

# RETAIL FIRMS OVERCOME FINANCIAL CRISIS IN POSTWAR GREECE (1958-1988): TECHNIQUES AND PARTICULAR STRATEGIES

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***Cet article propose un point de vue nouveau sur le commerce de détail dans la Grèce d'après-guerre. De 1954 à 1974 la Grèce a connu une forte croissance économique : plus de 7 % par an en moyenne. Dans le commerce, en particulier dans le commerce de détail, à la fois le nombre des entreprises et celui des employés ont connu une grande expansion. Mais cette croissance était en bonne part indépendante du financement bancaire. Les conditions changèrent du tout au tout dans la période 1974-1988, avec des taux élevés d'inflation et une baisse rapide du taux de croissance du Produit Intérieur Brut. Pour surmonter cette crise financière, les entreprises grecques du commerce de détail adoptèrent deux grandes stratégies : une intégration verticale de la production et de la vente directe, un recours intensif à la pratique des chèques postdatés\*.***

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\* This paper was presented in the 15th Annual Conference of the European Business History Association, *Business Finance and the State in the 20th Century: European Comparisons in Historical Perspectives, Crisis and Transformation* (Athens, 24-26 August 2011). We would like to thank Professors Pål Thonstad Sandvik and Patrick Fridenson for their comments.

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For a long period of time up to the mid-1970s 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<sup>1</sup>. In this paper we reduce the periods under study on the criterion of the available official censuses. The last census that can be called “comparable” with the other censuses was conducted in 1988<sup>2</sup>.

The common characteristic of both periods 1954-1974 and 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, in the first period 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 “counter-productive”. As a consequence, the retail commerce was excluded from capital financing by the banks. On the contrary, it looks as if during the second period – 1975-1988 – not only the sector displayed endurance but also

may 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 post-dated cheques, a peculiar form of payment. Postdated cheques provided retail commerce with the required liquidity while the combination of production and trade by the same firm secured satisfactory profits for further growth. A common characteristic of both periods was the significant increase in consumer expenditure.

Briefly we must mention that the political setting of Greece in the period under examination was characterized by great political unrests. The parliamentary history of postwar Greece was characterized by right wing governments until 1963, with a short term liberal period in 1950-1951. The social and political environment was very turbulent in the 1960’s, followed by the imposition of a military Junta (1967-1974). The Greek economy continued to grow until the 1970’s, allowing Greece to catch up partly with other European economies and join the European Economic Community in 1981<sup>3</sup>.

<sup>1</sup> G. Alogoskoufis, “The two faces of Janus: institutions, policy regimes and macroeconomic performance in Greece”, *Economic Policy*, 10, April 1995, p. 149-184. P. Kazakos, *Between State and Market. Economy and Economic Policy in Postwar Greece 1944-2000*, Athens, Patakis, 2001 (in Greek).

<sup>2</sup> The latest census was conducted by the National Statistics Service of Greece (ESYE) in 1988. Before that, censuses of industry, commerce and small and medium enterprises 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 1988 which were 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 from the businesses’ own statements.

<sup>3</sup> For a brief history of modern Greece, see J. S. Koliopoulos and Th. M. Veremis, *Greece, The Modern Sequel: From 1831 to Present*, New York, New York University Press 2002.

## THE MAIN CHARACTERISTICS OF THE GREEK ECONOMY AND THE PARTICULAR STATUS OF RETAIL COMMERCE

From the post-World War II period up to the mid-1970s, Greece was ranked among 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, it is necessary to remind our readers that between 1962 and 1965 direct foreign investments made up about 25% of gross investments in manufacturing. 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 developed).

### 1974-1988: the Greek economy in recession

The conditions were reversed, leading inflation to excessively high double-digits rates while the GDP increase rate was decreasing rapidly. This second period between 1974 and 1988, which at the global level coincided with the two great oil shocks, had two characteristics: a rise of the inflation rate from 4.3% to 26.9% between 1972 and 1974, thus cancelling any stabilizing attempt; a crisis of the US dollar in 1971, which led to the devaluation of the Greek drachma which was connected to it. 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% in 1972, 13% in 1973, –33% in 1974), reduction of investments in agriculture (–26%), and in mining and transport (–36%).
- excessively high interest rates.

Table 1

	1954-1973	1974-1993
GDP average	7,1%	2,1%
Inflation rate average	3,8%	18,1%
Deficit	-2,1%	-4,5%

Source: OECD, *Economic Outlook*, various issues.

Table 2

Year	GDP rate (%)	Inflation rate (%)	Unemployment (%)	Balance (%)	GDP per capita (\$)
1973	8,1	15,5	2,0	-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	19,0	1,9	0,8	1.881
1980	0,7	24,9	2,7	0,6	5.030
1981	-1,6	24,5	4,0	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, thanks 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<sup>4</sup>.

The main characteristic of the 1970-1981 period was the gradual reduction of the agricultural sector's share in the total GDP, while manufacturing and energy sectors gained significant ground despite the fact that the latter's GDP share was low. The service sector, mainly commerce, and the public sector had a share of more than 50% of the GDP. Rises were recorded in banking, insurance, and "other services". 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 the decade 1970-1981; the share of employment was then about 36% of the whole and during the period 1982-1998 it rose to 53.3%<sup>5</sup>.

During the entire 1980s both the share of manufacturing in GDP and the number of big corporations diminished. Nevertheless the real domestic consumption increased from 25.8% (1978-1989) to 41.3% in 1989 and it appears that the retail businesses took full advantage of this increase<sup>6</sup>.

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 service 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)

<sup>4</sup> E. Tsakalotos, "The Political Economy of the Social Democratic Economic Policies: The PASOK experiment in Greece", *Oxford Review of Economic Policy*, vol. 14, n° 1, 1998, p. 114-138.

<sup>5</sup> T. Giannitsis, *The accession of Greece to the European Community and its impact on industry and foreign trade*, Athens, Mediterranean Research Foundation, 1988 (in Greek). A. Mitsos, *The Greek industry in the international market*, Athens, Themelio, 1980 (in Greek). G. M. Korres, *Greek economy, economic policy and analysis of economic fundamentals*. Athens, Stamoulis, 1995. S. Koniordos, *Towards a sociology of artisans. Continuities and discontinuities in comparative perspective*, Aldershot, Ashgate, 2001.

<sup>6</sup> OECD, *Greece. Economic Survey 1989-1990*, Paris, OECD, 1990.

## THE STRUCTURE AND THE CHARACTERISTICS OF RETAIL COMMERCE

The main characteristic of retail commerce in Greece (as elsewhere) 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.

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 periods of crisis. Characteristic of this is the number of enterprises, which increased by 19% in the 1970s and 15% in the 1980s. The small family-owned enterprises increased at the same rate.

**Table 4**  
Development of shops of the total of retail commerce and smaller enterprises

	1958	1969	Increase	1978	Increase	1988	Increase
<b>Retail Total</b>	104.700	134.898	+28,8%	160.599	+19,0%	184.815	+15,0%
<b>Small</b>	91.803	117.301	+27,7%	142.805	+21,7%	162.874	+14%
<b>as % of the total</b>	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).

**Table 5**  
Structure of employment

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

Source: Greek National Statistics Service (processed by us)

**Table 6**  
**Distribution of retail commerce enterprises based on the number of employed people**

NUMBER OF EMPLOYED	NUMBER OF SHOPS		PERCENTAGE OF DISTRIBUTION %	
	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

Source: Greek National Statistics Service (processed by us)

**Table 7**  
**Percent of self-employed persons in retail commerce**

1962	56,0%
1988	54,0%

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 subperiods – the first one of “development” and the second of “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<sup>7</sup>. In order to study the basic elements of tradition and culture in the retail sector, we focused on the picture of the retail sector in Athens in the first half of the 20<sup>th</sup> century that comes into view from the register of the members of the Traders’ Association. From the sample of 1.331 firms of various kinds, a concentration is observed in the cloth shops, representing the 1/5 of the total. The longevity of these firms, depicted on the basis of the period of their subscription to the Traders’ association, varies from 10 years in the majority of cases to 40 years<sup>8</sup>.

<sup>7</sup> V. Aranitou, *The “boutique” in postwar Greece. The policy of a questionable survival in Greece. Social identity and political behavior*, Athens, Papazisis, 2004 (in Greek).

<sup>8</sup> M. C. Chatziioannou, “The identity of its members”, in *The Athens Traders Association, 1902-2002. A Historical Retrospection in the Collective Conscience of Merchants*, Athens, Kerkyra publishers, 2002, p. 146-172 (in Greek).

## THE RISE OF BANK INTEREST RATES AND THE FINANCING PROBLEM

A major characteristic of the 1975-1988 period was the nationalization of the largest 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 sectors – the largest part of the postwar industrial sectors – displayed losses"<sup>9</sup>.

The 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 rose illustrates both the credit policy of the banks and the "way in which the Greek market operated, having the productive enterprises borrowing at high interest rates in order to lend commerce afterward"<sup>10</sup>.

**Table 8**  
Fluctuations of deposit interest rates/loan interest rate (short term and long term)

	1954-1973	1974-1993
Deposits	4,5%-9%	13%-15%
Short-term loans	10%-13%	13%-29,5%
Long-term loans	7,5%-12%	12%-27%

Source: Bank of Greece

## RETAIL FIRMS TECHNIQUES AND PARTICULAR STRATEGIES

The entry of Greece into the European Economic Community in 1981 required adjustments in competitiveness. The Greek industry, "having grown in the greenhouse conditions of permanent protectionism"<sup>11</sup>, could not even respond to the gradual elimination of the institutional framework of duties etc. This feature shaped new conditions for the growth of commerce that switched to imports either independently or through importers<sup>12</sup>.

However, what particular strategies did the enterprises adopt, mainly the family-owned ones? Where did they find the necessary capital funds for financing their enterprises? 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 small personal businesses.

### From production to commercial networks

The formation of many small flexible productive units, particularly in the field of light industry, took advantage of the population's rising income and the near doubling rates of consumption. That option led them to choose the business strategy of producing clothes, shoes etc., combined with direct distribution under the same company name. Thus, they created commercial networks through which they distributed the goods of their production, – initially – cutting much intermediate costs. Gradually they devel-

<sup>9</sup> P. Kazakos, *Between State and Market...*, *op. cit.*, p. 355-365 (in Greek).

<sup>10</sup> M. Xanthakis, *The Crisis of the Greek Manufacture Sector and the Interference of the State*, Athens, Papazisis, 1989 (in Greek).

<sup>11</sup> P. Kazakos, *Between State and Market...*, *op. cit.*, p. 407.

<sup>12</sup> T. Giannitsis, "The Economy of Greece in the Perspective of the Single Market", SWP S 386, 1993.

oped their business by importing the bulk of their merchandise, initially from the EEC and then from third world countries. Indicatively, we refer here to clothing and footwear industries.

### The use of postdated cheques

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 retail sector, enterprises had to face a common problem: the lack of bank financing in their business. Without a small but sufficient capital adequacy no business would be feasible. However, as referred above, lending flows were very limited towards small family owned retail commerce. Thus, the institution of postdated cheques was “invented”.

The institution of the cheque as means of payment occurred in many countries around the world since even in the ancient years. Its modern type and its establishment as a means of payment were formed in England during the 17th century. 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 dealt with the legal management 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 in the Greek case, its legal and actual status was altered, turning it into a credit instrument. So the issue of postdated cheques became the norm, creating problematic situations in the economy.

As the Greek companies faced difficulties in accessing bank loans, they turned 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 post-dated cheques created a parallel informal financial system, which began in the region of Athens.

According to several estimations, the Greek economic industries that have had high exposure to postdated cheques (which cover a large part of their claims) appear to have had significant divergence from the credit policy (as reflected in the claims to sales ratio). Commerce is a par excellence case. Therefore, high amounts of claims partly reflected the practice of Greek enterprises to “borrow” liquidity through postdated cheques. Even at the end of 2008, according to calculations by analysts of the National Bank of Greece, private enterprises had accumulated postdated cheques amounting to 30 billion euros (covering 18% of total claims). As cheques are due on average in less than one year, postdated cheques are 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 postdated cheques of around 90 billion euros.

The postdated cheque is a Greek peculiarity, resulting of a tacit agreement that can also be interpreted with cultural criteria. Greece was a society that functioned largely through interpersonal and clientelist 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 which 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 postdated 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.

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## CONCLUDING REMARKS

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Retail commerce is usually examined in relation to mass market, consuming society, or marketing and distribution<sup>13</sup>. It is apparent that retail commerce can be related to various facets of the business history agenda. While as a form of business organization there is not much to be added to a simple family based business, retailing has interesting aspects in its functions in the distribution system, with cultural characteristics which are liable to tradition and innovation.

The structure of retail commerce in Greece is characterized by a large number of small and very small family firms which try to adapt to an increasingly competitive environment. However, understanding how

these firms did thrive or survive over postwar Greece remains one of the main questions. How did the world of retailing raise and manage its capital and how did it shape its entrepreneurial strategy?

The main target of this article was to give a rough picture of the structure and distribution of the retailing sector in postwar Greece and bring forth its techniques and personal strategies in a period of crisis.

We considered within the general macroeconomic indicators the special strategy adopted by retail firms to overcome financial crisis in postwar Greece and especially in the period of crisis 1974-1988, taking into account that a main characteristic of the period 1974-1988 was the high bank interest rates paid by the enterprises compared to the previous period 1954-1973. The techniques and personal strategies applied by retail firms were vertical integration, i.e. the organization of the production and distribution by the same retail firm in order to increase the firm's power in the market and the extensive use of postdated cheques. Further research on individual categories of retailing, like clothes and shoes retail and manufacture will illustrate our example in a new perspective.

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<sup>13</sup> See G. Jones and J. Zeitlin (eds.), *The Oxford handbook of business history*, Oxford, Oxford University Press, 2008.

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