

## **Growth will return to Greece**

INTERVIEW WITH Achilleas Hekimoglou<sup>1</sup>

It is in Germany's interest to support the "bail-out" of countries and the burden of keeping the Eurozone intact, if Germany wants to take advantage of the opportunities of the common currency and the accumulated surplus of 1 trillion euros that has concentrated from the EU countries. This is what former Minister of Economics of Portugal, prof. Jorge Braga de Macedo and Finnish economist, Urho Lempien told "TO VIMA". The two economists have become a topic of conversation in the international economic community because of their recent book "Open Dynamics: Selected Papers by Pentti Kouri". They claim that Greece represents a unique situation, they mark the solution for Cyprus as haphazard, and they think that the markets will always find the way to make profit.

"German companies know that they will remain competitive as long as trade takes place under fixed exchange rates. If one looks at the cumulative trade data through the Euro period, the German economy has accumulated well over 1000 billion euro surplus from the EU-27 countries and about 760 billion euro surplus from the rest of the world", Mr. Jorge Braga de Macedo and Urho Lempien suggest.

"This indicates that German companies have been much more competitive in intra-EU trade. Consequently the highest profit margins are also likely to come from intra-EU business. On these grounds German industries must be very much in support of the trade opportunities allowed by the fixed exchange rate within the Eurozone. This may require potential bail out and support expenses to maintain the structure stable", the two writers highlight.

Regarding the MoU's of the austerity programs of the European South, they claim that gains and sacrifices are different from country to country. This conclusion was reached, based to what happened in the past in Northern countries, where the crisis was severe, but it ended its circle with surprises.

"Countries such as Finland went through a very determined national effort towards internal cost cutting so as to restore sustainable growth. Yet a devaluation, followed by a shift to the floating exchange rate regime, and finally a lucky once in several generations type of event were required for the full recovery", they explain. One of these "lucky events" was the rise of the technological colossus, NOKIA, that played a major role for the restitution of the Finnish economy.

But why is recovery slow? "Because it is determined by productivity growth, innovations, etc., national income growth is very hard to accelerate by policy actions", they say. Nonetheless, there is a light at the end of the tunnel.

---

<sup>1</sup> This was published in TO VIMA on 4 May (orthodox Easter). We are grateful to the interviewer for correcting the text of a translator who wished to remain anonymous.

"Growth will return, that has historically always happened. In the specific case of Greece it is hard to see a quick success in the current institutional set up but debt haircuts, cost cutting and fiscal policy measures are gradually improving prospects" they underline.

"Greek national debt is still on a high level, for sure. However, if one looks at the combined debt of the State and households, Greece is not in a dramatically different situation from countries such as the USA, France, the Netherlands and United Kingdom. This would suggest that a lot could be gained by improving the efficiency of taxation" they suggest, adding that our country (Greece) is a unique case and it's different than Portugal and Ireland, that both will gradually return to the markets with dissimilar speed.

Furthermore, they mark the solution that was chosen for Cyprus as haphazard, compared to other bailouts. In their opinion, there are still major threats for the sustainability of the Eurozone. "Given the recent EU budget agreement member countries are paying less than 1% of their GDP over a period of 7 years to the Union" they say, claiming that is "hardly indicative of a process towards the federal structure". Moreover, "member countries have heavy constitutional procedures preventing smooth wealth and income transfers within the Eurozone", they underline.

The two economists say that history has shown that European institutions are not always successful, due to their non effective coordination. But, could the improvement of taxation (in Europe) bring important benefits? "Fiscal union is a step towards the federal structure, but there are not enough means available to the Commission to discipline it. Member countries continue to have incentives to break the rules as they did with the Maastricht criteria. Banking union is needed to consolidate the single market but how quickly its benefits will become visible is difficult to ascertain" they answer.

Mr. Braga de Macedo and Mr. Lempinen believe that the common currency may not become sustainable if all the asymmetries of the Eurozone were to go in the same direction.