GREECE & THE NEW EUROPE

CONFERENCE

AMERICAN-HELLENIC CHAMBER OF COMMERCE

INTERNATIONAL HERALD TRIBUNE

MAY 21 - 22, 1992

Hotel Athenaeum Intercontinental, Athens

HIGHLIGHTS & SUMMARY OF THE PROGRAM

followed developments, instead of developing its own vision, for example on how EMU is conceived — "we agree on convergence but have not approached the core of the problem, how we view our country in it." The next century would see basic changes, with individual economies and currencies ceasing to exist, and this would require real political unification.

So far as the Balkans were concerned, concepts were still determined by past situations, defined as a policy of axes and traditional friendships. "We ignore the European dimension and suddenly see that our allies and partners have different views. But could this be our mistake, through following traditional policies of friendship and cooperation agreements with the neighbouring countries?" Greece and Bulgaria, Simitis observed, had a 300-km border with only two passages, at the eastern and western ends, so how was it possible for there to be interrelationship of economies and societies?

Condemning "over-nationalistic reactions," Simitis said Greece's nationalism must be creative. To shape developments, Greece must base itself on the rules of international law. Greece's interest lay in universal acceptance of the rules of international law everywhere, including the Balkans.

Also, the Greek-Turkish problem must become a problem of Europe and its relations with Turkey, thus transferring it to another level.

The weaknesses and failures of Greek foreign policy reflected the economic and social crisis in Greece. Unless objectives were determined and choices made, Greek foreign policy would be restricted to handshakes between prime ministers, exchanges of visits and statements on television. "This course must be reversed," Simitis said.

Member of Parliament for the Coalition of the Left and Progress, Grigoris Yiannaros called for foreign policy to be removed from the party arena, advocating the establishment, and institutionalization by law, of a permanent inter-party council to draw up an above-party policy.

Everyone talked about national dangers, but did nothing to promote Greece's own national interests, he said.

For the Balkans, what was required was a strategy that would contribute to the region's stability, something needed by Greece and Europe as a whole. It was not a matter of "the name of Macedonia only" but of a global proposal aimed at overall normalization. ❐

Is Greece Ready for EMU?

by Carol Reed

Speakers:

J.F. Pons, Director General for Economic & Financial Affairs, European Commission

Luis Angel Rojo, Deputy Governor, Banco de Espana, Madrid

Frans Limburg, Chief Economist, ABN AMRO Bank, Amsterdam

Giles Keating, Chief Economist and Executive Director, Credit Suisse, First Boston Ltd., London

George Provopoulos, Deputy Governor, Bank of Greece

Dr. Miranda Xafa, Economic Advisor to the Prime Minister of Greece

So far only two European Community (EC) countries — France and Luxembourg — meet the economic targets set by the Treaty for European Monetary Union (EMU). Mediterranean countries, particularly Italy and Greece, are worse off than the others, and need to catch up fast.

This was the essence of the conference's broad discussion May 22 of how well Mediterranean countries, and Greece in particular, are prepared for EMU. In comments that ranged from the highly emotional to the highly technical, leading financial and government experts all returned to one biting point: that most of the European Community is far from ready for the single currency, unified monetary policy and coordinated economic budgetary policy that EMU carries with it.

Maastricht Targets

Few EC countries are near the macro-economic targets set by the Maastricht Treaty for EMU, said J.F. Pons, the European Commission's Director General for Economic and Financial Affairs.

Maastricht signatories agreed that government deficits should not exceed 3 percent of GDP. Six countries comply, said Pons. Another four are from three to seven percent. Italy is 10 percent and Greece is about 16 percent. (The Greek government says 14.1 percent.)

The treaty also stipulates that gross government debt should not be higher than 60 percent of GDP, or at least declining at an adequate rate. Five members are less than 60 percent, Pons said, while four have about 60 percent, but this number is declining. Two have 60 percent but this is rising and one has 99 percent (Greece).

He said that eight countries meet the 4.5 percent inflation target. But Italy and Spain are 5.5-6.5 percent; Portugal is 8.5 percent; and, Greece is 16 percent.

Luis Angel Rojo, Deputy Governor of the Banco de Espana in Madrid, however, argued that these numerical targets in the Maastricht arithmetic are there to "give an economic image of the political will" for a unified budgetary and monetary policy and a single currency... and the price stability that accompanies that. In other words, Maastricht targets shouldn't be adhered to slavishly.

Pons cautioned that a strict monetary policy should be coupled with growth, action that turned around the Danish and Irish economies in the mid-1980s.

"Italy's the real problem"

Pons said Greece needs many structural reforms, but he singled out Italy as the potential source of real trouble. He said as far as the commission is concerned Italy doesn't really have an economic policy and its deficit is "out of control," a time bomb for the fifth largest economy in the world (Italy) and the EC.

Slightly more upbeat on the Mediterranean side, Frans Limburg, chief economist of ABN AMRO Bank, Amsterdam, noted that in 1992 only two EC members (France and Luxembourg) fulfilled EMU membership requirements. "So there is little reason for Mediterranean countries to feel particularly uneasy, at least at this stage.

"It must be heartening (for you here) that it is a Mediterranean country, namely France, which has most clearly demonstrated the benefits of linking-up with a hard currency. These benefits took the form of low inflation, sustainable economic growth, a sound external account and interest rates very close to those of Germany and the Netherlands," Limburg said.

The French Experience

"An important lesson to be learned from the French experience is that it takes a considerable amount of time to build up a reputation which is sufficient to win the confidence of the foreign exchange and capital markets. Therefore, any government with aspirations of joining the EMU would be well advised to start sooner rather than later behaving as if exchange rates are already irrevocably fixed. The sooner they start, the easier it will be to comply with the convergence rules," he said.

Limburg called for restrictive budgetary policies in EC countries, "at least for the near term." The primary goal would be to trim debt, and he singled out the Community's wealthiest and poorest members as the neediest in this area.

His argument runs this way: "The prospect is that high real interest rates will be with us for quite a few years,whereas, contrary to what we saw in the second half of the 1980s, real growth will be modest. Given the burden of interest payments, this imposes strict limitations upon sustainable deficits. The 'primary balance,' i.e. the balance excluding interest, must be decidedly positive in all EC countries if debt ratios are to be stabilized, let alone reduced. In order to attain adequate primary balances, Germany, the U.K., Italy and Greece, in particular, will have to bridge large gaps. In such a situation the introduction of strict and simple budget and debt criteria would seem to be of vital importance."

Limburg advised that, although EC countries should be concerned with "the predominant importance of market mechanisms in achieving and maintaining a viable economic and monetary union," he was more unsettled by "certain tendencies toward national disintegration which are surfacing within quite a few countries today."

He foresaw that those factors will threaten EMU and global economic integration, and pointed especially to the rise of intra-national regionalism such as "the retreat of federal government in the U.S. during the 1980s and the coming shift within the EC of at least a portion of national sovereignty towards Brussels."

If Greece and Italy, Keating argued, do not succeed in shaving their deficits and recapturing their ancient inheritance of booming trade, "the price of failure is to submit to the brutal arithmetic of compound interest, debt rolling up faster than income — all leaving the Mediterranean out of European Union."

Model: The Japanese "Miracle"

Giles Keating, chief economist and executive director of Credit Suisse, first Boston Ltd., London, characterized Greece and Italy as both having a thriving black economy, very low tax revenues and public finances in big trouble. As they are going now, he said, they are "nowhere near the conditions for Monetary Union."

He, too, pointed to the figures. For Greece, "public debt at over 100 percent of GDP, the deficit (about) 20 percent. Italy, her deficit was 10 percent but is mushrooming this year to approach parity with Greece." In Italy, as in Greece, Keating said, "much of the 20 percent deficit represents interest payments on old debt. That doesn't make the deficits go away, but it does give a clue to solving the problem. With a stagnant economy, the interest payments rise faster than national income and the debt spirals out of control. Get the economy on a faster growth track and there is a virtuous circle. The interest payments will still be there, but they'll become less and less sizable relative to national income. Inflation can also be tackled more easily in a boom than a slump — fewer sacrifices are needed."

Keating counselled that it is possible for even the EC's slowest learners to catch up by following the Japanese model of capitalism to faster growth, coupled with full price liberalization, tax reform, privatization for efficiency gains and open, and vigorous trade to promote competitive business.

Just as Japan performed its trade "miracle," as Keating put it, with Europe, America and throughout Southeast Asia, "the Balkans, the Mediterranean could be a focus for explosive trade growth," as it was in the ancient world.

With such a boom, Keating said, EMU would be "within reach" for Italy and Greece. Right now, though, political instability in the rest of the Balkans, he said, has kept the region an "economic basket case."

If Greece and Italy, Keating argued, do not succeed in shaving their deficits and recapturing their ancient inheritance of booming trade, "the price of failure is to submit to the brutal arithmetic of compound interest, debt rolling up faster than income — all leaving the Mediterranean out of European Union."

Greece: First Stage of EMU is All Important

George Provopoulos, deputy governor of the Central Bank of Greece ventured that: "For Greece, the challenge of belonging to the EMU is larger than for the other EC countries. This is because Greece is the only country that doesn't yet participate totally in the first stage of union and in the EC free exchange mechanism. Important macro-economic imbalances have created problems for the possibility of participating in the next stages... Greece's efficient and responsible participation in the first stage of monetary union will determine its participation in the next stages."

(A few days later, on May 25 at the annual general meeting of the Federation of Greek Industrialists, Prime Minister Constantine Mitsotakis declared that the "competitiveness of the Greek economy will increase appreciably in 1992. This combined with the decrease in inflation and the deficits will create the conditions for the entry of the drachma in the European Monetary System during 1993. Our country will also be able to follow the Community towards the second stage of Economic and Monetary Union, which begins from Jan. 1, 1994." At that meeting, National Economy Minister Stephanos Manos predicted Greece would meet the Maastricht macro-economic criteria within the next four and a half years so that it can enter the "third stage of Economic and Monetary Union... by the end of 1996."

To meet the Maastricht criteria, Greece had entered a period of shock therapy," according to prime ministerial economic advisor, Dr. Miranda Xafa. She spoke of "denationalizing" the economy (reducing the public sector and privatizing state companies) and restructuring public utility companies, noting that even though utility prices had risen sharply "prices are still lower than in many other EC member states."

Xafa alluded to the fight against inflation, the effort to restrict government expenditures. She said keeping the state deficit low over the long-term is the bridge into the EMU. And she noted the importance of freeing up the drachma and developing the Greek capital market — both goals of the current government.

As to whether Greece will, indeed, be ready for Economic and Monetary Union, she said, "A lot depends on developments over the next 18 months. This comment doesn't have to do with the election calendar — although it does have some effect — but with the need for immediate adjustment, which appears independent from the EMU procedure, as well as the need for responsible participation."

Agreeing with Provopoulos, Xafa said: "The correct participation in the first stage of EMU will determine Greece's possibility of participating in following stages.

"If we lose the opportunity to participate in monetary union, Greece will lose not only the opportunity to create the conditions for monetary stability. It will lose also the opportunity to create the institutions that improve management of the economy, and subsequently the effectiveness of economic policy. Primarily, though, Greece will be unable to fully take advantage of its commercial and investment opportunities which a united European market offers with a united currency, and the parallel improvement of prospects for development and prosperity," Xafa said. ❒

The Social Dimension

by Victor Walker

Speakers:

Zygmunt Tyszkiewicz, Secretary General of UNICE (Union of Industrial and Employers' Confederations of Europe), Brussels

Philip-Xenophon Pierros, New Democracy member of the European Parliament

Lambros Kanellopoulos, President of the Confederation of Workers of Greece (GSEE)

Yiannos Papantoniou, PASOK Deputy in the Greek Parliament, former Undersecretary of National Economy

The closing session of the conference, on the "social dimension," provided the opportunity for an examination of post-Maastricht conditions in the present European Community of 12 and following its anticipated expansion, in terms of labor relations, and potential effects for Greece's society and trade union movement.

The Secretary General of UNICE (Union of Industrial and Employers' Federation of Europe) Tyszkiewicz, introduced the subject, saying that the debate on social policy at the European level was not over what should be done — all agreed on safe and healthy conditions at the workplace, consultations with the workforce, training and retraining — but over who should be doing it, and at what level. At issue was the degree to which decision-making should be concentrated in Brussels, or limits should be placed on centralization.

The Treaty of Rome gave little scope for social directives, because of the unanimity rules. At Maastricht, 11 of 12 EC members, with Britain opposed for its own political reasons, wished to change this by extending the issues