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***Retail firms overcome financial crisis in postwar Greece (1958-1988):
techniques and personal strategies.***

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For a long period of time up to the mid-seventies Greece displayed impressive increases in all the macroeconomic indicators. Between 1954 and 1974 the growth rate exceeded 7% while inflation was kept down to 4%. This trend was impressively reversed during the next twenty years since the GDP increase rate did not exceed 2% while inflation rocketed to 18%.

Thus it can be said that there are two distinct periods, two different “phases” in the Greek economy’s course: the first between 1954 and 1974 and the second between 1975 and 1993. In this paper we reduce the periods under study on the criterion of the available official censuses. The last census that can be “comparable” with the other censuses was conducted in 1998.¹

The common characteristic of both periods 1954-1974, 1975-1988 was a significant increase of consumer expenses. In the commerce sector and especially in retail commerce there was a significant increase of the number of enterprises as well as of the number of employed persons.

However, it was a growth which was up to a great point independent from bank financing. For quite a long period the commerce sector was considered “parasitical”, or

¹ The latest census was conducted by the National Statistics Service of Greek (ESYE) in 1988. Before that census of industry, commerce and small & medium industries were conducted almost every decade: 1958, 1969, 1978, 1988. Aiming at guaranteeing the comparability between national and community statistics, Eurostat has promoted the *Nace* regulation concerning the drawing up of a common statistical classification of economic activities in the European Union. However, data after 1994 are not comparable with those of 1998 which was valid for older censuses. The data were gathered with a new method: for the census of 1988 we used the “door-to-door method” whereas in the *Nace*-1994 record the data were derived by the businesses’ own statements.

“counter-productive”. As a consequence the retail commerce had been excluded from capital financing by the banks. Nevertheless, it looks like that during the second period 1975-1988 the sector not only displayed endurance but, on the contrary, it might have been the only sector that displayed positive growth rates.

What particular business strategies did the retail sector adopt to overcome financial crisis? Where did they find the necessary capital funds that allowed them not only to survive but also to display a significant growth?

Greek retail firms used two basic business strategies: vertical integration-networking of production and direct selling as well as extended use and practice of “postdated cheques”, a peculiar form of payment. Postdated cheques provided retail commerce with the required liquidity while the combination of production and trade under the same firm secured satisfactory profits for further growth.

A common characteristic of both periods was the significant increase in consumer expenditure. In the commerce sector and in particular in retail commerce a significant increase in the numbers of both enterprises and employed persons. Moreover, during the tough twenty-year period (1974-1985) retail commerce not only had endurance, but, instead it has been the only sector to display positive growth rates.

What kind of particular business strategies did the merchants adopt? Where did they find the necessary capital funds that allowed them not only to survive but also to increase significantly?

The Greek merchants used two basic business strategies: vertical integration-networking of production and direct selling as well as extended and peculiar use of the practice of “postdated cheques”. Postdated cheques provided commerce with the required liquidity while the combination of production and trade under the same firm secured satisfactory profits for further growth.

1. The main characteristics of the Greek Economy and the particular status of retail commerce.

From the post WWII period up to the mid nineteen seventies Greece was classified in the rapidly developing economies with high GDP growth rates and low inflation rates. During this entire period, the drachma/US\$ parity remained stable (1\$=30 drachmas). Indicatively we remind that between 1962 and 1965 direct foreign investments make up about 25% of gross investments in manufacturing, which had been heavily reduced since the mid nineteen seventies. Expanded construction activities were recorded between 1967 and 1973 as well as increased industrial production and tourist sector activities (during this period loans to tourist hotels and premises).

1974 and 1993, which at the global level coincides with the two great oil crises, in general, has the following characteristics: Rise of the inflation rate from 4.3% to 26.9% between 1972 and 1974 cancelling any stabilizing attempt; crisis of the US dollar in 1971 which led also to the devaluation of the Greek drachma which was connected to it; (see Kazakos). In the early 1980s the stagflation phenomenon became a big problem leading to negative growth rates and huge fiscal deficits.

-Investment activity in housing (33% 1972, 13% 1973, -33% 1974), reduction of investments in agriculture -26%, mining and transport by-36%.

-Excessively high interest rates.

Table-2

Year	GDP rate (%)	Inflation rate (%)	Unemployment	Balance	GDP per capita (\$)
1973	8,1	15,5	2	-2,1	2.146
1974	-6,4	26,9	2,1	-0,5	2.419
1975	6,4	13,4	2,3	-0,5	2.703
1976	6,9	13,3	1,9	-0,5	2.909
1977	2,9	12,2	1,7	-0,4	3.327
1978	7,2	12,5	1,9	-0,2	1.019
1979	3,3	19	1,9	0,8	1.881
1980	0,7	24,9	2,7	0,6	5.030
1981	-1,6	24,5	4	1,7	4.575
1982	-1,1%	21,1%	5,6%	-1,8%	4.741
1983	-1,1	20,2	7,9	-2,8	4.262
1984	2,0	18,5	8,1	-2,5	4.121
1985	2,5	19,3	7,8	-4,5	4.095
1986	0,5	23,0	7,4	-3,6	4.798
1987	-2,3	16,5	7,4	-0,8	5.576
1988	4,3	13,5	7,7	-1,8	6.459

Source: Ministry of National Economy

However, at the same time and especially as of 1981 the incomes of salaried employees were almost doubled due to the implementation by the socialist government, albeit partly, of the Automatic Wage Indexation, a factor which, despite its impact on the cost of production, promoted domestic consumption.

The main characteristic of the 1970-1981 period was the gradual reduction of the agricultural sector's in the total product, while manufacturing and energy sectors gained significant ground despite the fact that the latter's GDP share is low. The services' sector, mainly commerce and the Public sector had a share of more than 50% of GDP. Last, rises were recorded in the banking, insurance, "other services" sectors.

During the 1970s manufacturing contributed by an average of about 23% to the gross added value of the whole economy. This share was reduced significantly during the following years (on average 21% during the period 1982-1998). The tertiary sector became the most significant sector of the country's economic activity having a constantly widening share of participation in the total gross production value. The tertiary sector is the biggest employer of the economy since during the decade 1970-1981 the share of employment was about 36% of the whole and during the period 1982-1998 it was 53.3%.

During the entire nineteen eighties both the share of Manufacturing in GDP and the number of big corporations. Nevertheless the real domestic consumption increased from 25.8% (1978-1989) to 41.3% in 1989 and it appears that the commercial businesses took full advantage of this increase.

Greek entrepreneurship in the commerce sector was based on small-sized companies which covered a significant range of activities and had always the lion's share in terms of employment. Even nowadays small commercial companies make up 95% of the total number of companies. The commerce sector (wholesale and retail commerce services) makes up the most significant industry in the services' sector. The commerce sector's share of total employment was 9.3 % during the 1970-1981 period and 14.5% during the 1982-1998 period.

Table 3

Participation of the three sectors of the Greek economy in GDP

Years	Primary Sector	Secondary Sector	Tertiary Sector
1951	29%	18,3%	52,5%
1960	22%	25,6%	50%
1970	18%	31%	50%
1980	14%	32%	53%
1986	13%	30%	56%
1990	10,95%	26,9%	65,0%
1995	12,60%	24,9%	66,0%

Source: Greek National Statistics Service (Gross Domestic Product in production factors' prices – fixed prices 1988)

2. The rise of interest rates and the financing problem

A main characteristic of the 1975-1988 period is the nationalization of the largest until that period industrial and banking enterprises and their final inclusion in the Enterprise Restructuring Organization (OAE, 1983). “Through OAE the state took under its control a number of enterprises that were struggling to survive since 1979. The crisis was so deep that 11 out of 19 Greece’s – the largest part of the postwar industrial sectors displayed losses.”

Interest paid by these enterprises while representing 10.4% of the sales in 1978 rose to 15.5% in 1980 to 21% in 1982 and to 45% in 1983.

The speed with which these enterprises’ liabilities rise illustrates both the credit policy of the banks and the “way with which the Greek market operated having the productive enterprises borrowing at high interest rates in order to lend commerce afterward.

Table-4

Fluctuations of deposit interest rates/loan interest rate (short term and long term)

Source: Bank of Greece

3. Commercial strategies in the period of the crisis

The entry of Greece into the EEC in 1981 required adjustment in competitiveness. The Greek industry "having grown in greenhouse conditions permanent protectionism" could not even respond to the gradual elimination of the institutional framework of duties etc.

Many small flexible productive units, particularly in the field of light industry, took advantage of rising incomes and the near doubling of consumption leading them to choose the business strategy of production combined with direct distribution under the same company name. Thus, they created commercial networks through which they distributed their goods of their production-initially-cutting much intermediate costs. Next, they gradually developed mainly commerce by importing the bulk of their merchandise initially from the EU and then from third world countries. Indicatively, we refer to clothing and footwear industries.

The main characteristic of commerce is the large number of small and very small enterprises who try to adapt to the increasingly competitive conditions. This is a highly open profession, characterized by particularities related to market movements, direct interaction with consumers and the huge risk that the entrepreneurs have to manage. . Commerce is a field of activity and employment for social groups such as women and young people who are more often than not affected by unemployment and contingent work. The important social role of commerce can be seen by the structural role it plays in the regional markets which are factors of development, social cohesion, security and

culture.

Retail commerce is the largest branch of commerce accounting for more than 65% of the total. The main feature of its structure is that it is conducted by a large number of small family-owned economic units, single person companies, with a legal form, usually that of sole proprietorship.

The definition of the small enterprise for this paper includes retail enterprises that do not employ more than two workers (salaried employees or helping family members) which are designed to simply resell goods. This means that both self-employed people and small employers are included in a single category.

Table 5
Development of shops of the total of retail commerce and smaller enterprises

	1958	1969	Increase	1978	Increase	1988	Increase
Retail	104.70	134.89	+28,8%	160.599	+19,0%	184.81	+15,0%
Total	0	8				5	
Small	91.803	117.30	+27,7%	142.805	+21,7%	162.87	+14%
		1				4	
as % of the total	87,6%	86,9%		88,9%		88,0%	

Source: Greek National Statistic Service- Censuses of industrial sector, small and medium sized industries, and commerce sector (processed by us).

Retail commerce is the sector of the Greek Economy which displays a constant increase of the number of enterprises still active in the sector even during the period of the crisis. Characteristic of this is the number of enterprises increased by 19% in the 1970s and 15% in the 1980s. The small family-owned enterprises are increasing at the same rate.

Table 6
Structure of employment

	1958	1969	1978	1988
Employers	61,7%	59,0%	58,0%	57,0%
Helping persons	19,0%	23,0%	20,0%	19,0%
Salaried workers	19,0%	18,0%	21,7%	23,0%

Source: Greek National Statistics Service (processed by us)

During the postwar period, Greek small merchants developed a particular business culture and a unique vitality, which was reflected above all in the censuses. Of interest

here is that in both sub-periods the first one of “development” and the second of the “crisis” retailers increased significantly.

Of particular interest is the stability displayed by small family retailers. This was crucial for the formation of a particular social image that is associated with the commercial tradition which was infixed in Greek society, which often is identified with the overall commercial entrepreneurship..

Table -7
Distribution of retail commerce enterprises based on the number of unemployed

<i>NUMBER OF UNEMPLOYED</i>	<i>NUMBER OF SHOPS</i>		<i>PERCENTAGE OF DISTRIBUTION %</i>	
	1984	1988	1984	1988
0-1	116.718	99.045	63,13	53,58
2	52.348	63.834	28,31	34,53
3-4	11.872	16.598	6,42	8,58
5-9	2.894	4.010	1,56	2,16
10-19	696	879	0,37	0,47
20-29	170	220	0,09	0,11
30-49	116	149	0,06	0,08
50-99	59	61	0,03	0,03
100-199	16	19	0,008	0,01
200-499	3	5	0,001	0,002
500-999	-	1	-	0,0005
TOTAL	184.892	184.821	100	100

Table 8	
<i>Percent of self-employed persons in retail commerce</i>	
1962	56,0%
1988	54,0%

Source : Greek National Statistics Service (processed by us)

Nevertheless, given that during the entire period of crisis we examine (1975-1990) interest rates had climbed to extremely high levels at all fields of the commerce sectors enterprises had to face a common problem that is the lack of financing by the banks.

However, what particular strategies did the enterprises adopt, mainly the family-owned ones? Where did they find the capital funds required to allow them to fill their enterprises with merchandises? There is no doubt that a number of characteristics such as trade culture and the business spirit became strong parameters that supported the success scenarios of the self-made small enterprises.

But without even a small but sufficient capital adequacy even this would not be feasible. However, as referred above lending flows were very limited. Thus, the institution of postdated cheques was "invented". The institution of the cheque as means of payment occurs in many countries around the world since even the ancient years. Its modern type and its establishment as a means of payment were formed during the 17th century in England.

Greece incorporated the law on cheques into national law with the Law 5960/33 "on the cheque." In fact, Greece was to ratify the three conventions that were signed in 1931 at the Geneva Conference, held under the auspices of the League of Nations which was the legal management of the law of the cheque. However, although the cheque from its creation was to become a payment instrument, facilitating thus the transactions (in contrast to the bill of exchange, a means of providing and circulating credit), it appears that the Greek case, its legal and actual status was altered resulting transformed into a credit instrument. So the issue of post-dated cheques became the norm, creating problematic situations in the economy.

As the Greek companies face difficulties in accessing bank loans they turn to forms of "business-to-business" financing with postdated cheques as the key instrument. This phenomenon developed with the tolerance of the institutional framework in Greece. The postdated cheques create a parallel informal financial system.

According to estimations the Greek economic industries that have high exposure to postdated cheques (which cover a large part of their claims) appear to have significant divergence from the credit policy (as reflected in the claims to sales ratio). Commerce is a par excellence case. Therefore, high amounts of claim partly reflect the practice of Greek enterprises to "borrow" liquidity through post-dated cheques.

Even today, according to calculations by the analysts of National Bank of Greece, private enterprises had accumulated postdated cheques amounting to 30 billion Euros at the end 2008 (covering 18% of total claims). As cheques are due on average in less than one year, postdated cheques retained by enterprises during the year many times higher than the estimate for the end of the year. For example, the average maturity of 4 months equals to a total movement of post-dated cheques of around 90 billion euros.

The post-dated cheque is a Greek peculiarity of a tacit agreement that can also be interpreted with cultural criteria. Greece was a society that functioned largely through interpersonal and clientelistic relations for its financial transactions since the foundation of the Greek state. The cheque is a payment instrument, such as the bill of exchange, a bill that requires both banking institutions and interpersonal relations. In Greece, the issue of a bill of exchange means tax payment is included in the bill itself, while the bill does not include taxes and through a broad consensus it is not presented to the bank before the agreed date. Under normal circumstances the cheque is payable on demand at the bank and in case that the account of the debtor has no balance it should be sealed. The cheque is transformed from a payment instrument to a credit instrument. For many professional groups based on small family capital funds and personal work the post-dated

cheque is a financial tactic that in the final analysis may be interpreted not only in economic terms but also through a long cultural tradition of a face-to-face society.