by an administrative or management board of the company, whereas the loss of membership takes place a) by resigning, b) by being expelled in case a member seriously breaches its obligations or acts adversely to the company, c) by transferring all the shares that a member possesses to another member, person or entity acquiring a membership, on condition that the statutes provide for the possibility of transfer, d) due to dissolution of the legal person or the entity of a member of the company, e) due to the member’s bankruptcy, f) due to death and g) in the cases provided by the statutes or the legislation on cooperative societies of the Member State of the registered office of the SCE,
- the nominal value of the subscribed shares, the amount of the subscribed capital, and an indication that the capital is variable,
- the powers and responsibilities of the members of each of the management organs of the SCE, and also the provisions governing the appointment and removal of the members of these organs,
- the majority and quorum requirements,
- the duration of the existence of the society, where this is of limited duration.

An SCE may be formed as follows:

- by five or more natural persons residing in at least two Member States of the European Community,
- five or more natural persons and firms within the meaning of the second paragraph of Article 48 of the EC Treaty and other legal bodies, governed by

public or private law, formed under the law of a Member State, on condition that, respectively, they are resident in or governed by the law of at least two different Member States of the Community,

- by companies and firms within the meaning of the abovementioned article of the Treaty establishing the European Community, and other legal bodies governed by public or private law formed under the law of a Member State, governed by the law of at least two different Member States of the Community.

Regulation (EC) 1435/2003 makes possible the formation of an SCE with one of the following ways:

- a. By a merger *between cooperatives* formed under the law of a Member State of the Community and registered offices and headquarters within the Community<sup>32</sup>, provided that at least two of them are governed by the law of two different Member States of the EC. The formation of an SCE by merger is possible in accordance with
  - the procedure of merger by acquisition where the cooperative acquiring the other cooperative/-s takes the form of a European cooperative society in parallel with the merger,
  - the procedure of merger by the formation of a new legal person where the new legal person, which is created, takes the form of a European cooperative society.
- b. By *conversion of a cooperative* formed under the law of an EC Member State, which has its registered office and headquarters within the Community, into a European Cooperative Society, provided that, for at least two years, this cooperative has had an establishment or subsidiary governed by the law of another EC Member State.

This conversion does not result in the dissolution of the cooperative or the creation of a new legal person. The elaboration of a conversion plan and a report analyzing the legal and financial aspects of the conversion by the management or administrative board, the disclosure of this plan in accordance with the relative provision of the law of each Member State, the approval of the conversion plan and the statute of the European cooperative society by the cooperative's general meeting, constitute key elements of the conversion procedure.

In any case, a European Cooperative Society acquires a legal personality on the day it is registered, in the Member State in which it has its registered office, in a register designated by the law of that Member State in accordance with the law applicable to public limited-liability companies<sup>33</sup>. It is also provided that a notice of an SCE's registration shall be published for information purposes in the Official Journal of the European Union<sup>34</sup>, after having made public, in accordance with the procedures provided by the laws on public limited-liability companies of the

Member State where the registered office of the SCE is located, documents and particulars concerning this company, that are subject to disclosure formalities, under Regulation 1435/2003.

From the moment an SCE is formed, it is governed by A) Regulation 1435/2003, B) the provisions provided in its statutes, on condition that it is explicitly allowed by the aforesaid Regulation, C) issues not regulated by Regulation 1435/2003 or, issues partly regulated by this Regulation; regarding the aspects not covered by this Regulation, the SCE is governed by C.i.) the legislative provisions established by the EC Member States in order to apply community measures regarding in particular the European Cooperative Societies, C.ii.) the legislative provisions of the Member States applied in a cooperative formed in accordance with the law of the Member State where the SCE registered office is located, C. iii.) the provisions of the statutes under the same conditions required for their application on cooperatives formed in accordance with the law of the Member State where the registered office of the SCE is located.

The principle of non-discrimination is established, by virtue of which every EC Member State treats an SCE the same way as it does for a cooperative formed in accordance with the legislation of the Member State in which it has its registered office.

### **3.2.2 Administrative Structure of the European Cooperative Society**

As in the case of the European Company (SE), Regulation 1435/2003 establishes the possibility of choosing, with a provision of the statute of the European Cooperative Society, its administration system. In particular, a selection between the single-tier system and the binary system can be made.

Within the framework of the single-tier system, the organizational structure of the SCE includes:

- o the *General Meeting* of its members, in which the decision-making power is granted on issues for which it has a special competence according to Regulation 1435/2003 and the legislative provisions of the Member State in which the SCE has its registered office. The general meeting is held at least once per calendar year within a six-month period after the end of each financial year, whereas it can be convened at any time by its management, administrative or supervisory board. The management board must convene the general meeting upon request of the supervisory board. The approval of the annual accounts and the allocation of profits falls under the competences of the meeting held after the end of each financial year. Speaking and voting rights in the general meeting regarding issues of the agenda are conferred to each SCE member. It should be noted that each member of the company has a

vote regardless of the number of the shares it holds. The decisions of the general meeting are made with the majority of the valid votes of the members that are present or represented, since the persons with a voting right may be represented in the meeting by a proxy according to the provisions of the statute. The quorum and majority rules, applied in the general meetings, are provided by the company's statutes.

- o and the *Administrative board* that has the power to manage the SCE and represent it in transactions with third parties and in court proceedings. The general meeting appoints the members of the administrative board which meets, at least every three months, to discuss on the progress of the company's activities and their evolution perspectives.

Within the framework of the binary system, the organizational structure of the SCE includes:

- The *General Meeting*, and
- the *Management Board* that has the power to manage the SCE and represent it in transactions with third parties and in court proceedings. The Supervisory Board appoints the members of the management board, although it is possible a member state to predict or provide the possibility to provide in the statutes that the general meeting will be the competent organ for the appointment of the members of the management board. The parallel participation in the management board and the supervisory board is forbidden.
- the *Supervisory Board* which has the main power to control the management tasks performed by the management board, as well as the power to represent the SCE to the management board or its members in case an argument arises or during the conclusion of contracts. The supervisory board is not allowed to exercise the power of managing the company and represent it to third parties. The General Meeting appoints the members of the supervisory board, which is informed by the management board, at least every three months, on the progress of the company's activities and their evolution perspectives. Besides, as provided the supervisory board can ask the management board to provide it with any information required for the control over the management tasks of the management board.

The Regulation establishes common provisions, i.e. provisions applied both in the binary and the single-tier system. Therefore, the appointment of the members of the SCE boards is done for a period determined in the statutes, which cannot be longer than six years. Its boards may participate as member of a company within the meaning of article 48 of the EC Treaty, unless otherwise provided by the legislation on cooperatives applied in the Member State in which the SCE has its

registered office. Certainly, the powers of the participating company are exercised on this board by a natural person nominated by the company as its representative.

In terms of the power to represent the SCE, it is provided that in case that the exercise by the competent board, and specifically the management (binary system) and the administrative (single-tier system) board, of the power to represent the company before third parties, is assigned to more than one of the aforesaid boards, then these boards exercise this power collectively, unless otherwise provided by the company's statutes according to the law of the state in which the company has its registered office.

The regulation includes provisions relevant to the quorum and the decision-making of the boards of the SCE, which are common for both its abovementioned administration systems. Thus, unless otherwise defined by the regulation or the statutes, at least half of the members with a voting right must be present or represented in the board's meeting for a quorum, whereas the majority of the members with a voting right who are present or represented in the meeting is required for the decision making.

The infringement, on behalf of the members of the boards (management, supervisory or administrative) of the European Cooperative Society, of the legal or statutory obligations relating to their tasks, an infringement resulting in the company's losses, entails liability of the aforesaid members for such losses in accordance with the provisions regarding cooperatives applied in the Member State in which the company has its registered office.

In terms of the liability of the SCE as a legal entity, it should be stressed out that the SCE is liable towards third parties by the acts of its boards even in case these acts do not keep up with its objectives, provided however that, these acts do not exceed the powers assigned to the aforesaid boards by the legislation of the Member State in which the company has its registered office. However, Member States may provide that the company is not liable in case that the acts of the boards go beyond its objective as long as it proves that the third parties involved were aware of this fact or it was impossible, under the circumstances, to ignore it.

### **3.3 Reflections on the development of additional European business forms**

Certain considerations have been raised, at EU level, on the need to create additional European (supranational) legal forms of enterprises. Specifically, at a first stage, the focal point of this reflection is the perspective of establishing a supranational European private company *"based on the standard of the English private limited company"* (Rokas, 2005: 33). By establishing this new legal form, at EU level, it is pursued to mainly serve the needs of Small and Medium-Sided

Enterprises developing their activity in more than one Member States. Therefore, it could be noted that with this way the introduction and institutionalization, in the European Community Company Law, of the form of the small public limited-liability company that has been already institutionalized in the company laws of several Member States<sup>35</sup>. The first step is the elaboration of a feasibility study on the assessment of the specific need for creating a European private company, as well as the issues arising from its formation. Depending on the study results, and as long as the necessity for the creation of the aforesaid European corporate form is confirmed, it is provided to submit a proposal for a statute of the European private company, which is a European statute for Small and Medium-Sized Enterprises in order to facilitate the internationalization of their activities.

The proposals for the creation of statutes of the European Association<sup>36</sup> and the European Mutual Society<sup>37</sup> are already the subject of processes at EU bodies level, whereas particular importance is attached on the perspective of enacting a proposal for a Regulation on the statute of the European Foundation.

#### **4. Concluding Remark**

The aforesaid modifications and the new regulations that are introduced or being introduced in the European Community Company Law, derive their core, principally, by the American company and capital market law. Thus, through the procedure of modernizing the community law it not just sought to adjust it to the new conditions and needs of trading, but in parallel the internationalization of the company law takes place given that pertinent regulations are now internationally applied in many sectors related with their management and operation. The trend of approaching the European Rules governing the management and the operation mainly of the listed companies (corporate governance), to the direction of the rules of the American Law is enhanced by the aim to attract foreign capitals and by the need to apply pertinent rules ensuring transparency, the performance of an effective control and the ascertainment of the responsibility regarding the management of companies in order to limit the capacities of the persons performing the governance to act uncontrollably and thus leading the enterprises to collapse and go bankrupt.

#### **NOTES**

1. The following directives are included: a) Council Directive 68/151/EEC of 9 March 1968 on co-ordination of safeguards, b) Council Directive 77/91/EEC

of 13 December 1976 on the formation of public limited liability companies and the maintenance and alteration of their capital, c) Council Directive 78/855/EEC of 9 October 1978 concerning merges of public limited liability companies within the Member State itself with the legal form of universal succession, d) Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies (Balance sheet Directive), e) Council Directive 82/891/EEC of 17 December 1982 concerning the division of public limited companies, f) Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts (Group Directive), g) Council Directive 84/253/EEC of 10 April 1984 on the approval of persons responsible for carrying out the statutory audits of accounting documents, h) Council Directive 89/666/EEC of 21 December 1989 concerning disclosure requirements in respect of branches opened in a Member States by certain types of company governed by the law of another State, i) Council Directive 89/667/EEC of 21 December 1989 on single-member private limited liability companies.

2. The guidelines of the integrated approach are mainly included in the Commission Communication concerning the EU Financial Reporting Strategy (COM (2000) 359 of 13 June 2000) and in the Action Plan 2003 regarding the modernization of company laws and the enhancement of corporate governance within the EU, Ref. Commission Communication COM (2003), 284 final of 21 May 2003 on Action Plan 2003, Ref. Mouzoulas S., *The EU Action Plan on company law and corporate governance*, EpiskED (Commercial Law Overview) 2004, p. 558 f.
3. In Greece, the corporate governance rules are governed by the Law 3016/2002 (FEK [Greek Government Gazette] 110/A'/17-5-2002), amended by the Law 3091/2002, and recently, by the Law 3340/2005 (FEK 112/A'/10-5-2005) on the capital market protection from insider dealing and market manipulation, as well as by the Law 3371/2005 (FEK 178/A'/14-7-2005). The Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation, as well as part of the Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, were integrated in the Greek legal order with the Law 3340/2005. Ref. Perakis E., (ed.), "The limited company law", Volume 10, *Special Issues: Corporate Governance (Law 3016/2002) Bonds and asset-backed securities*, Nomiki Bibliothiki, 2005.
4. Ref. Action Plan 2003 on modernization of the company law and the corporate governance, as previously.
5. Rokas distinguishes internal governance, which refers to issues on transparency, restructuring and audit of the company management, from the

- external governance, which refers to capital market rules and the issue of the purchase of an enterprise's audit, Ref. Rokas N., *The internationalization of the limited company law*, EEmpD (Commercial Law Review) 2005, pages 17-35, 25.
6. OJ L 142 of 30 April 2004, p. 12-23. This Directive was integrated in the Greek legal order by virtue of Law 3461/2006, the provisions of which form a new framework for making public offers for the acquisition of listed companies.
  7. The coordination measures concern the legislative, regulatory and administrative provisions, the codes of practice and other regulations and arrangements of the Member States and organizations officially authorized to set rules on the market operation.
  8. The public takeover bids for securities issued by the Member States' central banks and by companies the activities of which are collective investment of capitals coming from the public and their operation is based on the principle of risk sharing are excluded from the Directive's scope.
  9. The term "fair price" means the abovementioned price paid for the same securities by the bidder for a period the duration of which is determined by the Member States and cannot be shorter than six months and longer than twelve months before the bid.
  10. In case the company's administrative structure is organized based on the binary system, as board is understood both the board of directors and the supervisory board.
  11. OJ L 390 31-12-2004, p. 38.
  12. COM (2005) 685, 5-1-2006.
  13. Ref. p. 19.
  14. Law 3016/2002 provides the introduction of a distinction between executive members of the board of directors dealing with daily issues of the company's administration-management and non executive members, Ref. Tellis N. "Executive and non-executive members" in the Board of Directors of the public limited listed company, EpiskED (Commercial Law Overview) 2004, p. 5. Athanasiou L., *Introducing non-executive members in the Board of Directors of the public limited listed company Obligations and responsibility*, EEmpD (Commercial Law Review) 2003, p. 288.
  15. Ref. Commission Recommendation 2005/162/EC of 15 February 2005 on the role of non-executive and supervisory directors of listed companies and on the committees of administrative or supervisory board, OJ L 052, 25-2-2005, p. 51-63.

16. Ref. Proposal for Directive of the European Parliament and of the Council amending Directive 78/660/EEC and Directive 83/349/EEC, COM (2004) 725, 27-10-2004.
17. Ref. OJ L 243 of 11 September 2002, p. 1-4 Also Matsos, The introduction of the International Accounting Standards as a measure for better transparency and information, recommendation in the 13th Commercial Law Conference, 2004, p. 462.
18. Ref. OJ L 261 of 13 October 2003, p. 1-420.
19. Ref. OJ L 111 of 17 April 2004, p. 3-17.
20. Ref. OJ L 392 of 31 December 2004, p. 1-3.
21. Ref. OJ L 041, 11 February 2005, p. 1-3.
22. Ref. OJ L 175, 8 July 2005, p. 3-7.
23. OJ L 024, 27 January 2006, p. 1-3.
24. In order to carry into effect the goals of the modernized 8<sup>th</sup> Directive, the Decision 2005/909/EC of the Commission of 14 December 2005 setting up a group of experts, called “European Group of Auditors’ Supervision Bodies”, to advise the Commission and facilitate the cooperation between public supervision systems for statutory auditors and audit firms, was adopted.
25. OJ L 199 of 31 July 1985. Regarding the particularities of the European Economic Interest Grouping (EEIG) Ref. Bernitsas, The European Economic Interest Grouping, DEET 1985, p. 10, Pitsirikos I., The European Economic Interest Grouping (EEIG) as a supranational civil company, EEmpD (Commercial Law Review) 2005, p. 254-290, Rokas N., Commercial Companies, 1996, p. 28-29, Papayiannis, The law of European and international trade in conditions of globally heightened competition, Armen. 8/1996, p. 1044, Skouloudis, The European Economic Interest Groupings nowadays in Greece, NoB (Nomiko Vima) 1990, p. 277. Papayiannis, Public Limited Company Law, 1997, p. 92. The EEIG is a civil company of legal personality, including elements of an unlimited company (personal) (Papayiannis, as previously, p. 92). The Business Group distinguishes from the company, given that its objective is to facilitate or develop the financial activity of its members and not to make its own profits. Its activity must be connected with the financial activity of its members and to have just an auxiliary character in relation to this activity. The Business Group is not allowed “to be promoter or self-employed” (Rokas N., as previously, 1996, p. 29).
26. Ref. review of Regulation No. 2157/2001 by Perakis, The Regulation No. 2157/2001 on the European Company (Societas Europaea) – The doubtful

solution of an old problem, DEE, p. 493.

27. FEK 276 A' / 4-11-2005.
28. Sinanioti-Maroudi, as previously, p. 704. As noted, this element “serves the delimitation of the SE by the clearly national corporate forms...”, p. 704.
29. OJ L 207, 18-8-2003, p. 1-24.
30. The shares of the members are expressed in national currency, whereas in case the registered office of the SCE is out of the euro zone, then the shares may also be expressed in Euros.
31. It is clarified that the term ‘statutes’ also covers the memorandum of association, and in case it is a separate act, the SCE statutes itself.
32. For details on the procedure and the results of the merger between cooperatives Ref. articles 19-34 of Regulation 1435/2003.
33. A requirement for this registration is to have concluded agreements on the regulations regarding the involvement of employees in the European Cooperative Society or to have made a decision in accordance with the Directive 2003/72/EC (Ref. OJ L 207, 18 August 2003, p. 25), the provisions of which are an indissociable complement to the Regulation 1435/2003 and must be applied concomitantly. If acts are made on behalf of the SCE before the registration, according to the aforesaid, and if this company does not assume, after the registration, the responsibilities arising from such acts, then the natural persons or other legal entities which have performed these acts are jointly and severally liable, unless otherwise agreed.
34. The notice in the Official Journal of the European Union includes the name, the number, the registration date and place of the SCE, the date, the place and the title of the publication, as well as the registered office and the activity sector of this company.
35. The establishment of the simplified public limited-liability company (*societe par actions simplifiee*) in the French company law could be mentioned as an example.
36. Ref. amended proposal for a Council Regulation on the statute for a European Association, EU C 236, 1993, p. 1.
37. Ref. amended proposal for a Council Regulation on the statute for a European Mutual Society, EU C 236, 1993, p. 40.

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