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**THE RISE AND THE FALL OF THE GREEK ECONOMY DURING THE  
1950-2017 PERIOD AND THE ISSUE OF TOURISM - SOME LESSONS FOR  
MODERN ECONOMIES**

**УСПОН И ПАД ГРЧКЕ ЕКОНОМИЈЕ У ПЕРИОДУ ОД 1950. ДО 2017. ГОДИНЕ  
И ПИТАЊЕ ТУРИЗМА - ЛЕКЦИЈЕ ЗА САВРЕМЕНЕ ЕКОНОМИЈЕ**

**Summary:** *This paper analyses in brief Greek economy during the 1950-2017 period. The paper analyses the reasons that lead to the economic development (1950-1980) and the reasons that were responsible for the period of economic and systemic inconsistencies which followed, that lead, at first, to economic stagnation, then to the deterioration of the macroeconomic figures of the Greek economy during the 1981-2009, and finally, to the era of the memoranda (2010-17), which is related to the current deep economic recession that the Greek society faces. Then the paper analyses the main economic characteristics of tourism in Greece and explains why tourism is an important aspect of the Greek economy and why it can play a significant role as regards to the recovery of the Greek economy since 2010 and afterwards.*

**Keywords:** *Greek economy, Greek tourism, tourism and economic development*

**JEL classification:** *I15, O11, Z30*

**Резиме:** *Овај рад укратко анализира грчку економију у периоду од 1950. до 2017. године. Рад проучава разлоге који су довели до економског развоја (1950 – 1980) и узрочнике који су довели до периода економске и системске инконзистенције као и до институционалних неуспјеха који су најприје изазвали економску стагнацију, затим и детериорацију макроекономских бројки грчке привреде у периоду од 1981. до 2017, те напоследјетку и еру меморандума (2010 – 2017) која је повезана са тренутном дубоком економском рецесијом са којом се грчко друштво суочава. Рад такође анализира и економске одлике грчког туризма и објашњава зашто је туризам важан дио грчке привреде и зашто игра значајну улогу у процесу опоравка грчке економије од 2010. па надаље.*

**Кључне ријечи:** *грчка економија, грчки туризам, туризам и економски развој*

**ЈЕЛ класификација:** *I15, O11, Z30*

## 1. INTRODUCTION

Tourism in recent years has served to shore up the Greek economy against the recession that started in 2010 as a means of reducing unemployment. Moreover, the tourism sector is one of the few areas to draw the interest of investors and as a result of its significance, it could function as a key driver of growth in Greece. Due to the dispersion of tourist destinations across Greece, tourism plays a significant role in the national income in many of the country's regions. On the other hand, tourism is intensely seasonal (it is highly related to summer vacations).

The main purpose of this paper is twofold: it first analyses in brief the reasons that lay behind the systemic inconsistencies and institutional failures that lead at first, to economic stagnation and to the deterioration of the macroeconomic figures of the Greek economy during the 1981-2017 period. Then the paper explains why tourism is an important aspect of the Greek economy and provides proposals as to why tourism can contribute on Greece's GDP in the long run.

## 2. THE GREEK ECONOMY AT A GLANCE DURING THE 1981-2017 ERA

From the 50's till the mid-70's Greece achieved a high GDP growth rates for an extended period of time which was accompanied by low unemployment rates and a low public debt. The Greek economy grew by an average of 7.7%, being second in the world only to West Germany and Japan. Exports of goods and services grew at the much higher average rate of 12.6. Industrial production grew annually by 10% for several years, mostly in the 1960s (see among others, Leontidou 1990: 125; Maddison 1995; Frucht 2004; Singh 2010: 651).

In the mid '70s, agriculture accounted for 18% of GDP, while industry accounted for about 30% (Arvanitopoulos and Botsiou 2010: 110). According to Kalyvas (2015: 88) this should be attributed to “*a combination of hard work, shrewd exploitation of market opportunities, and rigorous saving for the future*”. The Greek governments developmental projects started in the 1950's were based on free-market economy principles. And although there was never an organized industrial policy by the Greek post-WWII and Civil War (1944-1949) governments, due to the ingenious inventiveness of the Greek people, many companies that produced a plethora of Greek-made products unveiled and flourished.<sup>1</sup>

Greece benefited from foreign direct investments (FDI), a significant contribution on GDP through the chemical industry, exports of agricultural and industrial products in Asian, African countries and the European markets, and also, due to the development of tourism and the services (tertiary sector), as well as massive construction activity, connected with huge infrastructure projects (such as the electrification in all over the country since 1950's) and the rebuilding of the Greek cities (after the catastrophes in the national economic infrastructure that followed WWII and the Civil War). For instance, in 1970 Greek economy achieved an 8% growth in real GDP per year and Public Debt was only 17% of the GDP. Geopolitically, Greece was the only European oriented NATO member, and military powerful state in the wider area of the Balkans during the Cold War era. Having all these data being taken into account, Greece met all the basic prerequisites to become the 10th member of the European Economic Community (EEC) in 1981. This era is considered as the “Hellenic economic miracle period” (see the references above).

In general, Greeks, being themselves a nation which by nature is receptive to cooperation and adoption of new ideas, followed a twofold path: On the one hand, respect for their national values, customs and principles, and on the other hand, adopting many productive global trends in a variety of social aspects, from entrepreneurship to music and clothing. In retrospect, one can argue that this mentality proved to have been highly effective. There was an era of optimism in almost all the society, an optimism that hard work will guarantee a better future for them and the younger generations.<sup>2</sup> Greece proved to have been an industrious and hard-working nation who managed to rebuild its economy almost out from the scratch<sup>3</sup>, after the obliteration of its economic/industrial infrastructure during the Second World War. Thus, there were many researchers and independent thinkers, who were arguing that if Greece continued in such a way and under such growth rates in the long run, it would have evolved into a state that it could be described as the “Switzerland of the South”, meaning a state with robust free market economy institutions and very good macroeconomic figures,

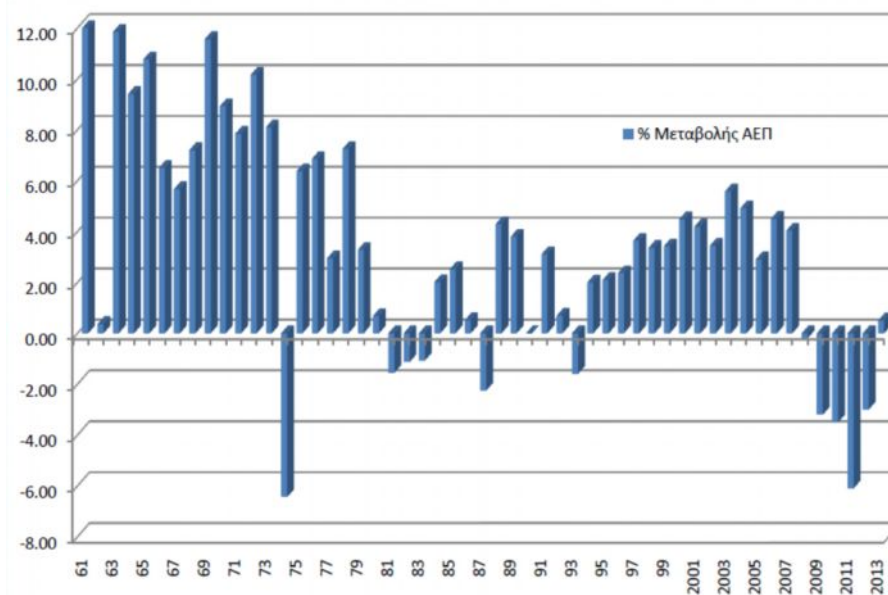
<sup>1</sup> For all these issues, one can read Bitros (2015).

<sup>2</sup> In contrast to know (2018) where according to a recent Eurobarometer survey, the Greeks are the less optimist people in the EU due to austerity measures and other issues. See <http://greece.greekreporter.com/2017/08/03/eurobarometer-greeks-not-optimistic-about-eu/>

<sup>3</sup> A significant amount of money came to Greece after 1945 through the Marshall Plan in Europe from the USA. However, the contribution of those money transfers to the rebuilt of national economy was not as significant as it is believed (Close 2014, 56). Furthermore, a large portion of this amount of money was spent for military purposes by the official state authorities during the Greek Civil War (1944-1949) against the communist rebels that they were supported with supplies and ammunition by Tito's Yugoslavia till the last year of the war (1949).

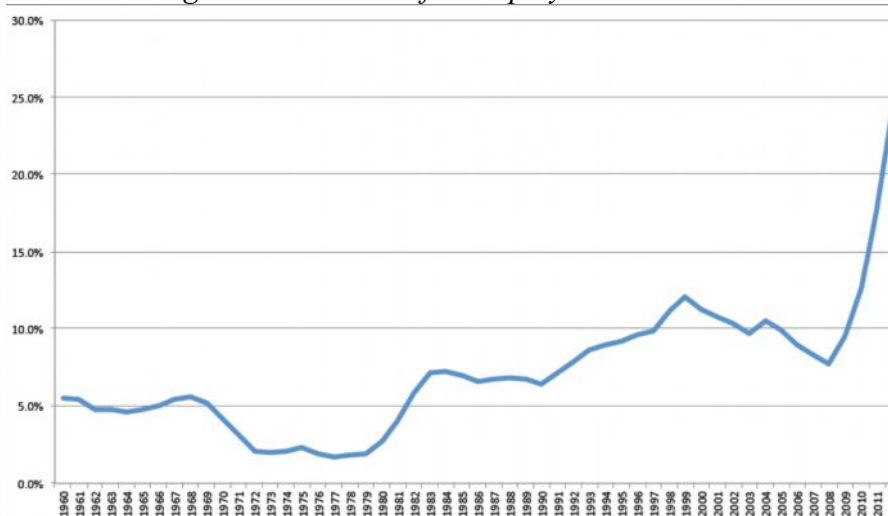
that safeguards affluence and prosperity to its constituents. The following diagrams 1 and 2 provide evidence concerning two of the basic macroeconomic figures of Greece, GDP growth rates during the 1961-2013 period and the rate of unemployment during 1961-2012.<sup>4</sup>

*Diagram 1. Greece's GDP growth rates during the 1961-2013 period*



Source: Economou and Kyriazis 2016

*Diagram 2. The rate of unemployment since 1961 to 2012*



Source: OECD 2013

However, after 1981, things changed significantly. An unprecedented obsession with *statism*<sup>5</sup> doctrines prevailed, which seriously undermined the dynamics of critical sectors of industry and the economy as whole. During the 1980-2010 period the economic situation changed significantly: Political parties tried to satisfy the demands of their political clients:

i) by increasing wages in both the private and the public sector and by performing excessive appointments of civil servants in the public sector (characterized by very poor

<sup>4</sup> We could provide further graphs concerning more macroeconomic data (industrial sector, inflation, FDI's, Public Revenues vs Public Expenses, GDP etc.), but this exceeds the main purpose of this paper.

<sup>5</sup> In political science, *statism* is the belief that the state should control either economic or social policy, or both, to a large degree.

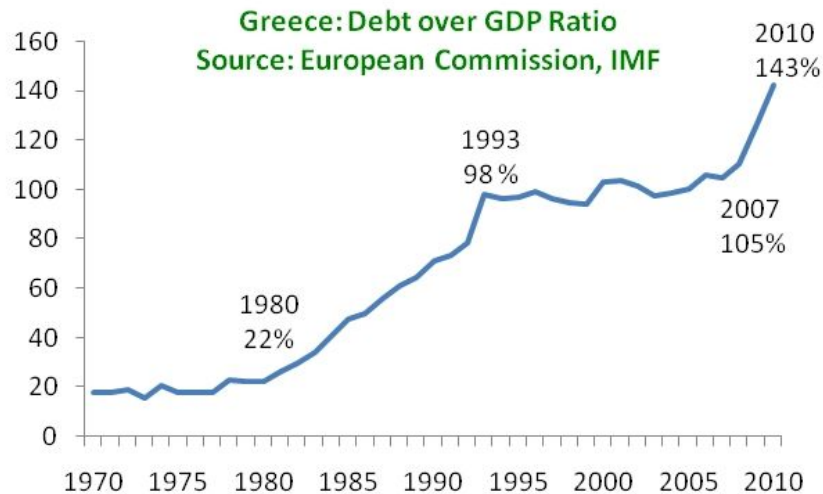
efficiency) ii) by the excessive rise of taxation to private companies iii) by a parasitic shape of (leftist oriented) trade unions. In most of the cases, syndicate actions linked to opportunistic behaviour by their leaders took place (many strikes etc.). iv) Simultaneously, there was a harsh competition by some industrial giants from the other EEC countries. Thus, the Greek industrial base was under a process of gradual disorganization and loss of competitiveness. v) Many high-ranking government political officials were gradually engaged with corruption scandals of great magnitude, as far as public sector procurement is concerned<sup>6</sup> vi) Gradually a large portion of Greeks started to adopt a corruptive mentality of excessive and irrational consumption instead of investment and savings, in contrast to what was happening before.

*Statism* was highly connected with corruption scandals and the appointment of a massive number of low-productivity civil servants in the public sector, who were necessary and who actually were political clients of the major political parties in Greece during 1974-2010. Simultaneously, many key sectors such as shipyards, military industry (such as, the Hellenic Vehicles Industry), chemical industry, were publicized. Others, such as sugar industry, automobile industry, textile industry etc., all being companies with a great contribution to the state's GDP, were driven into closure or alternatively, operating between the fringes of deterioration and impoverishment (high operational costs, low or even negative profits) due to the fact that they suffered the government's unfair/excessive taxation, the mismanagement of state industrial policies and laws, the corrosive role of politicized workers syndicates against entrepreneurship (very often strikes that led companies to disorganization and loss of profit and competitiveness) in an era that the country had already entered in 1981, in a highly competitive common market area, that of the EEC, the forerunner of today's EU.

Many export-oriented world-wide Greek renowned companies such as the LARCO (metallurgical and steel industry), Piraiki-Patraiki (cotton industry), MINION (a famous multi-store), ESKIMO, IZOLA, Elinda (kitchens, washers, refrigerators, water heaters, etc.), CHROPEI (chemical industry), TEOKAR-NISSAN, OPEL-COMMERCIAL CAR and NAMCO with the production of the famous so-called *pony*-series of cars and other vehicles (automobile industry), the Chalcidice and Phocis phosphate fertilizers companies, plastic materials in Kavala, the state-owned Olympic Airways (the famous national ex-private airline company created by the famous Greek tycoon Aristotle Onassis), KERANIS and Matsaggos (cigarettes industries), etc., either closed or working under serious survival problems. The list of de-industrialisation is sadly so large to be described here. In addition, "physical" state monopolies that till early 80's were highly profitable such as railways, electricity and other states businesses of general interest etc., were finally degenerated (due to high corruption and being excessively staffed by low-productivity public servants) into harmful, negative-profit vehicles. According to G. Bitros (2015), this was a corrosive economic period of a "*socialmania*".<sup>7</sup> Finally, since during 1980's and 1990's the annual Greek public revenues were less than the public expenses, for almost every year, this led to the gradual rise of the public debt, to exorbitant levels (diagram 3).

<sup>6</sup> A very characteristic example, of how the Greek political elite is responsible for the deterioration of the Greek public debt during the whole 1974-2017 period, is the so-called Siemens scandal, a case involving the bribery of Greek politicians and executives of public organizations such as OTE (the state telecommunication's company), from the German company Siemens, related to contracts for the supply of equipment, services and systems to the Greek State in exorbitant and excessive prices.

<sup>7</sup> Meaning actually, a "mania" for socialist economic policies of central planning economy, which, in the end, ravaged the Greek economy.

*Diagram 3. The evolution of the Greek Public Debt for the 1970-2010 period*

Source: Greek Default Watch 2017

Characteristically, in 1981 Greece's Public Debt was only 22% of GDP (Fotopoulos 1992; Alogoskoufis 2013), while nowadays (2018) it is approximately 185% of GDP (Economou and Kyriazis 2016). This performance is, to the best of our knowledge, one of the worst ever achieved by a country worldwide. Net exports became negative, which proved that the competitiveness of the economy was gradually declining year by year. Before the crash of the Greek economy in 2010, the Greek statistical service "cooked" public deficit and debt statistics and, surprisingly, the European Statistical Office accepted them as correct. In 2010, the newly-elected socialist government discovered that the actual situation was different. The public deficit, as stated by the previous government as being about 3-4% of GDP, was actually about 14%. The situation was out of control and the government had to ask the European Monetary Union (EMU) for financial help. It was a totally unforeseen situation and the EMU had no instrument to face a debt crisis of one of its members.

Then the story is more or less well-known: The Greek government authorities signed three consecutive memoranda agreements with the so-called "EU institutions" and the IMF in 2010, 2012 and 2015 through which Greece borrowed a huge amount of money (more than 300 billion euros) in order to repay its previous debts to its foreign creditors. Greece's problem was twofold: excessive public debt and a trade balance deficit, due to the lack of competitiveness of the Greek economy (Kyriazis and Economou 2016). Tax evasion is another serious problem (Pappadà and Zylberberg 2014) which till recently, was estimated as even higher than 30% of the overall GDP.

### **3. THE ISSUE OF TOURISM AND ITS IMPORTANCE FOR THE EVOLUTION OF THE GREEK ECONOMY**

Tourism affects many sectors of the Greek economy, such as transport (e.g. travel by airplane and transfer by bus), accommodation (in hotel or elsewhere), dining (in restaurants or bars inside or outside the accommodation establishment), entertainment (including visits to sites) and consumption in stores. Since the 1950s, the tourism sector saw an unprecedented boost as arrivals went from 33,000 in 1950 to 11.4 million in 1994. In 2015, Greece welcomed almost 23.6 million tourists from abroad and received nearly 13.7 billion euros. Of these, 63.0% arrived by air – which has traditionally been the main mode used by foreign tourists travelling to Greece, 34.0% by road and 3.0% by sea, while the percentage of tourists choosing to travel to Greece by train is negligible. Table 1 shows the monthly tourist flows (how many tourists came for each month) and the revenues they created for 2015. In 2015, for

the third consecutive year, inbound tourism showed an increase in arrivals (+7.1%) and revenues (+5.2%) since the previous year, 2014 (SETE 2017).

Greece has attracted 30 million visitors in 2016, making it one of the most visited countries in Europe and the world and contributing 18% to the nation's Gross Domestic Product, with its capital city Athens, as well as Santorini, Mykonos, Rhodes, Corfu, Crete and Chalcidice being some of the country's major tourist destinations. In recent years, Greece has also promoted the religious tourism and pilgrimages to regions with a significant historical religious presence, such as the monasteries in Meteora and Mount Athos, in cooperation with other countries. The World Travel & Tourism Council estimated that revenues from tourism in 2017 would be analogous to 20% of the country's GDP. According to this estimation, one in five jobs created in Greece is related to the tourism sector. Thus, tourism is essential to Greece's effort for recovery and prosperity. Every 30 or more tourists visiting Greece, creates one new job for a Greek (Forbes 2017)

*Table 1. Number of tourists and revenues (in euros) in 2015*

<b>Inbound tourism 2015</b>				
<b>Month</b>	<b>Arrivals</b>	<b>% of the total</b>	<b>Revenues</b>	<b>% of the total</b>
Jan	606,140	3%	166,937,970	1%
Febr	509,189	2%	141,507,500	1%
Mar	613,092	3%	197,814,000	1%
Apr	934,237	4%	453,183,000	3%
May	1,870,170	8%	1,179,652,000	9%
Jun	3,032,870	13%	1,897,000,000	14%
Jul	4,408,555	19%	2,894,184,500	21%
Aug	4,993,465	21%	3,367,216,520	25%
Sept	3,649,700	15%	2,123,788,000	16%
Oct	1,852,679	8%	834,666,500	6%
Nov	641,459	3%	227,560,000	2%
Dec	487,900	2%	202,557,000	1%
<b>Total</b>	<b>23,599,456</b>	<b>100%</b>	<b>13,686,066,990</b>	<b>100%</b>
<b>Means of traveling</b>				
Air	14,981,102	63%		
Road	7,980,854	34%		
Rail	5,339	0%		
By sea	632,161	3%		

Source: SETE Intelligence based on data form ELSTAT

*Table 2. Number of tourists in 2015*

<b>Rank</b>	<b>Country</b>	<b>Number</b>
1	FYROM	3,023,059
2	Germany	2,810,350
3	United Kingdom	2,397,169
4	Bulgaria	1,900,642
5	France	1,522,100
6	Italy	1,355,327
7	Turkey	1,153,046
8	Poland	754,402
9	United States	750,250
10	Serbia	727,831

Source: ELSTAT Hellenic Statistic Authority 2016; Statistics 2017

However, as regards the domestic tourism, due to the Greek economic crisis period domestic tourism declined. During the economic crisis period, domestic tourism decreased by approximately 67.0%, a very high negative outcome. Between 2008 and 2015, as a result of the recession: i) the number of journeys with at least 4 overnight stays dropped by -50.7%, ii) the spend per trip dropped by -32.0% iii) as a result, the total expenditure decreased by -66.5%. For journeys with at least 1 overnight stay, it appears that: i) the number of journeys dropped by -9.3% ii) the spend per trip journey increased by +3.1% iii) while the total expenditure decreased by -6.5%. The above data are shown on table 3.

Table 3. Domestic tourism trips (Greek tourists)

<b>Trips with at least 4 overnights</b>				
	2008	2014	2015	Difference between 2008 to 2015
Trips	6,831,852	3,743,868	3,368,957	-50,7%
Expenditure (in euros)	3,159,801,317	1,137,771,331	1,059,551,179	-66,5%
Spend per trip (in euros)	463	304	315	-32%
<b>Trips with at least 1 overnight</b>				
	2008	2014	2015	Difference between 2014 to 2015
Trips	-	5,340,163	4,841,525	-9,3%
Expenditure (in euros)	-	1,352,466,146	1,264,125,934	-6,5%
Spend per trip (in euros)	-	253	261	3,1%

Source: SETE Intelligence based on data form ELSTAT (Hellenic Statistical Authority)

Table 4 is based on a recent research held by the Centre of Planning and Economic Research (KEPE) and the Foundation for Economic and Industrial Research (IOBE) which attempted to evaluate the positive side-effects of tourism on a series of other sectors of the economy by using multipliers. This research found that the resulting tourism multiplier for the Greek tourism economy amounts to 2.65, which means that for every 1.0 euro from tourism activity, an additional 1.65 euro is generated from indirect and induced economic activity, and therefore the GDP increases by 2.65 euros in total. (SETE 2017).

Table 4. The multiplier effects of tourism in other sectors of the Greek economy

	<b>Distribution of tourist revenues (%)</b>	<b>Multiplier</b>
Accommodation	45.3%	2.50
Food services	18%	2.50
Maritime transport	9%	2.41
Road transport	7.1	3.25
Air transport	5.4	2.98
Retail trade	4.9	3.69
Entertainment	3.8	1.90
Travel agencies	3.7	3.68
Car rental	1.8	1.39
Conferences	1.0	4.13
Weighted average		2.65

Source: SETE Intelligence based on data form KEPE, IOBE.

Finally, although tourism is one of the few economic activities in current Greece that are in a development process, something must also be said about some inconsistencies that are related to state's inability and mismanagement to further proceed with the privatization of some very important state resorts, such as Asteras Vouliagmenis, a large tourist resort near

Athens, delayed excessively due to recourse to the courts for environmental reasons, and the same has happened with a big development project on Crete, belonging to the Toplou monastery. Investment projects by the Emir of Qatar, al Thani, (father of the actual reigning monarch) in the Ionian Islands have been held up also and finally collapsed due to pending court decisions because the use of land is not clear. Furthermore, the Afantou golf course in Rhodes has been delayed because, after the signing of the privatization contract, the Archaeological Directorate of the island discovered some ancient remains.

The state must be more flexible in two basic ways concerning tourism: at first to face bureaucracy and then, to become friendly on FDI's on tourism from abroad instead of discouraging possible investors as the above cases denote. A characteristic example of bureaucracy is the following: On May 2016 when the President of Russia visited Greece, he agreed with the Greek authorities to further work on a closer cooperation concerning tourism. Till that time the Greek authorities proved to have been inflexible since the major problem with the Russian tourists who wanted to travel to Greece for vacation but they could not, was that they could not travel easily to Greece, due to VISA issues/problems etc. The Greek authorities should have been more flexible on solving such problems in advance. They should have taken the initiative to tackle with this problem in advance instead of waiting, losing critical time and revenues from tourism.

#### **4. CONCLUSIONS**

The recent economic history of Greece (1950-2017) is divided into two main periods: The one (1950-1980), which is related to economic development, growth, investment and savings, industrialization, agricultural autarky, low unemployment and very low public debt, and the other (1981-2017) which is related to negative growth rates, de-industrialization, the loss of the dynamics of the Greek agriculture and autarky in agricultural products, irrational consumption, and the significant deterioration of the country's macroeconomic figures, with that of the Public Debt being the worst of all. Tourism can significantly contribute to changing of Greece's economic fate in the future. However, further steps are needed towards improving Greece's touristic installations, and towards less bureaucracy by the authorities. These two main issues, if tackled accordingly, will increase further the part of Greece's GDP that derives from tourism, thus providing further future opportunities for helping the country to escape from a vicious cycle of recession.



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