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## The experience of the Mediterranean countries with accession to the European Communities: Lessons for Poland

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THE EXPERIENCE OF THE MEDITERRANEAN  
COUNTRIES WITH ACCESSION TO THE EUROPEAN  
COMMUNITIES;  
LESSONS FOR POLAND

by

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THE EXPERIENCE OF THE MEDITERRANEAN COUNTRIES  
WITH ACCESSION TO THE EUROPEAN COMMUNITIES;  
LESSONS FOR POLAND\*

Introduction

Greece has applied for membership in the European Communities on June 13, 1975, Portugal on March 28, 1977, and Spain in the same year on July 28. With the treaties signed in the meantime Greece has become the tenth member country since January 1, 1981, while Portugal and Spain have become the eleventh and twelfth member since January 1, 1986. However, the routes of these countries to the EC were much longer.

The aim of the study is to overview the experience of Greece, Portugal and Spain with their accessions to the European Communities (EC) and to formulate various conclusions and recommendations for Poland where the association agreement with the EC is treated as a specific vehicle to full membership in the Communities. Of particular interest are the economic liberalization, macroeconomic policy and economic performance of the Three till the end of the 1980's. Respective aspects are compared and discussed. With regard to economic performance the results achieved by the whole EC-12 are additionally treated as reference points. Then follow the lessons for Poland.

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## I. Mediterranean Countries Before the EC Membership

### 1. Political and Systemic Environment

After World War II Greece, Portugal and Spain underwent remarkably rapid transformations from autocratic states (under Colonels' Junta, Antonio de Oliveira Salazar and his successor Marcello Caetano, and under General Francisco Franco respectively) into parliamentary democracies, from politically and economically isolated countries into relatively open ones. The Colonels' Junta collapsed in 1974 (seven years after their coup), Marcello Caetano in April 1974 and General Franco in December 1975, when he died.

The transformations which took place in Greece, Portugal and Spain brought with them political and social stability (e.g. the famous Moncloa Pact signed in October 1977 between the main political parties, including the communists), and with regard to economic aspects to greater openness and increasing liberalization. After years, even decades of autarky, first, and state intervention and regulation, later, the new democratic governments elected had to deregulate, in order to open the economies and to integrate them into the world economy.

A common feature of the Greek, Portuguese and Spanish democratization and liberalization episodes have been the compromises made with international or multinational organizations like the United Nations (UN), the North Atlantic Treaty Organization (NATO), the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), the General Agreement on Tariffs and Trade (GATT), the Organization for European Cooperation and Development (OECD) and - last but not least - with the European Communities (EC). All these organizations have supported, reinforced or sustained the democratization, deregulation and liberalization measures adopted by the successive governments of Greece, Portugal and Spain giving them more internal and external credibility. This has been of great importance.

## 2. Level of Economic Development and Structure of National Economies

During the period 1960-1973, Greece with an annual average rate of 7.8 %, Portugal with one of 6.9 % and Spain with one of 7.2 % experienced a rate of real economic growth which exceeded by far the average performance of the EC-9 (4.8%). However, in the next years growth in these countries slackened markedly. Therefore, the economic distance of these countries from the EC as measured by per capita incomes, which had narrowed remarkably in the 1960's, increased to some extent.

Table 1

Gross National Product in the EC Countries, Greece, Portugal and Spain in 1960-1980 (EC-12 = 100)<sup>a</sup>

Years	Greece		Portugal		Spain	
	Total	Per capita	Total	Per capita	Total	Per capita
1960	1.2	39.7	0.9	27.4	3.9	35.9
1961	1.2	40.7	0.8	27.0	4.1	37.0
1962	1.2	39.6	0.8	26.6	4.3	39.2
1963	1.2	40.7	0.8	26.4	4.6	42.4
1964	1.2	41.6	0.8	26.0	4.7	43.2
1965	1.3	43.7	0.8	26.9	5.1	46.2
1966	1.3	45.0	0.8	27.6	5.4	49.3
1967	1.3	45.7	0.9	29.3	5.6	50.9
1968	1.4	47.4	0.9	31.1	5.3	47.3
1969	1.4	48.8	0.9	31.1	5.4	48.5
1970	1.4	49.0	0.9	31.3	5.4	48.0
1971	1.4	47.7	0.9	31.7	5.4	47.9
1972	1.3	45.8	0.9	32.5	5.7	50.8
1973	1.3	46.4	1.0	34.7	6.0	53.0
1974	1.4	48.8	1.0	36.2	6.7	58.9
1975	1.3	46.2	1.0	33.5	6.8	59.3
1976	1.4	47.9	1.0	33.4	6.7	58.7
1977	1.4	48.4	0.9	30.8	6.6	57.3
1978	1.4	46.9	0.8	27.3	6.5	56.0
1979	1.4	46.6	0.7	25.1	7.1	60.9
1980	1.3	42.2	0.8	27.1	6.8	57.6

<sup>a</sup> Till 1971 the EC without Portugal and Spain.

Source: EC [1989, pp. 249-251] and own calculations.

In 1980, the GDP per capita income in the EC-9 reached the level of 10 510 US-\$, against 4 400 US-\$ in Greece, 2 410 US-\$ in Portugal and 5 695 US-\$ in Spain. So the three countries, especially Portugal, had a big economic potential to seize their opportunities as latecomers in a growing world economy [Schatz, 1981].

During the 1960's and 1970's economic growth of Greece, Portugal and Spain was clearly industry-determined. As a consequence, the contribution of the industrial sector to GDP and its share in employment increased significantly in these countries whereas in the EC-9 its importance declined. Also the growth of the service sector in the Three exceeded significantly the growth of this sector in the EC-9. Both in the Three and in the EC-9 agriculture lost very rapidly its importance.

Table 2

Structure of Production and Employment in Greece, Portugal, Spain and in the EC-9 in 1978 (%)

	Greece	Portugal	Spain	EC-9
<u>Structure of production</u>				
Agriculture	17.2	12.8	8.1	4.2
Industry	31.0	46.7	36.6	43.8
Manufacturing	18.9	36.9	27.5	32.5
Services	51.8	40.5	55.3	52.0
Total	100.0	100.0	100.0	100.0
<u>Structure of employment</u>				
Agriculture	27.3	31.3	20.2	8.0
Industry	30.7	34.8	37.3	39.4
Manufacturing	19.1	25.4	27.0	29.3
Services	42.0	33.9	42.5	52.6
Total	100.0	100.0	100.0	100.0

Source: Schatz [1981, p. 22].



On the eve of Greece's accession to the EC just in this country the importance of agriculture was the highest among the Three in terms of output. In 1978, this sector accounted for 17.2 % of all production and 27.3 % of all employment, while in the EC-9 the respective averages amounted to 4.1 % and 8.0 %. At the beginning of the 1980's Spain became the country with the lowest share of the primary sector in total output and employment among the Three.

With their fast development Greece, Portugal and Spain experienced a rapid growth of foreign trade surpassing even the EC achievement. Since around 1974, however, this record was much poorer, especially in Portugal. Nevertheless, the share of foreign trade in the GDP of these countries increased considerably. Especially increased importance of the EC countries' markets.

Table 3

Shares of Goods' and Services' Exports in GDP of Greece, Portugal, Spain and EC-12 in Selected Years of 1960-1980 (%)

Years	Greece		Portugal		Spain		EC-12	
	Total To EC		Total To EC		Total To EC		Total To EC	
1960	9.1	2.7	17.5	5.3	10.2	3.8	19.3	6.3
1965	9.0	2.7	26.8	7.3	10.4	2.3	18.5	7.5
1970	10.0	3.5	24.4	6.9	13.3	3.2	21.2	9.1
1975	16.9	5.7	20.4	7.0	13.5	3.5	24.2	10.4
1976	17.6	5.8	17.4	6.3	13.8	4.0	25.5	11.6
1977	16.8	5.1	18.4	6.7	14.5	4.2	26.0	11.6
1978	17.6	5.5	20.1	7.9	15.2	4.4	25.6	11.5
1979	17.5	5.0	27.1	10.5	15.0	4.7	26.3	12.4
1980	20.9	6.3	27.4	10.8	15.8	5.1	26.6	12.3

Source: EC [1989, pp. 264 and 265].

Similar to the development process, the foreign trade of Greece, Portugal and - to a lesser degree - of the farthest industrialized Spain was determined by the expansion of manufactured goods' exports. As it was the case in world trade, the growth rates of manufactured goods' exports trade were, as a rule, substantially higher than the growth rates for other

products. As a consequence, manufactured goods increased their share in total exports, mainly at the expense of food. This was typical for countries pursuing industrialization and therefore experiencing changes in their relative factor endowment and their factor prices.

Table 4

Shares of Manufactured Goods in Merchandise Trade of Greece, Portugal, Spain and the EC-9 in 1970 and 1979 (%)

Country/region	Imports		Exports	
	1970	1979	1970	1979
Greece	78.3	72.4	54.8	72.8
Portugal	71.8	67.9	67.3	69.5
Spain	67.0	64.2	72.0	70.1
EC-9	69.8	73.0	80.4	77.8

Source: Schatz [1981, p. 23].

In the 1970's one of the astonishing features of the Greek, Portuguese and Spanish foreign trade in manufactured goods was the decreasing importance of these goods in relations with the EC countries, both on the import and export side (table 5). Greece was a leading country in this respect.

Manufacturing trade of Greece, Portugal and Spain with the EC-9 had some significant characteristics. As Donges and Schatz [1979, p. 221] put it, in the 1970's "imports of manufactures to the Three are commonly dominated by chemicals and machinery, broadly classified as human-capital-intensive goods; while other manufactured goods - products which are labour-intensive - account for the overwhelming part of exports. Having readily available domestic labour forces, these countries mainly export labour-intensive goods and import human-capital-intensive goods".

Table 5

Manufacturing Trade of Greece, Portugal and Spain with the  
EC-9 in 1970 and 1979 (%)

Years	Share of the EC-9 in					
	Imports	Exports	Imports	Exports	Imports	Exports
	Greece		Portugal		Spain	
1970	54.0	55.7	57.7	40.6	50.0	40.1
1979	51.0	48.3	52.2	56.0	45.5	48.1

  

	Share of					
	in EC-9					
	Imports	Exports	Imports	Exports	Imports	Exports
	Greece		Portugal		Spain	
1970	0.24	0.91	0.32	0.72	0.85	1.74
1979	0.31	0.79	0.30	0.52	1.41	1.66

Source: Schatz [1981, p. 22].

Although Greece, Portugal and Spain have experienced a process of rapid industrial growth and have been able to restructure their exports, in the 1970's they showed some differences compared to the EC-9. This was concluded among others from trade overlap coefficients which indicate to what percentage degree imports and exports stem from the same industry groups.

In the 1970's, the EC-9's world manufactured goods imports and exports by industry overlapped to 80-85 %, what means an intensified intra-industry trade. At the same time the degree of specialization within the same industrial branches was lower in the Three, and with a clearly increasing tendency only in the period 1970-1974. Out of the Three, Spain came closest to the EC-9 trade overlap values. In trade with the EC-9, the coefficients for all three countries were significantly lower than in the trade with the world, pointing to a more complementary division of labour instead of a substitutional one. Therefore, differences in comparative cost advantages appeared more visibly vis-à-vis the EC-9 than vis-à-vis other countries of the world [Schatz, 1981].

Table 6

Overlap Coefficients<sup>a</sup> of Greece, Portugal, Spain and the EC-9  
for Manufacturing Trade in 1970, 1974 and 1979

Country/Region	Trade with					
	World			EC-9		
	1970	1974	1979	1970	1974	1979
Greece	0.294	0.447	0.438	0.270	0.374	0.361
Portugal	0.520	0.511	0.453	0.331	0.413	0.427
Spain	0.585	0.624	0.661	0.417	0.553	0.680
EC-9	0.800	0.790	0.846	x	x	x

<sup>a</sup> A coefficient's value of 1 would mean that a country (region) imports in each industry in value terms the goods which it exports.

Source: Schatz [1981, p. 24].

### 3. Economic Liberalization

Until the end of the 1970's there has been traditionally a substantial degree of state intervention in Greece, Portugal and Spain in most spheres of economic life. However, a tendency to liberalize the domestic economies could be observed. In the case of the foreign sector it underwent liberalization of the current account (goods and services markets) on the one hand, and liberalization of the capital account on the other.

The public sector in Greece, Portugal and Spain has played an important role throughout the budget, although minor as in the EC-12. In the 1960's and 1970's governments' spending in these countries increased considerably [Baklanoff, 1978]. It was among other things due to the economic crises (e.g. after the first oil-shock in 1973 which led to sharp increases in transfers, subsidies and income-maintenance expenditures), and also due to tendencies to fulfil many unsatisfied social demands which had been neglected under the previous governments. Of great importance was also that there was no full liberalization of domestic markets. However, some progress could be observed.

Table 7

Budget Deficit and Government Debt in Greece, Portugal, Spain  
and EC-12<sup>a</sup> in 1961-1981 (% of GDP)

Specification	Region/Country	1961-1973	1974-1981
<u>Budget deficit</u>	EC-12	-0.7	-3.7
	Greece	.	.
	Portugal	.	.
	Spain	.	-1.3
Divergence from EC-12	Greece	x	x
	Portugal	x	x
	Spain	x	2.4
<u>Governments' debt</u>	EC-12	.	39.8
	Greece	.	26.3
	Portugal	.	10.5
	Spain	.	15.5
Divergence from EC-12	Greece	x	-13.5
	Portugal	x	-29.3
	Spain	x	-24.3

<sup>a</sup> In 1961-73 without Portugal and Spain.

Source: EC [1990 p. 280-295] and own calculations.

In the 1960's and especially in the 1970's price controls in Greece, Portugal and Spain have been reduced remarkably. The reduction of price controls and other forms of deregulation of domestic economies (e.g. reforms of tax systems) started in 1959 in Spain, followed by Greece and Portugal during the beginning sixties. Still at the eve of the 1980's price controls remained for many goods (e.g. in Spain for some energy products, tobacco, telephone, public transport, some basic foodstuffs and some pharmaceutical products). These products were controlled i.a. because the state was by far the largest buyer (e.g. of pharmaceuticals in Spain) or because most of them were provided by natural monopolies [Dehesa, 1989; Macedo, 1987].

The labour markets have also been liberalized, albeit not fully. Until the end of the 1970's many labour laws designed to secure social peace created inevitably distortions in these markets both in terms of wage setting policies (weakening the link between wages and productivity) and in terms of labour mobility and employment prospects.

In the analysed period also liberalization of the financial markets has started (e.g. in 1978 in Spain saving banks were allowed to act as full banks). But the bulk of liberalization, especially liberalization of rate of interest, was postponed.

Deregulation of the domestic markets has been accompanied in Greece and especially in Spain by a process of privatization and reprivatization of state-owned companies. Some of the larger ones (e.g. Banco Exterior in Spain) have been privatized partly on domestic and foreign stock markets, others have been sold to domestic and/or foreign buyers without any nationalistic discrimination. By contrast, in Portugal the 1976 constitution explicitly ruled out privatization.

Before the 1960's a policy of inward-oriented development, based on import substitution in manufacturing behind high protective barriers and supported by the establishment of state enterprises in activities regarded as crucial for the development process was typical for Greece, Portugal and Spain. Thereafter a long process of liberalization of the current account has started there. Spain was the leader. In 1959 (so during the Franco regime) in order to overcome the consequences of quasi autarky (distorted cost structures, diseconomies of small scale, undue capital-intensiveness of production, lack of international competitiveness, serious deficit of the balance of payments, the complete exhaustion of foreign currency reserves) and in order to gain credibility by joining the IMF and the GATT, Spain began to fulfil the requirements imposed on it by those institutions. Additionally in 1970 Franco was forced to continue the liberalization in order to be able to join the EC

and to get European political recognition. As Dehesa [1989, p. 2] stated "it ended in a mere preferential trade agreement that increased trade with the EEC, made trade more open, and in the long run, was very positive for the Spanish economy". Similar were the consequences of trade barriers' reductions undertaken after Franco's death. By the end of 1980 the Spanish trade liberalization index<sup>1</sup> was 15,9 compared with 0 in 1955 (table 1 in the annex).

Greece and Portugal have started with trade liberalization in the 1960's. In the case of Portugal it was connected with her membership in the European Free Trade Association (EFTA, 1960), and in the case of Greece with her period of association to the EC (1962-1981). This period was characterized i.a. by the gradual elimination of tariff barriers coupled with the active use of domestic policy instruments (e.g. differential indirect tax rates on imports) for the selective protection of industrial activity [Katseli, 1990; Sarris, 1990; Corado, Macedo, 1989].

Greece was the only country among the Three which concluded an association agreement with the EC. It was the first agreement of that kind and it was based on the will of Greece to join the EC and on the will of the EC to support the endeavours of this country. In order to reach the agreed aim the Greek economy should gradually get closer and closer to the EC standards on the one hand, and on the other Greece should strive to approach these standards during the time of association. According to this agreement the dynamic development of the Greek economy, as well as the improvement of the employment environment and of the conditions of life in Greece should be supported by the financial resources of the EC. In order to speed-up the deve-

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<sup>1</sup> The index takes into account nominal tariff rates, border adjustment tax, export tax rebates, quotas, state trading and real effective exchange rates. Index close to zero means strong protectionism and index close to the 20 mark means full trade liberalization.

lopment of mutual trade and other forms of economic relations the partners agreed to create gradually a customs union, and additionally to coordinate economic policies. Some exceptions from the liberalization were provided (mainly agriculture and agricultural trade). During the transition period of twelve years Greece was obliged to apply the common external tariffs of the EC. There were also provisions concerning other forms of economic cooperation. Among other things, both sides agreed not to discriminate for nationalistic reasons and to create conditions for the free movement of people and services. Additionally, Greece should apply the EC principles concerning competition, taxation etc. It was provided that the so-called Association Council - the most important institution created - could widen general provisions of the agreement, if necessary. During the meetings of the Council trade policies should be coordinated and economic, and monetary policies should be consulted. Some other institutions were established. They were organs supporting the Association Council and additionally a Law Tribunal with a task to solve definitely the problems which could not be solved during the meetings of the main common institution [Krämer, 1991].

Not only Greece partly liberalized international movements of people and services. During the 1960's and 1970's there were also many such attempts in Spain and - to a smaller extent - in Portugal. It was one of the reasons - albeit not the most important one - that an emigration process from these countries which resulted initially in emigrant remittances (this financial capital being very important source of growth in the Three) and then with some repatriation. It is worthwhile to add that at the time of repatriation the respective inflow - in contrast to the time of emigration - consisted mainly of human



capital in the form of enhanced labour skills (the so-called emigration-repatriation cycle).<sup>1</sup>

During the 1960's also liberalization of capital account has started. Interestingly, it was also forced from outside. Anyway, in such a way the situation developed in Spain in 1959. One of the requirements of the IMF and the GATT imposed on the authorities of this country was to start opening up the economy to foreign investments and this has really happened. Similar requirements were imposed on Greece and Portugal which distinguished themselves through the longest transition periods and relative weak government commitments on internal and - particularly - on external economic liberalization [Macedo, 1987; Katseli, 1990].

#### 4. Macroeconomic Policy

The microeconomic foundation has been of great importance in Greece, Portugal and Spain. With regard to stabilization and structural policies these countries, however, have performed differently.

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<sup>1</sup> Katseli and Glytsos [1986] put forward this idea having in mind Greek experiences. According to them emigration and repatriation can best be understood as phases of an inter-temporal exchange of a factor which is relatively abundant (e.g. unskilled labour in Greece), for a relatively scarce factor, namely capital. Then financial capital (remittances) flows, and in the time of repatriation skilled labour (human capital). Exploring Greek-German relations they prove that - as expected - remittances per migrant were positively related to income per capita in Germany and negatively related to income and the real interest rate in Greece. The results suggested, however, that increases in the German interest rate lead to increased remittances. As they have written "higher German interest rates increase the attractiveness of holding funds in German deposits accounts but they also increase the wealth of immigrant deposit holders. Immigrants are therefore wealthier and end to remit more money to Greece; this wealth effect appears to dominate effects of the higher return on German deposits" Katseli, Glytsos [1986, pp. 2-3].

Table 8

Key Macroeconomic Data for Greece, Portugal, Spain and EC-12<sup>a</sup>  
in 1960-1981

Specification	Unit	Region/Country	1961-1973	1974-1981
GDP rate of growth <sup>b</sup>	%	EC-12	4.8	1.9
		Greece	7.7	3.0
		Portugal	6.9	3.0
		Spain	7.2	1.8
Divergence from EC-12		Greece	2.9	1.1
		Portugal	1.4	1.1
		Spain	2.4	-0.1
Investments/GDP	%	EC-12	23.4	22.1
		Greece	21.7	22.9
		Portugal	24.1	27.2
		Spain	24.2	23.9
Divergence from EC-12		Greece	-1.7	0.8
		Portugal	0.7	5.1
		Spain	0.8	1.8
Growth of domestic demand <sup>b</sup>	%	EC-12	4.9	1.4
		Greece	8.1	1.7
		Portugal	7.3	2.3
		Spain	7.7	1.4
Divergence from EC-12		Greece	3.2	0.3
		Portugal	2.4	0.9
		Spain	2.8	0.0
Inflation	%	EC-12	4.6	12.3
		Greece	3.5	16.8
		Portugal	3.9	21.6
		Spain	6.6	17.5
Divergence from EC-12		Greece	-1.1	4.5
		Portugal	-0.7	9.3
		Spain	2.0	5.2
Unemployment	%	EC-12	2.2	5.5
		Greece	.	2.3
		Portugal	.	6.5
		Spain	.	7.5
Divergence from EC-12		Greece	x	-3.2
		Portugal	x	1.0
		Spain	x	2.0

Table 8 continued

Specification	Unit	Region/Country	1961-1973	1974-1981
Current account/GDP	%	EC-12	0.4	-0.3
		Greece	-2.9	-1.7
		Portugal	0.4	-6.8
		Spain	-0.2	-2.0
Divergence from EC-12		Greece	-3.3	-1.4
		Portugal	0.0	-6.5
		Spain	-0.6	-1.7
M <sub>2</sub> or M <sub>3</sub> [supply at end of the year]		EC-12	11.9	13.4
		Greece	18.2 <sup>d</sup>	25.1 <sup>d</sup>
		Portugal	.	21.6
		Spain	.	18.6
Divergence from EC-12		Greece	6.3	11.7
		Portugal	x	8.2
		Spain	x	5.2
Long-term interest rate	%	EC-12	7.1	11.7
		Greece	.	11.9
		Portugal	.	.
		Spain	.	.
Divergence from EC-12		Greece	x	0.2
		Portugal	x	x
		Spain	x	x
Real unit labour costs <sup>c</sup>	%	EC-12	4.6	2.4
		Greece	5.5	4.2
		Portugal	7.7	4.8
		Spain	7.1	3.6
Divergence from EC-12		Greece	0.9	1.8
		Portugal	3.1	2.4
		Spain	2.5	1.2

<sup>a</sup> In 1961-1973 without Portugal and Spain. - <sup>b</sup> In constant prices. -  
<sup>c</sup> Growth rate d/M3.

Source: As in table 7.

Until the first oil price shock the Three - like most other OECD countries - pursued traditional demand management policies designed to maintain high employment and economic growth instead of fiscal restraint and an increasing reliance on restrictive monetary policy.

Another important feature of the economic policies adopted was promotion of wage restraint. These policies were usually supported by the IMF (e.g. Spain's stabilization programme from 1957). With the exception of wage restraint, the results achieved were quite satisfactory. Partly it was due to the fact that during that period there were relatively few internal and external shocks.

The first oil crisis in 1973-1974 and the subsequent world recession brought an end to the fast economic growth. After having experienced a long period of rapid high-employment growth with more or less balanced current accounts the economies of Greece, Portugal and Spain - yet not these alone - entered into a stagflationary period. They all suffered a deep, long and severe economic crisis. One of the many consequences was a shift of emphasis in economic policy from growth to economic stability. Policy packages adopted in the three countries were, however, slightly different and differently applied. There were many reasons for this.

The development in Greece can be understood only with reference to the role of the state and the public sector in the regulation of economic activity. It is a country where "the interlocking set of interests between the state, financial institutions and the traditional industrial families has created a thin line between the "public" and "private" sectors of the economy" [Katseli, 1990, p. 7]. This is manifested i.a. through the pattern of ownership and management control (state ownership and control over about 1/4 of the industrial enterprises and over the two largest banks which cover around 2/3 of the total banking business). Additionally, it is manifested through the soft budgeting and through the institutional dual structures in all relevant markets. As Katseli [1980, p. 12] remarks "in the commodity, credit or labour markets there still exists on the one hand an "official sector" which can be either public or private in its ownership structure, but which possesses "command-economy" characteristics in resource allocation and decision-making. The rules and commands pertaining to the

effectiveness of regulations, to pricing, to taxation and subsidization, to protection from competition, to hiring and firing, to credit extension etc. have been traditionally negotiated bilaterally usually between the enterprise and the relevant decision-making authority and more seldom through representative bodies (Federation of Greek Industrialists etc.). On the other hand, there exists an extensive "unofficial sector which consists largely of small-scale industrial or commercial enterprises that possess no negotiating power but instead exhibit more competitive behaviour in all relevant markets, often operating in the "underground" economy". The final outcome are many structural rigidities which inter alia influence negatively the efficiency of macroeconomic policy. According to Katseli [1990] the following are the most important ones in the public sector activity:

- a) Rigidities in the restructuring of public expenditures due to past public sector employment policies that have raised inordinately the share of wage bill (inefficient tax system, low marginal efficiency of private sector investment etc.)
- b) Rigidities in the functioning of labour markets due to wage-setting behaviour in the public sector at large that acts as a price-leader for the economy as a whole (higher wages in this sector, excess supply of unskilled labour in the private sector, entry into the public sector is negotiable and subject to bargaining, lobbying etc.)
- c) Allocative and X-inefficiency in public sector operations (the relatively low productivity growth in this sector due to faster employment growth, outdated capital and inefficient modes of operation and management etc.)
- d) Rigidities in revenue collection (e.g. the presence of the underground economy which limits the tax base, soft taxation where rules are unclear and negotiable)
- e) Rigidities in public sector deficits and public debt ("structural" and growing public sector deficits, growing

net debt interest payments etc.).

Rigidities in the public sector activity influence the whole economic system. Transactions costs are high, market signals are weak and the underground economy flourishes. This is particularly true in the soft budgeting environment, which leads to price distortions, to the weakening of competition as a central determinant of economic behaviour and to the weakening of efficiency as the main determinant of survival [Gilpin, 1987, p. 19].

In the 1970's there were many endeavours in Greece to stabilize the national economy by means of restrictive fiscal and monetary policies and by exchange rate policy (tightening of economic policies, devaluations of the drachma etc.). However, in the above mentioned circumstances macroeconomic imbalances re-emerged again and again leading to stagflation. The peaks corresponded to general election years (e.g. in 1974 and 1978) reflecting the effect of the political cycle on the budgeting which in these years was especially soft (relaxation of taxes, more intensive subsidization of production etc.).<sup>1</sup>

Also structural policy was generally ineffective. What was more, structural changes were rather weak just due to the inefficiency of stabilization policy. Sometimes the changes were even perverse (e.g. growing importance of the relatively low efficient public sector). Due to soft budgeting a typical phenomenon was "entry-without-exit" which led to a persistent excess capacity in Greek industry [Katseli, 1990].

After the first oil crisis Portugal entered into a stagflationary period, too, but performed much better than Greece (see table 8) - despite insufficient productive capacities relatively to demand and despite sharp balance-of-payments disequilibria. This does not mean, however, that the role of the mar-

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<sup>1</sup> See table 2 in the Annex.

ket forces in the allocation of resources was optimal there. Quite to the contrary; there were many distortions because of protectionism, administered interest rates and credit conditions, controlled prices, public sector deficits, operating criteria of nationalized firms etc. However, this has been recognized relatively early by the authorities and many appropriate measures have been undertaken [Portugal, 1981].

The decisive set of stabilization measures was adopted in Portugal as late as 1977 and in 1978, so with a great delay to the oil shock. It was based in particular on expansionary fiscal policy, restrictive monetary policy and a sliding devaluation of escudo, and led to the current account equilibrium in 1979. This improvement, however, was not very stable. This was confirmed in 1980 when a strong upswing in activity - with GDP growing real at 5.5 % - entailed a renewed widening of the current account deficit. Mainly due to a stricter enforcement of price controls inflation declined somewhat but started to accelerate again when these controls were relaxed.

Also in Portugal the rapid, and often uncontrolled expansion of the public sector - concerning both general government and public enterprises - was one of the most serious factors of allocative distortions in the course of the 1970's. On the one hand, the Portuguese tax system (based mainly on indirect taxes) was very inflexible and open to tax evasion, and on the other the value of general government expenditures remarkably increased due to the pervasive spread of the welfare system, due to the problems arising as a result of decolonization and the reduction of emigration, and due to the nationalization of some key industries and services [Portugal, 1981].

A delayed response to the initial negative impact of the first oil shock has also been typical for Spain, where a climate of uncertainty and political change was observed after General Franco's death. Only in July 1977, a comprehensive macroeconomic policy package was introduced by the new democratically elected administration. The peseta was devalued by 15 % and

monetary policy was tightened. It was not accompanied by restrictive fiscal policy. Therefore, there appeared many rigidities and distortions in labour market which in conjunction with the factors mentioned above led to the disappearance of the effects of devaluation and restrictive monetary policy [Hudson, Rudcenko, 1988; Dolado, Vinals, 1991].

Spain distinguished itself as a country in which many of the structural weaknesses of the national economy exposed to the changing international environment were dealt not solely by evolution of the economic system and improvement of the economic management. One of the institutional adjustment initiatives in the 1970's was the National Energy Plan (PEN) first adopted in 1979. According to Hudson and Rudcenko [1988, p. 64] "the PEN identified several basic problems in Spain's energy industry; excess capacity both in electricity generation and in oil refining, excessive energy consumption per unit of output ... and financing problems in the electricity industry. The variety of measures proposed to deal with these problems included major nuclear power investment, investment into energy conservation, and energy pricing policies to allow more rational energy use and help reduce the financial dependence of the electricity industry on borrowing".

## II. Economic Policy and Performance of the Mediterranean Countries in the 1980's

### 1. Role of the Public Sector and Situation in the Budget

During the 1980's the role of the public sector has considerably increased in the three Mediterranean countries taken together. While general government spending in the EC-12 represented in 1981 about 47,0 % of GDP (in Greece 39,9 %, in Portugal 41,7 % and in Spain 35,6 %), and then stabilized, in Greece it rose to 54,6 % by 1990, and in Spain to 42,7 %. In the case of Portugal it increased to 42,7 %.



Out of the Three Greece distinguished itself as the country with the greatest importance of the public sector in the economic activity. Another characteristic of this country was the growing imbalance in the budget. While Greece's receipts share in GDP almost did not change, the expenditures/GDP ratio increased substantially.

Table 9

General Governments' Current Receipts and Expenditures in the  
EC-Countries in 1981-1990 (% of GDP)

Specification	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Receipts										
EC-12	41.7	42.7	43.3	43.5	43.8	43.6	43.7	43.4	43.6	43.3
Greece	28.8	32.0	33.2	34.2	34.3	35.0	37.7	35.8	31.6	34.2
Portugal	32.4	33.4	37.0	34.6	33.4	37.3	36.1	35.8	39.5	38.3
Spain	31.7	31.9	34.0	33.8	35.1	35.6	37.3	37.3	39.0	38.6
Divergence from EC-12										
Greece	-12.9	-10.7	-10.1	-9.3	-9.5	-8.6	-6.0	-7.6	-12.0	-9.1
Portugal	-9.3	-9.3	-6.3	-8.9	-10.4	-6.3	-7.6	-7.6	-4.1	-5.0
Spain	-10.0	-10.8	-9.3	-9.7	-8.7	-8.0	-6.4	-6.7	-4.6	-4.7
Expenditures										
EC-12	47.0	48.2	48.6	48.8	49.0	48.4	48.0	47.0	46.5	47.4
Greece	39.9	39.7	41.5	44.3	48.1	47.5	50.0	50.7	49.9	54.6
Portugal	41.7	43.8	46.1	46.6	43.5	44.6	43.0	42.2	42.9	44.0
Spain	35.6	37.5	38.8	39.3	42.1	41.7	40.9	40.5	41.8	42.7
Divergence from EC-12										
Greece	-7.1	-8.5	-7.1	-4.5	-0.9	-0.9	2.0	3.7	3.4	7.2
Portugal	-5.3	-4.4	-2.5	-2.2	-5.5	-3.8	-5.0	-4.8	-3.6	-3.4
Spain	-11.4	-10.7	-9.8	-9.5	-6.9	-6.7	-7.1	-6.5	-4.7	-4.7

Source: EC [1989, pp. 274 and 275] and EC [1991, pp. 264 and 265].

The growing role of the public sector has been accompanied by budget deficits. These were higher in the Three than in the whole EC-12, Spain being exception since 1987. The gap between expenditures and revenues was extremely high in Greece. Additionally, while in Portugal and Spain this gap decreased, the opposite trend appeared in Greece. Due to the growing deficit, the Greek governments' debt increased. In 1982, this country public debt was relatively lower than in the EC-12 but in 1990 considerably greater. The increase in debt ratio to GDP was worst in Portugal. These phenomena can be explained to a great extent by the rigidities mentioned earlier. But this is not the whole story.

## 2. Economic Liberalization

In the 1980's a series of decisions were taken in Greece, Portugal and Spain in order to liberalize the economic life. It was mainly due to the EC membership and due to the tendency to deepen the process of economic integration through the creation of an internal free market by the year 1992.

Liberalization of domestic markets has been continued, particularly liberalization of prices of goods and services. Nevertheless, some price controls have remained in operation there. The situation was clearest in Spain. In the eighties, price controls have been reduced there to cover only 12 % of the total consumer price index (CPI). All prices for services were free including housing rents [Dehesa, 1989]. By contrast, in Portugal and Greece price controls and selective protection coupled with credit rationing and subsidies on the cost of capital were the most commonly used regulatory instruments. E.g. in Greece a maximum price was set by the Ministry of Commerce on basic consumer goods, chiefly foodstuffs (the so-called essential products and in short supply). For the so-called essential goods and not in short supply (other consumer products such as clothes, books, paper etc.) the Greek Ministry of Commerce set a maximum allowable mark-up over average unit costs. Only the so-called non-essential products (ca. 32.5 % of CPI in the

mid-eighties) were exempted from controls [Katseli, 1989; Greece 1990/1991].

In the 1980's Greece, Portugal and Spain have liberalized also labour markets. However, there still existed non-competitive forces. In Spain it was mainly the relatively high degree of indexation of wages what meant that demand shocks had few real consequences for unemployment and labour mobility (nominal wage growth offsetted price changes) and on the other hand wage indexation exacerbated the unemployment and mobility consequences of real supply-side shocks. In Portugal and Greece wages, employment policy and social policy have been in general determined within the official sectors with governments, public-sector unions and employers of large firms being the main actors. Wage setting by the public sector has affected mostly the labour market. The private and unofficial sectors have been price-takers.

Also financial markets have been further liberalized. In Greece many new banks and their branches have been opened but the commercial banking system was still dominated by two banks<sup>1</sup> and therefore competition was limited. Asset markets were underdeveloped and stock markets have not been developed. Real interest rates were often subsidized and negative. The same has been typical for Portugal. In 1981 in Spain assets and liabilities rates of interest were liberalized for operations of six months and longer, in 1987 all interest rates were liberalized and in the next years a number of new regulations made most financial markets and institutions more free and flexible (e.g. opening up of banks to all types of financial activities and stock markets to all financial institutions, unification and computerization of the four existing markets that work now continuously). Financial liberalization reached also

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<sup>1</sup> The Commercial Bank of Greece and the National Bank of Greece covering around 2/3 of total banking business, it means deposits, credits, credit cards etc., and about 75 % of the total assets of commercial banks.

the public sector. Competition was additionally increased due to the active role played by foreign banks. However, the merger of two major banks into a new, now biggest bank of the country took place in the meantime and it increased the industry-specific risk of the banking sector and led to negative effects on competition. On the other hand, the stage of development of Spanish financial markets is very assymetrical; while the interbank market and the market for short- and medium-term government debt are well sophisticated, the stock market and the markets for private debt instruments (long-term private bonds, mortgages etc.) are underdeveloped. As Vinals et al. [1990, p. 44] note "other negative factors are the recent increase in interest-rate volatility, the low degree of development of pension funds and other natural buyers of long-term bonds, and the lack of long-term public bond issues which leaves the private market without a reference point. In any case, the lack of development of the long-term private bond market has fairly negative implications for the access of firms to badly-needed long term capital, as it is the case with utilities and other capital-intensive industries. This makes firms resort to the Euro-market, to higher than desirable short-term financing, or to tapping the less reliable equity market. Still, for many small firms bank credit is the only option to finance long-term capital needs".

There has been some progress in the issue of privatization and reprivatization also. However, the results were different. As mentioned earlier, despite some privatizations public enterprises have still played an important role in the Greek economy. What more, while soft budgeting has been a principal mode of operation these enterprises' large deficits were especially financed by way of state grants and special bank loans what has had implications for the allocation of resources and overall economic efficiency similar to the support to loss-making private enterprises. Greek public enterprises, generally considered to be low in many respects, have usually been not competitive even vis-à-vis public enterprises from Portugal and Spain.

Table 11

Comparative Performance of Public Enterprises from Selected EC Countries  
by Mid 1980's<sup>a</sup>

Specification	Greece	Germany	France	Italy	Portugal	Spain	United Kingdom
Telecommunications							
Productivity	15.8	29.8	26.0	n.a.	12.6	35.2	21.7
Profitability	3.3	7.5	n.a.	n.a.	1.7	9.4	3.1
Railways							
Productivity	4.2	25.3	22.4	n.a.	4.6	11.7	25.5
Profitability	-173.9	13.2	-9.4	n.a.	-2.6	-158.1	-11.1
Airlines							
Productivity	45.9	95.4	95.4	98.5	44.7	64.8	n.a.
Profitability	-21.6	0.6	2.3	1.4	-5.9	-3.3	n.a.
Electricity supply							
Productivity	48.0	198.3	114.9	97.1	43.5	180.1	95.8
Profitability	0.0	3.5	0.8	0.0	0.2	15.0	4.0

<sup>a</sup> Productivity is measured as the share of total sales in dollar terms to employment. Profitability is proxied by the ratio of after-tax profits to total sales. The reference year is 1985.

Source: Greece [1990, p. 62].

In March 1988 in Portugal was passed a law allowing the transformation of public enterprises into corporations in which the state would retain 51 % of total equity, and in June 1989 a Constitutional Amendment which provided the basis for a complete (100 %) privatization of public enterprises was accepted by the Parliament. Then in April 1990 legislation concerning privatization was passed and then the government embarked upon a programme of privatizing enterprises nationalized after 1974. Just in 1990 the sale of the shares of state-owned enterprises and banks has started [Portugal, 1991].

Out of the Three privatization and reprivatization processes in Spain have been the farrest reaching due to a large special programme. There were many examples of the so-called big privatization and reprivatization (e.g. SEAT was sold to Volkswagen and the previously nationalized Rumasa holding has been reprivatized). At the end of the 1980's the Spanish state-owned

companies taken as a whole were not loosing money [Dehesa, 1989].

The 1980's were a period of rapid liberalization of current account, and especially of trade flows. Greece's post-entry trade liberalization had two sub-periods. The first one (1981-1986) was characterized by faster dismantling of existing trade barriers, especially tariffs and quotas, the second (1987-1990) by the gradual elimination of subsidies and by the dismantling of import credit restrictions. In January 1989, the regulatory tax on imports was abolished. However, trade liberalization has not taken place with equal force in all industrial sectors; till 1985 nominal protection rates declined for imports in traditional sectors and consumer goods, while the authorities increased them for the import-competing capital-goods sectors. Additionally, as Katseli [1990, p. 60] underlines "if domestic production taxes and subsidies are also taken into account in the calculation of total protection afforded to industrial sectors, it appears that in the first part of the 1980's effective protection has in fact increased substantially for intermediate goods and manufacturing equipment and declined only slightly for manufactured consumer goods. ... Thus, at least till recently, the decline of nominal tariff protection for imports from the EC countries was largely offset by the domestic subsidies and the imposition of domestic taxation".

With the accession to the EC in January 1986, Portugal and Spain have engaged in the programmes of trade liberalization over a period of seven years ending generally (with some exceptions) in December 1992, and that will result in the total absence of trade barriers (customs duties, quantitative restrictions etc.) with the rest of the EC and EFTA and the adoption of a lower common external tariff for industrial products coming from other countries of the world. They have also engaged in the programme "Europe 1992" which foresees among others full liberalization of services' turnover and liberalization of public procurements' markets [Portugal, 1986; Dehesa, 1989; Vinals et al., 1990].

The Accession Agreement signed by Portugal and the EC provides in the case of agriculture two types of transitional arrangements. The "conventional" one comprises a seven-year transition period at the end of which the prices of the products in question (e.g. tobacco and sugar) must be fully aligned on those being applied in the EC. The majority of agricultural products, including those that are most important for Portugal (grain, rice, fruit and vegetables, wine, most meats), were, however, subject to transitional arrangements comprising two five-year periods. During the first five years, Portugal was obliged to begin introducing a package of measures in order to bring prices and subsidies into line with those being applied in the rest of the EC (harmonization) and then it is expected to adopt the Common Agricultural Policy (CAP) principles till 1996. Customs duties and quotas should also be abolished over the seven to ten years depending on the arrangements applicable [Portugal, 1986].

The Spanish agricultural entry conditions are similar. The transition period for most products is seven years with the exception of fruit, vegetables, olives and olive oil. In these cases tariffs are to be reduced to zero at the end of 1995. Special arrangements are applied to wine and olive oil. As in the case of Portugal, Spain is expected to apply all the rules of CAP by 1996.<sup>1</sup>

With their accessions, Greece, Portugal and Spain have been admitted to the Common Fisheries Policy of the EC. There were, however, some severe limits on catches (e.g. 300 Spanish vessels were allowed to fish but only 150 at one time). Portugal and Spain have additionally concluded a bilateral detailed agreements regulating respective problems.

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1 For a period of four years (till 1989) Spain could impose restrictions on imports of certain meat products.

With their accessions the Three have aligned their patent laws with the Munich Convention of European Patents. Immediately from entry Greece, Portugal and Spain are subjects to EC anti-trust and state subsidy controls (with some exceptions, however, e.g. with special arrangements for steel in the case of Spain). The EC consumer and product standards are also applied. Since joining the EC the value added tax (VAT) is in force. One of the major advantages of the VAT is that it provides a built-in control on tax evasion, lack of which was one of the main shortcomings of the old tax systems (e.g. of the turnover tax).

Table 12

VAT Rates and Structure in Greece, Portugal, Spain and  
Other Selected EC Countries in 1989

Country	Number of rates <sup>a</sup>	Rates (%)			Effective rate in 1987 (%) <sup>b</sup>
		Standard	Low	High	
Greece	3	18	9	36	19.2
Portugal	3	17	8	30	8.3
Spain	3	12	6	33	12.4
Germany	2	14	7	-	7.9
France	4	18.2	5.5	22	11.0
Italy	4	18	2	38	11.5
United Kingdom	2	15	0	-	7.3

<sup>a</sup> Excluding zero rate. - <sup>b</sup> Receipts of general consumption taxes as percentage of private plus public consumption.

Source: Portugal [1991, p. 74].

The signing of the Association Agreement of Greece and of Portugal's and Spain's Accession Agreements with the EC have marked the beginning of the new era of labour migration. All the three countries were expected to create conditions for the free labour movement in a some year transition period (e.g. Portugal and Spain in seven years, except for Luxembourg, for which a ten-year transition period has been foreseen).



The Agreements with the EC have also opened the way for a progressive liberalization of capital account. After transitional periods of some years (5 and 7 in case of Portugal and Spain), the Three should apply the rules concerning capital movements being in force in the other EC countries. Foreign direct investment in the Iberian countries should be gradually liberalized in a period of four to five years. There were also provisions concerning liberalization of the domestic and foreign exchange markets (e.g. the necessity to establish the interbank market and to open up the banking system to external competition, the possibility to join the European Monetary System - EMS).

Remarkable progressive liberalization on capital account has come true. Greece has established the interbank market, introduced many new banking services (e.g. leasing, factoring, forfaiting etc.) and - first of all - has opened up to great extent her capital market and banking system. According to the OECD experts, the most important positive changes in the area of deregulation were the following:

- a) abolition of discriminatory credit restrictions against certain categories of imports (mainly consumer goods)
- b) liberalization of borrowing in foreign exchange from abroad
- c) abolition of prior approval by the Bank of Greece for export credits in drachma or in foreign currencies for investment abroad
- d) introduction of permission to EC nationals (non-resident in Greece) to transfer to EC countries and/or invest in government paper earnings from real estate and a few other sources<sup>1</sup>

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<sup>1</sup> Previously these sums were blocked in special drachma accounts with strongly negative real interest rates.

- e) change in laws and regulations permitting the development of leasing and the use of credit cards
- f) passing of a new law which has lifted bank secrecy in case of criminal investigation [Greece, 1990].

Accession to the EC in 1986 and preparation for the completion of the programme "Europe 1992" have provided the opportunity for financial liberalization in Portugal. Their directions were similar to those in Greece. In June 1990, the Portuguese government announced additionally its intention to take the escudo into the exchange rate mechanism of the EMS. However, there has been still control, e.g. with regards to capital outflows [Torres, 1990; Macedo, 1990].

Out of the Three Spain has been the most liberal country with regards to capital flows, particularly inflows. In 1985, as a prerequisite to join the EC, many remaining restrictions on foreign investment both direct, portfolio and real estate were abolished, except for operations in few sectors (defence media, communications and air transport). Most controls on foreign portfolio acquisitions were suppressed. In 1987, liberalization of the banking foreign currency holdings as well as the term market for the peseta took place. In 1988, the liberalization process was extended to Spanish portfolio and real estate investments abroad. Additionally domestic current accounts in foreign currency for foreign trade operations have been opened and in June 1989, the authorities decided to integrate peseta in the EMS exchange rate regime. Like in the case of Greece and Portugal, according to the Single European Market Act, the majority of the remaining barriers on capital flows have to be abolished by the end of 1992 [Vinals, 1990; Dehesa, 1989; Spain, 1991].

A specific part of the current account transactions have been capital flows from the EC structural funds. Greece has been entitled to obtain funds since 1962, and Portugal and Spain since their EC entry in 1986. The bulk of the funds transferred

were "structural funds". They have been used for infrastructure developments (financed through transfers from the Regional Fund), for structural changes in agriculture (financed through transfers from the European Agricultural Guidance and Guarantee Fund) and for professional training (transfers from the European Social Fund). Additionally, the Three have benefitted by loans from the European Investment Bank, from the World Bank etc.

### 3. Macroeconomic Policy

In the 1980's the macroeconomic policies in Greece, Portugal and Spain were similar to some extent. However, many differences additionally appeared. It was true for the stabilization policy as well as for the structural policy.

#### 3.1. Stabilization Policy

During the 1980's several stabilization programmes were prepared in Greece, Portugal and Spain. Fiscal policy and monetary policy had as a rule constituted their essential parts. However, as noted earlier, the most spectacular and probably the most damaging feature during the last decade was the steep increase in the public deficits. Greece distinguished itself to its own disadvantage (see table 10).

The subsequent Greek governments have endeavoured to restrict budget deficit by the fiscal policy and therefore VAT was introduced, tax rates were increased and tax brackets were partly indexed. However, there was a lot of tax fraud and evasion which was more or less tolerated, particularly during electoral periods [Alogouskoufis, Philippoulos, 1991]. On the other hand, due to the inefficiencies in the public sector activity (e.g. subsidies financed by printing money) and due to the rigidities in the labour market (e.g. indexation of wages) expenditures grew and inflationary tendencies appeared. The monetary authorities tried to offset it through the imposition of restric-

Table 13

## Key Macropolicy Indicators for Greece, Portugal and Spain in 1981-1990

Specification		Unit	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Money supply at the end of the year	EC-12 <sup>a</sup>	%	10.8	11.9	10.7	9.9	10.0	10.3	11.0	10.6	11.0	9.1
	Greece <sup>b</sup>		34.7	29.0	20.3	29.4	26.8	19.0	24.8	22.8	23.7	14.6
	Portugal <sup>c</sup>		23.8	24.6	16.3	24.5	29.8	25.8	16.8	14.8	9.0	19.4
	Spain <sup>d</sup>		17.0	16.0	16.9	16.5	13.4	11.4	12.8	11.8	11.0	11.9
Divergence from EC-12	Greece <sup>b</sup>		23.9	17.1	9.6	19.5	16.8	8.7	13.8	12.2	12.7	5.5
	Portugal <sup>c</sup>		13.0	12.7	5.6	14.6	19.8	15.5	5.8	4.2	-2.0	10.3
	Spain <sup>d</sup>		6.2	4.1	6.2	6.6	3.4	1.1	1.8	1.2	-0.0	2.8
Long-term interest rate level	EC-12	%	15.1	14.3	12.7	11.8	10.9	9.2	9.4	9.4	9.9	11.1
	Greece		17.6	15.4	18.2	18.5	15.8	15.8	15.8	17.4	16.6	18.0
	Portugal		.	.	.	.	25.4	17.9	15.4	14.2	14.9	16.8
	Spain		15.8	16.0	16.9	16.5	13.4	11.4	12.8	11.8	13.8	14.8
Divergence from EC-12	Greece		2.5	1.1	5.5	6.7	4.9	6.6	6.4	8.0	6.7	6.9
	Portugal		x	x	x	x	14.5	8.7	6.0	4.8	5.0	5.7
	Spain		0.7	1.7	4.2	4.7	2.5	2.2	3.4	2.4	3.9	3.7
Real compensation per employee <sup>e</sup>	EC-12	%	.	0.6	1.2	0.6	0.8	0.6	1.4	1.1	0.9	1.9
	Greece		.	2.2	1.9	1.7	4.8	-4.6	-3.4	3.3	3.6	1.7
	Portugal		.	-0.8	-2.1	-2.3	0.7	0.4	1.3	1.5	0.8	2.4
	Spain		.	-0.1	1.9	-0.9	0.8	-1.2	0.4	0.7	-0.8	0.4
Divergence from EC-12	Greece		x	-1.6	-0.7	-1.1	-4.0	-5.2	4.8	-2.2	2.7	-0.2
	Portugal		x	-1.4	-3.3	-2.9	-0.1	-0.2	-0.1	0.4	-0.1	0.5
	Spain		x	-0.7	0.7	-1.5	0.0	-1.8	-1.0	-0.4	-1.7	-1.5

<sup>a</sup> According to country  $M_2$  or  $M_3$ . - <sup>b</sup>  $M_3$ . - <sup>c</sup> L. - <sup>d</sup> ALP. - <sup>e</sup> Growth rate, deflator GDP.

Source: EC [1989, pp. 280-285], Beiheft A [1991] and EC [1991, pp. 270-281].

tive monetary conditions (e.g. introduction of a tight credit allocation system, especially towards the private sector) and then by increases of the discount rate, but it was only of limited importance. This isn't surprising, since increases of discount rate influenced to a great extent the financial situation of the highly indebted public sector [Katseli, 1990; Greece, 1990]. As seen in table 13, a lack of serious stabilization policy in Greece - to a smaller extent also in Portugal and Spain - led very oft to higher increases of real compensations per employee than in the EC-12.

The Portuguese fiscal and monetary policy during the early 1980's can be described as stop-go policy. There appeared in part politically motivated cycles of restrictive and expansionary policies. Since the EC accession coupled with the introduction of many restraints, introduction of VAT and then (in 1989) supported by the income tax reform (for both personal and corporate income), fiscal and monetary policies were consolidated and it led to substantial improvement of the economic environment and to the reduction of the public sector deficit. Still, as Macedo [1990, p. 13] puts it forward "unless public finances are reformed, a resumption of stop-go macroeconomic policies will be unavoidable". The financial reform is not possible without substantial institutional and structural changes (e.g. further liberalization of the markets, privatization etc.).

Due to relatively sound fiscal and monetary policies also the financial situation of the Spanish public sector remarkably improved (see table 10). Concerning fiscal policy, a VAT was introduced and taxes on incomes were increased. It was accompanied by the moderation of current transfers and public consumption. Additionally, when necessary (e.g. in mid 1989 in response to excessive monetary growth and clear signs of overheating) the monetary stance was tightened (even imposition of a ceiling on bank credit expansion, raise of the minimum reserve ratio etc.). It is worthwhile to add that the decision of the Spanish authorities to enter the rate of exchange regime of the EMS has greatly increased the credibility of the anti-inflationary resolve of the government. It has, however, eliminated the Bank of Spain's ability to pursue an independent interest-rate policy [Spain, 1991].

### 3.2. Structural Policy

Despite remarkable progress of the economic liberalization and some consolidation of Spanish and Portuguese fiscal and monetary policies, the structural policy in the Three (particularly in Greece) was characterized by a relatively high degree of

state intervention in the allocation of resources. Even at the end of the 1980's there has been a lot to do in order to increase substantially the role of market forces in the structural adjustment.

Out of the Three, Greece has been the country where the government clearly acted mainly as redistributor of resources with a relatively limited role as a provider of public goods. Still, many programmes of structural changes were launched there in order to improve the infrastructure, to speed up investments, industrial production etc. All this was supported by growing EC financial assistance.

In 1983, a public body (the Business Reconstruction Organization) was set up in Greece to supervise the management of over 40 firms representing more than a tenth of manufacturing output and recognised as problematic mainly due to the overmanning and heavy indebtedness. In the 1980's, these enterprises absorbed about half of all state grants and subsidies. Even so - as OECD experts write - their financial situation "... has improved little, if at all. During the 1980's, employment has been broadly maintained, while real sales even declined, apparent labour productivity falling by some 15 per cent. Investment has not recovered, leaving the capital stock in 1988 below its 1981 level. Apart from diverting real and financial resources from potentially more profitable uses, problematic enterprises adversely affect competing firms because of their dominant position in certain markets. In textiles, ferro-nickel and paper, problematic firms retain strong market power, in particular as regards price formation. In addition to the firms which are officially recognised as "problematic", state-controlled banks continue to heavily subsidize enterprises in which they are major shareholders. Losses of problematic enterprises and state bank-controlled "ailing" firms amounted in recent years to some half to two-thirds of their value added" [Greece, 1990, p. 61].

Also in Portugal national structural programmes have been pursued. They have mainly aimed at providing the country with an adequate infrastructure and training (e.g. Regional Development Plan of 1986). There have also been realized specific programmes aiming at modernizing agriculture and industry [Portugal, 1990].

As mentioned earlier, privatization is progressing in Portugal and it is expected to improve economic performance in several ways. However, there are still many state-owned enterprises and banks often plagued by inefficiencies, including overmanning and misguided investments. As in Greece, but to a remarkably smaller extent, these enterprises are subsidized. Therefore, there remain substantial possibilities for improvement [Macedo, 1990].

Some structural adjustment initiatives have also been continued in Spain having quite long experiences on this field (e.g. National Energy Plans). In the 1980's, special additional programmes based on the principle of minimum government intervention have been designed there to speed up the restructuring process (e.g. industrial reconversion programme 1982 affecting mostly basic and special steels, shipbuilding, electrical goods, automobiles and fertilizers). In addition, some special measures have been undertaken to encourage new business initiatives in areas most affected by the adjustment (mainly fiscal and financial incentives by the creation of the so-called Urgent Reindustrialization Zones - ZUR). All this has gone hand in hand with efforts to cut losses in Spain's large public enterprise sector, particularly of enterprises controlled by the INI state holding company [Hudson, Rudcenko, 1988; Spain, 1991].

There has been observed a relatively slow pace of the restructuring programmes, and due to the high costs of job creation the ZUR's have had less success than expected. Nevertheless, the progress is evident (e.g. labour force reductions, energy saving, sectoral specialisation agreements). It is particularly

true for the improvement of efficiency of public enterprises. In 1989, the INI announced a profit for the second consecutive year [Spain, 1991].

#### 4. Economic Performance

##### 4.1. Economic Activity and Stability

Due to the integration effects following the EC membership and due to the upturn in the world economy during the second half of the 1980's Greece, Portugal and Spain enjoyed a quite favourable external environment. However, different stages of market deregulation and differences in the microeconomic policy led to differentiated economic effects. It was particularly true for the first target of the "magic quadrangle", namely for economic growth. During the first half of the last decade, growth was comparable in the Three, even though - as noted in one of the OECD reports from 1991 [Greece, 1991, p. 11 - "the two Iberian economies could not benefit from the positive effects of trade creation and confidence (notably of foreign investors) that normally arise from the participation in an economic union such as the EC. After 1984-1985, these two countries showed remarkable dynamism while the Greek economy continued to stagnate". Economic growth of Greece was worse than in the EC-12 practically during the whole last decade. On the contrary, in the second half of the 1980's Portugal and Spain performed from this point of view better than the EC-12.

Reflecting unsound policies in the 1980's Greece performed also much worse - as indicated earlier in this paper - taking into account internal stability. The budget deficit in 1990 reached almost 19 % of GDP at the end of the last decade, roughly 5 times more than in the EC-12 and 3 times more than in Portugal (see table 10).



Table 14

## Key Macroeconomic Data for Greece, Portugal, Spain and EC-12 in 1981-1990

Specification	Unit	Region/ Country	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
GDP rate of growth <sup>a</sup>	%	EC-12	0.2	0.8	1.6	2.3	2.5	2.8	2.8	3.8	3.3	2.8
		Greece	0.1	0.4	0.4	2.8	3.1	1.2	-0.4	4.0	2.8	-0.3
		Portugal	1.3	2.2	0.0	-1.4	2.8	4.3	4.7	3.9	5.4	4.0
		Spain	-0.2	1.2	1.8	1.8	2.3	3.3	5.5	5.0	4.8	3.7
Divergence from EC-12		Greece	-0.1	-0.4	-1.2	0.5	0.6	-1.6	-3.2	0.2	-0.5	-3.1
		Portugal	1.1	1.4	-1.6	-3.7	0.3	1.5	1.9	0.1	2.1	1.3
		Spain	-0.4	-0.4	0.2	-0.5	-0.2	0.5	2.7	1.2	1.5	0.9
Gross fixed capital formation <sup>a</sup>	%	EC-12	-4.8	-2.0	0.1	1.5	2.5	3.4	4.8	8.3	6.7	4.1
		Greece	-7.5	-1.9	-1.3	-5.7	5.2	-5.7	-3.2	9.0	8.6	4.8
		Portugal	5.7	3.4	-7.6	-17.2	-3.4	9.5	19.5	15.8	7.5	7.5
		Spain	-3.3	0.5	-2.5	-5.8	4.1	10.0	14.6	14.0	13.7	6.7
Divergence from EC-12		Greece	-2.7	-0.1	-1.4	-7.2	2.7	-9.1	-8.0	0.5	1.9	0.7
		Portugal	10.5	5.4	-7.7	-18.7	-5.9	6.1	14.7	7.5	0.8	3.4
		Spain	1.5	2.5	-2.6	-7.7	1.6	6.6	9.8	5.7	7.0	2.6
Domestic demand <sup>a</sup>	%	EC-12	1.4 <sup>b</sup>	0.9	1.1	1.8	2.3	3.9	4.0	4.6	3.7	2.9
		Greece	1.7 <sup>b</sup>	1.5	0.4	0.9	4.2	-1.8	-1.8	8.2	3.3	3.3
		Portugal	2.3 <sup>b</sup>	2.1	-5.3	-6.2	0.9	8.4	10.6	6.1	4.0	5.8
		Spain	1.4 <sup>b</sup>	1.1	-0.1	-0.7	2.9	6.1	8.5	6.7	7.8	4.6
Divergence from EC-12		Greece	0.3 <sup>b</sup>	0.6	-0.7	-0.9	1.9	-5.7	-5.8	3.6	-0.4	0.4
		Portugal	0.9 <sup>b</sup>	1.2	-6.4	-8.0	-1.4	4.5	6.6	1.5	0.3	2.9
		Spain	0.0 <sup>b</sup>	0.2	-1.2	-2.5	0.6	2.2	4.5	2.1	4.1	1.7
Inflation	%	EC-12	12.3 <sup>b</sup>	10.5	8.5	7.2	5.9	3.8	3.4	3.6	4.9	5.2
		Greece	16.8 <sup>b</sup>	20.7	18.1	17.9	18.3	22.0	15.7	13.9	14.7	20.2
		Portugal	21.6 <sup>b</sup>	20.2	25.9	28.7	19.8	13.5	10.2	9.6	12.8	13.6
		Spain	17.5 <sup>b</sup>	14.5	12.3	11.0	8.2	8.7	5.4	5.1	6.6	6.4
Divergence from EC-12		Greece	4.5 <sup>b</sup>	10.2	9.6	10.7	12.4	18.2	12.3	10.3	9.8	15.0
		Portugal	9.3 <sup>b</sup>	9.7	17.4	21.5	13.9	9.7	6.8	6.0	7.9	8.4
		Spain	5.2 <sup>b</sup>	4.0	3.8	3.8	2.3	4.9	2.0	1.5	1.7	1.2
Unemployment rate	%	EC-12	8.1	9.5	10.0	10.8	10.9	10.8	10.4	10.0	8.9	8.4
		Greece	4.0	5.8	9.0	9.3	8.7	8.2	8.0	8.5	7.5	7.5
		Portugal	7.6	7.5	7.7	8.4	8.5	8.3	8.8	5.6	4.8	4.6
		Spain	14.4	16.3	17.8	20.6	21.9	21.2	20.5	19.6	17.1	16.1
Divergence from EC-12		Greece	-4.1	-3.7	-1.0	-1.5	-2.2	-2.6	-2.4	-1.5	-1.4	-0.9
		Portugal	-0.5	-2.0	-2.3	-2.4	-2.4	-2.5	-1.6	-4.4	-4.1	-3.8
		Spain	6.3	6.8	7.8	9.8	11.0	10.4	10.1	9.6	8.2	7.7

Table 14 continued

Specification	Region/ Country	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Current account/GDP %	EC-12	-0.7	-0.7	0.1	0.3	0.8	1.4	0.8	0.3	-0.1	-0.3
	Greece	-0.7	-4.4	-5.0	-4.0	-8.2	-5.2	-2.5	-1.5	-4.8	-6.1
	Portugal	-12.2	-13.5	-8.3	-3.4	0.4	3.9	1.8	-1.4	-2.9	-0.3
	Spain	-2.7	-2.5	-1.5	1.4	1.6	1.7	0.1	-1.1	-3.2	-3.5
Divergence from EC-12	Greece	0.0	-3.7	-5.1	-4.3	-9.0	-6.6	-3.3	-1.8	-4.7	-5.8
	Portugal	-11.5	-12.8	-8.4	-3.7	-0.4	2.5	1.0	-1.7	-2.8	0.0
	Spain	-2.0	-1.8	-1.6	1.1	0.8	0.3	-0.7	-1.4	-3.1	-3.2

<sup>a</sup> Rate of growth. - <sup>b</sup> Average 1974-1981.

Source: EC [1989, pp. 280-285], Beiheft A [1991] and EC [1991, pp. 214-281].

The size of the public sector deficit largely explains the high inflation rate in Greece, much higher than in Portugal and - particularly - in Spain, and additionally much higher (in some years even 6 times) than in the EC-12. However, from this point of view also Spain and - especially - Portugal diverged from the EC-12 to their own disadvantage. The case of Portugal is easier to understand when having in mind the stop-go macro-economic policies and the still dominant role of nationalized enterprises and banks in the economy.

As regards unemployment, it was the highest in Spain where, however, the situation on the labour market has remarkably improved after accession even vis-à-vis the EC-12 (decreasing divergence). Taking into account statistical data from table 14, Greece and particularly Portugal performed much better, also in comparison with the EC-12. But as Vassilakopoulous [1986] argues, whereas in the most EC countries registered unemployment is almost identical with total unemployment, in Greece it covers only about 1/3 of total unemployment (employment in the shadow economy, in the small family-enterprises etc.). It is worthwhile to add that the proportion of self-employed workers is also very high in Portugal [Macedo, 1990].

Out of the Three Greece has also distinguished to its disadvantage as regards external imbalances measured in table 14 by current account deficit (surplus) as a percentage of GDP. In the 1980's, Greek current account balance was negative and diverged by far more than in the case of Portugal and Spain from the positive current account balance of the EC-12. The external financial situation of Portugal and Spain was also better in this sense that in some years (e.g. in 1984-1987 in Spain) they ran current account surplus.

The rather disappointing macroeconomic performance of Greece manifested also through the so-called Emu indicator being the sum of the rate of inflation, the budget deficit as a percentage of GDP, the budget surplus as a percentage of GDP that is needed to reach the EC average within 10 years, the rate of unemployment, and the current account as a percentage of GDP. In 1990, such an indicator was higher for Spain than the EC average (ca. 15 and 24 respectively) and therefore her performance was worse than that of the EC-12. Portugal was close to Spain, Belgium and Ireland. Greece, with an indicator of 53,2 in 1991, was in a class of its own [Wolf, 1991].

#### 4.2. Real Income and Catching-Up

During the 1980's, real income has increased in all three analysed countries. As regards the catch-up process, however, they performed in a different manner.

Spain is the country which on average has clearly matched success in the catch-up process vis-à-vis EC-12. In the 1980's, the relative position of Portugal almost didn't change, while economic distance of Greece vis-à-vis the EC-12 substantially increased. It was clearly a direct consequence of unsound policies and growing imbalances.

Table 15

Gross National Product in Greece, Portugal and Spain in 1981-1990  
(EC-12 = 100)

Years	Greece		Portugal		Spain	
	Total	Per capita	Total	Per capita	Total	Per capita
1981	1.3	44.1	0.9	29.8	6.7	56.5
1982	1.5	47.7	0.9	29.5	6.7	56.8
1983	1.4	44.5	0.8	27.3	6.1	50.8
1984	1.4	44.9	0.8	26.2	6.4	53.4
1985	1.3	42.3	0.8	27.0	6.5	54.0
1986	1.1	36.9	0.8	28.1	6.6	54.8
1987	1.1	35.7	0.9	28.4	6.8	56.2
1988	1.1	36.7	0.9	29.2	7.2	59.6
1989	1.2	36.2	0.9	31.0	7.8	65.5
1990	1.2	35.3	1.0	33.1	8.1	68.4

Source: As in table 14.

It was expansive consumption, with an average growth rate of 2 1/2 %, which sustained the low level of Greece GDP growth. Due to an increase in public consumption financed partly by printing money, and due to expansionary wage setting and transfer payments (mainly pensions) the consumer spending has remarkably increased there but simultaneously the national saving ratio<sup>1</sup> has dramatically fallen (from 23 % in 1981 to 13 % in 1989). By contrast, the saving ratios in Portugal and Spain exceeded the EC average and since 1984 have systematically increased (in the case of Portugal from 19 % in 1984 to almost 27 % in 1989, and in case of Spain respectively from about 20 % to 23 %). So in Greece a growing consumption propensity has been accompanied by investment crowding-out, while in Portugal and Spain the reverse has been true. As a direct consequence Greek investment rate of growth as a rule lagged considerably behind the EC-12 average. Such was also the divergence of Spain until 1984 and of Portugal until 1986. Later on this has

<sup>1</sup> Gross saving ratio = gross national disposable income minus private and government consumption as a percentage of GDP.

changed to the advantage of the Iberian countries (see table 14).

Table 16

## Gross Investments as Percentage of GDP in the EC Countries in 1981-1990

Specification	Region/ Country	1981 <sup>a</sup>	1982	1983	1984	1985	1986	1987	1988	1989	1990
Investments/GDP	EC-12	22.1	20.2	19.6	19.3	19.2	19.0	19.2	20.0	20.7	20.8
	Greece	22.9	19.9	20.3	18.5	19.1	18.5	17.4	17.9	18.5	18.9
	Portugal	27.2	31.1	29.2	23.6	21.8	22.4	25.3	28.1	26.8	26.7
	Spain	23.9	21.3	20.6	18.8	18.9	19.2	20.7	22.5	24.0	24.4
Divergence from EC-12	Greece	0.8	-0.3	0.7	-0.8	-0.1	-0.5	-1.8	-2.1	-2.2	-1.9
	Portugal	5.1	10.9	9.6	4.3	2.6	3.4	6.1	8.1	6.1	5.9
	Spain	1.8	1.1	1.0	-0.5	-0.3	0.2	1.5	2.5	3.3	3.6

<sup>a</sup> Data for 1974-1981.

Source: As in table 14.

The catch-up process typically requires substantial saving and investment efforts, and these requirements have been met by far more in Portugal than in Spain. In the 1980's the gross investment ratios in these countries were on the average higher than in the EC-12. The reverse was true for Greece where the rates of growth of actual and potential output were therefore clearly lower than in Portugal and Spain.

Table 17

## Actual and Potential Output Growth in Business-Sector of Greece, Portugal and Spain in 1980-1990 (% annually)

Specification	Greece	Portugal	Spain
Actual output	1.5	3.0	2.8
Potential output	1.4	3.2	3.0
Capital stock	1.9	2.9	3.5
Labour force	0.9	0.9	1.0
Total factor productivity	-0.1	0.7	1.3

Source: Greece [1991, p. 19].



Table 18 continued

Specification	Greece			Portugal			Spain			EC-12		
	1981	1985	1989	1981	1985	1989	1981	1985	1989	1981 <sup>a</sup>	1985	1989
<u>Structure of employment</u>												
Agriculture, forestry, hunting	30.7	28.9	26.6	31.2	30.4	19.0	18.0	19.7	13.0	10.2	10.4	6.9
Mining & quarrying	0.5	0.8	0.6			0.7			0.6			0.7
Manufacturing	19.3	18.9	19.3	29.3 <sup>b</sup>	29.0 <sup>b</sup>	24.9	24.9 <sup>b</sup>	27.3 <sup>b</sup>	22.3	33.7 <sup>b</sup>	25.4 <sup>b</sup>	23.4
Electricity, gas, water	0.9	0.9	1.0	1.0	1.1	0.9	1.1	0.9	0.7	1.2	1.2	0.8
Construction	8.3	6.8	6.3	11.8	11.4	8.4	9.9	8.4	9.3	9.6	8.7	7.3
Trade	15.0	15.9	16.4	16.0	16.2	15.2	16.1	24.6	20.1	21.7	23.0	18.0
Transport	7.8	6.8	6.6	5.3	5.3	4.2	5.6	7.4	5.8	7.4	7.4	5.8
Other	17.5	21.0	23.2	5.4	6.6	26.7	27.9	11.7	28.2	16.2	23.9	37.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>a</sup> Without Ireland and Spain. - <sup>b</sup> With mining and quarrying.

Source: OECD [1991]; UN [1991]; ILO [1991].

Despite decreasing share of agriculture (with forestry and hunting) in total production and employment, the economic structures of Greece, Portugal and Spain have differed substantially from that of all the EC countries. In the 1980's, the importance of agriculture measured by its employment share in Greece and Portugal was almost three times higher and in Spain almost two times higher than the EC-12 average. It influenced negatively productivity growth since it was the lowest just in this sector.

Due to many rigidities in the labour markets and limited efficiency of macroeconomic policies Portugal and Spain were in a position to use structural adjustment (labour outmigration from the first sector to industry and services) in their economic development only to a small extent. The significance of agriculture and of the low efficient public sector with respect to

employment was very high and changed only slowly.<sup>1</sup>

Table 19

Economic Productivity<sup>a</sup> by Sectors in Greece, Portugal and Spain  
in the Selected Years of the 1980's (%)

Specification	Greece			Portugal			Spain		
	1981	1985	1989	1981	1985	1989	1981	1985	1989
Agriculture, forestry, hunting	64.2	67.5	57.1	31.7	28.9	32.6	41.7	33.0	38.5
Manufacturing <sup>b</sup>	118.2	117.3	83.9	117.7	115.2	112.5	105.6	110.6	97.4
Electricity, gas, water	244.4	109.0	220.0	120.0	345.5	322.2	90.9	355.6	428.6
Construction	102.4	105.9	84.1	70.3	54.4	75.0	73.7	86.9	84.9
Trade	96.0	93.1	69.5	150.0	151.9	128.9	111.8	89.4	102.0
Transport	112.8	123.5	104.5	130.2	160.4	138.1	116.1	82.4	105.2
Other	131.4	114.8	182.8	281.5	222.7	113.9	119.7	211.1	124.8
Non-weighted average	124.2	104.4	114.6	113.3	154.1	131.9	94.2	138.4	140.2

<sup>a</sup> Respective shares in production divided by shares in employment and then multiplied through 100. - <sup>b</sup> With mining and quarrying.

Source: Data from table 18; own calculations.

<sup>1</sup> Katseli [1990] argues that in Greece rigidities in the labour market correspond to the rigidities in the functioning of public and private sector markets. He summarises these rigidities as follows:

- segmentation of the labour market between rural and urban and between "official" and "unofficial" labour markets with important barriers to entry and limited mobility
- wage setting behaviour on the part of the public sector that provides guidelines for private sector settlements regardless of labour market conditions at the industry or enterprise level
- job-mismatch distortions due to wage-setting and employment policies and educational rigidities (e.g. wage-setting by the public sector creates disincentives for hiring skilled labour for jobs in the private sector).

According to Katseli these rigidities can be attributed to the workings of the state corporatist model. They give rise to classical and structural unemployment.



#### 4.4. Openness and Competitiveness

Before joining the EC, the Greek, Portuguese and particularly the Spanish economy belonged to the relatively less open ones. However, in the meantime the situation has changed considerably.

Table 20

Shares of the EC Countries in World Trade in Selected Years  
of 1981-1990 (%)

Countries/Regions	Shares in world imports				Shares in world exports			
	1981	1985	1989	1990	1981	1985	1989	1990
Belgium and Luxemburg	3.3	2.7	3.1	3.4	4.0	2.8	3.3	3.5
Denmark	1.0	0.9	0.9	0.9	1.2	0.9	1.1	1.0
France	5.4	5.3	6.1	6.6	6.6	5.1	5.9	6.2
Germany	9.8	7.7	8.6	9.8	9.6	9.5	11.3	11.8
Ireland	0.5	0.5	0.5	0.6	0.8	0.5	0.7	0.7
Italy	3.8	4.3	4.8	5.1	4.2	3.9	4.6	5.0
Netherlands	4.5	3.2	3.2	3.6	4.6	3.6	3.6	3.9
United Kingdom	5.4	5.4	6.2	6.4	6.1	5.3	5.0	5.5
EC-9	33.7	30.0	33.4	36.4	37.1	31.6	35.5	37.6
Greece	0.3	0.4	0.5	0.5	0.7	0.4	0.4	0.4
Portugal	0.3	0.4	0.6	0.7	0.6	0.3	0.4	0.5
Spain	1.1	1.5	2.2	2.5	1.3	1.3	1.4	1.6
EC-12	35.4	32.3	36.7	40.1	39.7	33.6	37.7	40.1

Source: GUS [1991 and earlier issues].

During the 1980's the Three, especially Spain, increased their shares in world imports and (except Greece) in world exports. Due to many reasons, and particularly due to the gradual liberalization of external sectors, also the shares of foreign trade in GDP of these countries were increasing.

Table 21

Shares of Goods' and Services' Imports and Exports in GDP  
of Greece, Portugal, Spain and the EC-12 in 1981-1990 (%)

Years	Greece		Portugal		Spain		EC-12	
	Total	With EC	Total	With EC	Total	With EC	Total	With EC
IMPORTS								
1981	27.1	12.3	45.2	18.2	20.2	5.1	28.5	12.1
1982	28.7	12.3	45.0	19.1	20.6	5.6	28.3	12.5
1983	30.1	13.4	44.1	17.6	21.9	6.2	27.9	12.7
1984	29.9	13.8	45.2	17.7	21.4	6.0	29.5	13.4
1985	32.8	14.7	41.4	17.3	21.2	6.4	29.4	14.0
1986	30.7	16.7	36.1	18.9	18.0	7.3	25.7	13.0
1987	29.5	16.7	40.5	23.2	19.5	8.8	25.8	13.1
1988	29.0	17.9	43.8	26.6	20.7	9.5	26.4	13.3
1989	30.3	20.2	46.3	27.9	22.0	9.9	28.2	14.1
1990	30.4	22.0	46.3	29.1	22.9	10.7	28.8	14.7
EXPORTS								
1981	20.6	5.1	25.9	9.7	18.1	5.1	28.0	12.2
1982	18.4	5.3	26.4	10.9	18.8	5.5	28.1	12.6
1983	19.8	6.8	31.3	13.8	21.3	6.4	28.3	12.7
1984	21.7	7.8	37.2	16.7	23.7	7.6	30.3	13.6
1985	21.2	7.4	37.3	17.2	23.4	7.6	30.7	14.0
1986	22.2	9.1	33.1	16.6	20.3	7.1	27.6	13.0
1987	22.9	9.2	34.1	17.7	19.7	7.4	26.9	13.1
1988	22.6	9.4	34.5	18.2	19.7	7.6	27.1	13.5
1989	22.8	10.5	36.1	19.4	19.5	7.3	28.5	14.4
1990	22.8	11.6	36.3	19.6	19.1	7.1	29.4	14.7

Source: As in table 3.

Data in table 21 clearly point out that the economies of the Three after EC-accession responded quite different.<sup>1</sup> In case of Greece the share of foreign trade (total trade as well as intra-EC trade) in GDP has considerable increased since 1981 but it was mainly due to substantial trade expansion (trade creation + dynamic effects of opening up the economy) on the import side (see table 3 and 21). Import expansion from the EC could

<sup>1</sup> See: Mendes, Thirlwall [1989]; Castillo, Martinez, Sanchis [1989]; Silva [1989]; Fernandez, Gonzalez, Suarez [1989]; Corado, Macedo [1989]; Courakis, Roque [1989]; Vinals et al. [1990]; Katseli [1990]; Beyfuß, Kleine [1991]; Plummer [1991].

be observed particularly after mid-1980's when the situation on the world market had improved and the Greece authorities had decided to enter into the second sub-period of post-entry trade liberalization.

Portugal's trade performance has been much more impressive and more balanced. Trade expansion with the EC, mainly import expansion, occurred particularly since mid-1980's and can directly be attributed to entry trade liberalization [Beyfuß, Kleine, 1991].

Despite the long, gradual trade liberalization in Spain, the intensity of its trade relations with the EC countries was relatively low before the accession to the Community. Immediately after joining the EC it decreased to some extent. Then an increasing tendency of the imports/GDP ratio has been observed while the exports/GDP ratio stabilized.

Table 22

## Regional Pattern of Greek Foreign Trade in 1975-1990 (%)

Countries/Regions	Imports			Exports		
	1975/ 1980	1981/ 1989	1990	1975/ 1980	1981/ 1989	1990
Extra-EC	56.3	44.6	37.6	49.9	41.6	37.1
Developed countries	25.2	16.0	15.4	9.8	13.1	14.3
Other countries	31.1	28.6	22.2	40.1	28.5	22.8
Intra-EC	43.7	55.4	62.4	50.1	58.4	62.9
Belgium/Luxemburg	2.4	3.2	3.4	2.0	2.2	2.2
Denmark	0.7	1.2	1.2	0.7	0.9	0.9
France	6.1	7.2	7.8	6.8	8.2	9.3
Germany	14.9	19.2	20.5	20.1	21.4	21.8
Ireland	0.3	0.5	0.6	0.1	0.2	0.2
Italy	8.9	11.5	15.0	9.3	13.8	15.8
Netherlands	3.6	6.4	6.4	5.5	3.8	3.6
Portugal	0.2	0.2	0.4	0.2	0.2	0.3
Spain	1.6	1.4	2.0	0.8	1.0	1.5
United Kingdom	5.0	4.6	4.9	4.6	6.6	7.3

Source: Beyfuß, Kleine [1991, p. 36].

On the whole, trade effects of the Three's accession to the EC have been positive, while trade partners benefited more than Greece, Portugal and Spain alone. Additionally, due to the trade diversion effect, the other EC members could benefit at the expense of third countries, especially developing ones [Beyfuß, Kleine, 1991; Plummer, 1991].

There appeared a relatively substantial trade diversion effect in Greece's foreign trade with the non-EC countries, while Germany, Italy and the Netherlands were the most benefiting countries due to the trade expansion effect in Greece's intra-EC turnover. However, greater trade diversion effect could be observed in Portuguese foreign trade.

Table 23

## Regional Pattern of Portuguese Foreign Trade in 1980-1990 (%)

Countries/Regions	Imports			Exports		
	1980/ 1985	1986/ 1989	1990	1980/ 1985	1986/ 1989	1990
Extra-EC	54.1	34.8	30.8	37.5	27.9	25.4
Developed countries	22.4	16.8	13.5	21.1	19.2	16.8
Other countries	31.7	18.0	17.3	16.4	8.7	8.6
Intra-EC	45.1	65.0	69.3	60.7	71.0	74.3
Belgium/Luxemburg	2.4	3.6	4.3	3.2	3.2	3.1
Denmark	0.5	0.9	0.9	1.7	2.3	2.2
France	8.0	11.3	11.1	12.5	15.4	15.0
Germany	11.2	14.5	14.2	13.3	15.1	17.0
Greece	0.1	0.2	0.1	0.4	0.3	0.5
Ireland	0.3	0.3	0.4	0.5	0.5	0.5
Italy	5.2	8.8	9.8	4.5	4.1	4.3
Netherlands	3.3	4.6	5.8	5.8	6.2	5.8
Spain	6.4	12.8	14.6	3.8	10.2	13.4
United Kingdom	7.7	7.9	7.9	14.8	13.7	12.0

Source: Beyfuß, Kleine [1991, p. 35].

Despite the fact that the shares of the EC-countries in the foreign trade of Portugal on the eve of her EC accession were higher than in the case of Greece, just Portugal increased much more her trade-dependence (particularly import-dependence) upon other EC-members, especially France, Germany and Italy. There appeared also a rather remarkable increase of Portugal's trade-dependence upon Spain. It was not accompanied by the symmetrical increase of Spain's trade dependence upon Portugal.

Table 24

## Regional Pattern of the Spanish Foreign Trade in 1980-1990 (%)

Countries/Regions	Imports			Exports		
	1980/ 1985	1986/ 1989	1990	1980/ 1985	1986/ 1989	1990
Extra-EC	67.0	44.2	40.2	48.6	34.3	28.4
Developed countries	20.2	20.2	18.9	12.7	15.3	12.2
Other countries	46.8	24.0	21.3	35.9	19.0	16.2
Intra-EC	32.7	55.4	59.5	50.3	64.3	69.4
Belgium/Luxemburg	1.8	3.1	3.1	2.5	3.1	3.0
Denmark	0.4	0.7	0.8	0.6	0.7	0.5
France	8.4	13.1	14.7	15.7	18.7	20.8
Germany	9.1	15.9	16.5	9.3	11.9	13.6
Greece	0.2	0.3	0.2	0.5	0.7	0.7
Ireland	0.4	0.7	0.7	0.4	0.4	0.3
Italy	4.4	9.2	10.1	6.2	9.1	10.7
Netherlands	2.0	3.3	3.7	4.9	5.1	4.7
Portugal	0.6	1.9	2.5	2.5	5.0	6.1
United Kingdom	5.5	7.2	7.2	7.7	9.5	9.0

Source: Beyfuß, Kleine [1991, p. 34].

After the EC accession, Spain strengthened her trade relations especially with France, Germany, Italy and the United Kingdom. The share of Germany increased particularly in Spanish imports. It was mainly due to Spain's increase import intensity by investment goods which belong traditionally to the leading German export products [Beyfuß, Kleine, 1991].

Table 25

## Commodity Pattern of the EC Countries' Imports in Selected Years of 1983-1990 (%)

Commodity Groups	Greece			Portugal			Spain			EC-12		
	1983	1985	1990	1983	1985	1990	1983	1985	1990	1983	1985	1989 <sup>a</sup>
Food & live Animals	11.8	11.5	12.7	10.3	10.6	9.0	8.2	7.3	8.7	10.3	9.8	5.4
Beverages & Tobacco	0.8	0.8	1.6	0.4	0.3	0.7	1.5	1.4	1.1	1.1	1.2	1.1
Crude Mat. excl. Fuels	6.2	5.8	5.0	10.0	6.3	5.9	10.8	11.1	6.3	6.9	6.9	4.0
Mineral Fuels	27.4	29.5	7.7	26.8	26.4	10.8	40.4	36.2	12.0	2.2	2.1	8.2
Oils & Fats	0.1	0.2	0.4	0.3	0.3	0.3	0.2	0.3	0.3	0.6	0.7	0.4
Chemicals	8.4	8.6	10.6	10.1	10.3	9.1	7.8	8.5	9.9	8.8	9.4	10.3
Manufactured Goods	16.6	15.8	21.6	12.3	14.4	19.2	7.2	8.1	14.0	15.6	16.5	18.4
Machinery & Transport Equipment	24.2	23.7	31.1	26.1	27.6	37.0	18.8	21.7	38.2	44.7	43.3	44.7
Miscellaneous Articles	3.9	4.1	9.1	3.7	3.7	8.0	5.0	5.3	9.5	9.7	9.9	12.3
Commod. not classified	0.6	0.0	0.2	0.0	0.1	0.0	0.1	0.1	0.0	0.1	0.2	0.2
Total	100	100	100	100	100	100	100	100	100	100	100	100

<sup>a</sup> Data for 1989 as for 1990 are not available at the moment.

Source: OECD [1981, 1985, 1991]; own calculations.

In the 1980's commodity pattern of Greek, Portuguese and Spanish total imports still diverged from the commodity pattern of the EC-12 imports.<sup>1</sup> However, in connection with the industrialization of the Three and the catch-up processes in these countries a remarkable increase of the share of manufactured products (particularly machinery and transport equipment) could be observed. It was especially typical for the 1985-1990 sub-period. Portugal and Spain distinguished themselves as countries which increased their imports of investment goods (e.g. an increase of the share of machinery and transport equipment by about 15 percentage points between 1985 and 1990). Of course, it has influenced evolution of the commodity patterns of exports.

<sup>1</sup> As from 1988, the OECD countries are required to report data according to SITC Rev. 3. However, there is no discontinuity in the published figures, since the data for the previous years have been converted into SITC Rev. 3. One should note, however, that the conversion has been done only back to the year 1983. That is the reason that our analysis doesn't cover the years 1981 and 1982.

Table 26

## Commodity Pattern of the EC Countries' Exports in Selected Years of 1983-1990 (%)

Commodity Groups	Greece			Portugal			Spain			EC-12		
	1983	1985	1990	1983	1985	1990	1983	1985	1990	1983	1985	1989
Food & live Animals	22.0	21.3	20.3	5.6	4.5	3.8	12.6	11.3	11.7	9.0	8.5	8.5
Beverages & Tobacco	5.4	4.6	5.5	4.0	3.3	2.9	1.8	1.6	1.6	1.6	1.6	1.6
Crude Mat. excl. Fuels	6.7	7.4	5.7	8.2	8.5	8.8	3.0	2.9	3.2	3.0	3.1	3.1
Mineral Fuels	6.8	12.0	7.3	5.7	4.4	3.5	9.3	9.4	5.1	9.4	8.8	3.3
Oils & Fats	5.7	2.1	3.8	1.8	1.6	0.5	1.6	2.0	1.6	0.5	0.6	0.4
Chemicals	4.3	4.0	3.9	7.5	7.0	5.3	7.4	8.5	8.3	12.2	12.5	12.6
Manufactured Goods	30.2	28.8	23.5	28.3	27.2	22.6	27.6	26.3	20.1	17.4	17.5	19.3
Machinery & Transport Equipment	3.5	2.9	4.2	15.4	15.6	19.7	26.2	27.2	38.6	35.9	35.9	37.6
Miscellaneous Aritcles	15.4	16.8	23.4	23.5	27.6	32.9	10.5	10.3	9.4	10.9	11.4	12.5
Commod. not classified	0.0	0.1	2.4	0.0	0.3	0.0	0.0	0.5	0.4	0.1	0.1	1.1
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: As in table 25.

During the 1980's, particularly in the 1985-1990 sub-period, growth rates of manufactured products exports were in all the three countries substantially higher than growth rates of other products bringing about that they increased their share at the expense mainly of foodstuffs. However, what is important from our point of view, at the end of the 1980's commodity patterns of the Greek, Portuguese and Spanish exports were not fully convergent.<sup>1</sup> While in 1990 exports of manufactured products (SITC groups 5-8 taken together) accounted 55 % in the case of Greece, it was 76.4 % in the case of Spain and even 80.5% in

<sup>1</sup> It is worthwhile to add here that the distribution of manufactured goods exports from the Three and Poland (and other East European countries) among the EC-countries markets was alike and - according to ECE experts [ECE, 1989] - increased substantially between 1965 and 1986. They argue that there was a diversion of the EC's manufactured goods imports from Eastern Europe and Yugoslavia. The negative effects for the East European countries were the largest in textiles and clothing, basic metals, machinery and, to a smaller extent, in food products [ECE, 1989]. See also: Plummer [1991].

the case of Portugal. In the same year exports of machinery and transport equipment accounted for 19.7 % of Portuguese exports, almost 40 % of Spanish exports, while in the case of Greece it was only 4.2 %.

The accession of Greece and, particularly, of Portugal and Spain to the EC, contributed substantially to the expansion of the intra-EC trade, which rates of growth were in the 1980's much higher than growth rates of the world trade [EC, 1989]. This phenomenon was brought about mainly by increases in manufactured goods' trade with the other EC countries which also expanded considerably faster than manufactured goods' world trade. As a consequence trade dependence of Greece, Portugal and Spain upon the other EC countries by industrial products remarkably increased.

Table 27

Trade Dependence of Greece, Portugal and Spain Upon Other EC Countries  
by Industrial Products in Selected Years of 1983-1990 (%)

Commodity Groups	Greece			Portugal			Spain		
	1983	1985	1990	1983	1985	1990	1983	1985	1990
IMPORTS									
Chemicals	78.8	80.0	78.3	75.2	79.0	83.7	66.1	66.0	74.8
Manufactured Goods Classified by Material	74.1	73.8	69.7	70.9	72.0	79.5	66.4	67.7	71.9
Machinery and Transport Equipment	59.7	60.9	66.3	68.9	72.9	81.5	63.8	66.7	70.4
Miscellaneous Industrial Articles	76.2	72.3	73.1	64.9	69.2	82.6	51.3	53.3	60.4
EXPORTS									
Chemicals	45.1	28.8	39.4	64.2	64.6	68.0	39.4	40.4	59.4
Manufactured Goods Classified by Material	46.0	54.5	68.0	59.8	60.3	72.7	36.5	39.7	64.1
Machinery and Transport Equipment	26.7	37.9	53.7	78.1	71.2	83.3	60.4	67.1	79.2
Miscellaneous Industrial Articles	76.2	74.1	70.7	62.4	61.0	73.3	43.9	42.0	62.3

Source: As in table 25.



Some increase could also be observed of the other EC countries' dependence on manufactured goods' trade with Greece, Portugal and Spain could be observed. However, there was still a substantial asymmetry, particularly in the case of EC-12 imports from the Three. It was partly due to the different export performance of Greece, Portugal and Spain on the markets of their partners from the EC.

Table 28

Trade Dependence of the EC Upon Greece, Portugal and Spain  
by Industrial Products in Selected Years of 1983-1989 (%)

Commodity Groups	Greece			Portugal			Spain		
	1983	1985	1989	1983	1985	1989	1983	1985	1989
IMPORTS									
Chemicals	0.08	0.07	0.11	0.42	0.42	0.40	1.10	1.42	1.83
Manufactured Goods Classified by Material	0.65	0.66	0.68	0.84	0.95	0.99	2.41	2.44	2.54
Machinery and Transport Equipment	0.04	0.05	0.05	0.36	0.39	0.53	2.39	3.02	3.01
Miscellaneous Industrial Articles	1.12	1.02	0.93	1.14	1.56	2.11	1.56	1.64	1.77
EXPORTS									
Chemicals	0.94	0.95	0.92	0.79	0.70	0.98	2.05	2.03	3.40
Manufactured Goods Classified by Material	1.08	1.07	1.22	0.57	0.66	1.30	1.41	1.47	3.07
Machinery and Transport Equipment	0.78	0.69	0.73	0.76	0.61	1.34	2.29	2.43	4.77
Miscellaneous Industrial Articles	0.60	0.50	0.73	0.39	0.33	0.75	1.19	1.18	2.55

Source: As in table 25.

As seen from data in tables 26-28, it was Greece which performed worst among the Three as a supplier of manufactured products on the markets of partners from the EC. Additionally, as noted earlier, Greece distinguished itself as a country benefiting the EC accession by far more than Portugal and Spain on the import side (imports-biased membership) what from the pure theoretical point of view can be in turn attributed more or less to the following factors:

- a) export-oriented industries are not competitive on the world market
- b) restructuring and modernization of the national economy requires imports of capital- and technology-intensive products and influences propensity to imports
- c) growing internal demand (e.g. balance of payments' credits from other EC governments after the EC accession) can't sufficiently be covered due to the limited internal production capacities
- d) growing liberalization on the current account and respective growing openness of the national economy lead to the switching of the internal demand toward more competitive foreign products.

As it seems, in case of Greece all the four factors were in force, especially, however, factors listed under a) and d), and this opinion is also shared by Katseli [1990] and by Beyfuß and Kleine [1991]. Katseli [1991, p. 64] argues additionally that in the case of Greece "... import penetration ratio has increased rapidly in the traditional sectors, which faced a reduction in the nominal protection rate. For the modern sectors, the import penetration ratio increased after 1985 as trade became liberalized in those sectors as well. With the exception of ... shoes and clothing ... the export propensity ... has deteriorated as expected in the most technologically advanced sectors ..., and has increased in the traditional export sectors as resources have shifted slightly in favour of the more traditional export sectors".

The outcome was quite different in the case of Portugal which many years distinguished itself by rather ambiguous public response to external liberalization but in the 1980's substantially liberalized its current account. It also faced an import-bias after the accession but it was mainly due to factors specified under b) and c) [Beyfuß, Kleine, 1991]. Additionally,

there was some improvement of competitiveness. As Macedo [1990, p. 23] argues the so-called "strong-demand" sectors such as office and data-processing machines, electrical and electronic goods, and chemicals and pharmaceuticals have been growing at over 5 % p.a. since the 1960's. Growth of about 3 % p.a. identifies "moderate-demand" sectors, such as rubber and plastic, transport equipment, food, beverages and tobacco, paper and printing products and industrial and agricultural machinery. Finally, the so-called "weak-demand" sectors, such as metal products, miscellaneous manufactures, ferrous and non-ferrous ores, textiles, leather and clothing and construction materials have experienced a growth rate of less than 2 % p.a. in recent decades".

Also in the case of Spain factors specified under b) and c) were mainly responsible for the import-biased membership in the EC. It faced some improvement of the competitiveness too, albeit not sufficient and not satisfactory enough. Fernandez and Sebastian [1989] detected a very substantial positive long-run impact of the Spain's accession to the EEC on her global non-energy imports, and a short negative impact on total exports. Vinals et al. [1990, p. 53] commented it as follows "Perhaps the already very advantageous treatment of Spanish exports by EEC countries in accordance with ... Preferential Treaty prior to integration, and the unchanged legal status of exports to non-EEC countries after integration can explain why there was not a surge in exports. On the other hand, the disappearance of hidden export subsidies caused by the introduction of VAT may be behind the negative impact on exports...". Let's add to it that in case of all the Three countries the underdevelopment of intra-industry trade was of great importance. This made it difficult to adjust quickly and to increase exports rapidly.

Table 29

Overlap Coefficients<sup>a</sup> of Greece, Portugal, Spain and the EC-12  
for Manufacturing Trade in Selected Years of 1983-1990

Country/Region	Trade with					
	World			EC-12		
	1983	1985	1990	1983	1985	1990
Greece	0.373	0.322	0.340	0.275	0.297	0.294
Portugal	0.466	0.502	0.497	0.455	0.487	0.495
Spain	0.600	0.630	0.730 <sub>b</sub>	0.640 <sub>x</sub>	0.662 <sub>x</sub>	0.729 <sub>x</sub>
EC-12	0.831	0.856	0.900 <sup>b</sup>			

<sup>a</sup> Calculated according to the formula:

$$TO = \frac{2 \sum_i \min (X_i, M_i)}{\sum_i (X_i + M_i)}$$

where  $X_i$  and  $M_i$  refer to exports and imports, respectively, of each of the 35 commodity groups  $i$  at the two-digit SITC level 5-8 and "min" defines the magnitude of the trade in manufactures which overlaps in (dollar) value terms.

<sup>b</sup> Coefficient calculated on data for 1989.

Source: OECD [1988 and 1991]; own calculations.

In the 1980's intensity of the intra-industry trade of the Three was still lower than in the case of the EC-12. Greece distinguished itself clearly to its own disadvantage. It didn't come closer to the EC trade overlap values and even deteriorated when taking into account the situation in 1983 and in the 1970's (see table 5). Moreover, intensity of the Greek intra-industry trade vis-à-vis the EC-12 was lower than vis-à-vis other parts of the world - a notion which becomes plausible taking into account that according to development levels Greece was less close to the EC countries (especially to the highest developed ones) than to the rest of the world.



Table 30 continued

Services Total				of which												
				Insurance & Freight				Interest Payments				Direct Investment Income				
Greece	Por- tugal	Spain	EC- 12	Greece	Por- tugal	Spain	EC- 12	Greece	Por- tugal	Spain	EC- 12	Greece	Por- tugal	Spain	EC- 12	
Services' Credit/Exports																
1981	93.1	57.4	63.9	51.4	1.4	2.4	5.3	4.3	4.9	3.8	8.5	17.1	x	x	0.5	2.6
1982	90.8	43.1	63.4	52.4	1.1	1.8	4.2	4.0	3.2	2.9	7.7	18.2	x	x	0.7	2.6
1983	74.5	32.8	64.6	53.3	1.2	1.3	4.4	3.7	1.9	2.5	5.4	20.7	x	0.0	0.6	2.5
1984	66.9	37.1	61.9	53.3	1.3	1.2	4.1	3.8	3.0	2.8	5.5	21.2	0.1	0.0	0.5	2.9
1985	65.6	40.1	62.7	52.2	1.5	1.6	4.2	3.7	2.8	3.5	6.6	20.6	0.0	0.1	0.5	2.3
1986	72.2	49.6	73.3	50.5	1.8	2.0	4.0	3.5	1.7	3.9	5.1	18.6	0.1	0.0	0.5	2.4
1987	82.0	39.7	71.1	49.7	2.0	1.5	3.7	3.4	2.0	3.1	4.5	17.5	0.0	0.1	0.4	2.9
1988	91.8	37.8	69.2	50.3	2.3	1.3	3.4	3.4	3.4	3.1	5.5	18.8	0.1	0.0	0.7	0.3
1989	86.4	34.4	66.7	54.5	2.4	1.0	3.6	3.4	4.1	4.1	7.4	22.5	0.1	0.0	0.9	3.6
1990	104.5	29.5	54.2	.	.	.	.	.	.	.	.	.	.	.	.	.

Source: UNCTAD [1986 and 1991]; IMF [1991]; own calculations.

In the case of the Three additionally remittances of emigrants were of great importance. While net private transfers for the EC-12 showed deficits as a rule, in the case of Greece, Portugal and Spain the opposite was true and thus additional sources of financing imports were available.

While during the 1980's the private transfers' share in trade of the EC-12 was almost negligible, it was in the case of the Three quite remarkable. Remittances of emigrants played particularly an important role in the imports' financing of Portugal's and - to a smaller extent - of Greece. On the one hand, it influenced the scope and size of the imports'-biased membership of the Three in the EC, on the other one, the financial situation of the analyzed countries.

Table 31

Share of Private Transfers (net) in Imports and Exports  
of the EC Countries in 1981-1990 (%)

	Greece		Portugal		Spain		EC-12	
	In Im-ports	In Ex-ports	In Im-ports	In Ex-ports	In Im-ports	In Ex-ports	In Im-ports	In Ex-ports
1981	10.7	22.7	31.9	71.6	5.5	8.1	-0.2	-0.4
1982	11.7	25.1	29.7	64.7	5.2	7.4	-0.1	-0.2
1983	11.1	26.5	27.9	40.8	4.4	6.1	-0.1	-0.1
1984	10.6	20.9	29.6	41.1	4.4	5.2	0.1	0.1
1985	8.5	18.6	29.7	37.3	5.0	5.9	0.1	0.1
1986	10.9	21.6	29.6	36.3	4.5	5.6	-0.1	-0.1
1987	12.3	24.4	27.0	37.0	4.9	6.8	-0.1	-0.1
1988	14.3	28.9	22.7	33.5	5.3	7.6	-0.1	-0.1
1989	10.3	23.0	18.7	26.3	4.7	7.3	-0.1	-0.1
1990	11.0	28.5	19.6	27.4	3.7	5.7	.	.

Source: As in table 30.

#### 4.5. External Balance and Financial Position

Many important differences between Greece, Portugal and Spain have also been observed with regard to external balances and payment's situation. It has been connected with many factors earlier described.

In comparison with the EC-12, the balance of payments' performance of Greece, Portugal and Spain was much more destabilized during the 1980's; various balances' shares in GDP were as a rule much higher and changed sometimes (e.g. trade balances shares) dramatically from period to period. In contrast to the EC-12, the Mediterranean countries, particularly Greece, benefited from the financial governmental transfers from abroad. In 1990 these transfers amounted to 0.2 % of GDP in Spain, 0.5 % of GDP in Portugal and 4.3 % of GDP in Greece. Of course, the majority of financial assistance came from the other EC member states.

Table 33

Balances of Payments of the EC Countries in 1981, 1985 and 1990  
(millions of US dollars and % of GDP)

	Greece			Portugal			Spain			EC-12		
	1981	1985	1990	1981	1985	1990	1981	1985	1990	1981 <sup>a</sup>	1985	1990
Millions of US dollars												
1. Trade balance	-2687	-5053	-10178	-5047	-1457	-6580	-10069	-4171	-29566	-50281	8677	-1316
2. Balance on services	1756	111	3647	-434	-356	1337	3495	5894	12948	26056	21886	38252
3. Private transfers (net)	1082	797	1817	2905	2118	4504	1698	1395	3053	-2419	500	-3309
4. Balance (1+2+3)	-2549	-4145	-4714	-2575	305	-739	-4876	3118	-13565	-26644	31063	33719
5. Governm. transfers (net)	164	869	2901	-	106	980	-7	-268	1204	-12937	-11609	-30200
6. Long-term capital (net)	1600	2766	1005	1239	951	725	4205	-1372	10904	1176	-19784	.
7. Short-term capital (net)	224	413	.	-64	-168	.	1757	-1845	.	28728	-9335	.
8. Errors and omissions	391	-44	-185	1277	-285	1974	-1745	-1908	-4521	1402	3424	15979
9. Overall balance	-170	-141	280	-123	909	3542	-666	-2275	6962	-8275	-6241	37602
% of GDP												
1. Trade balance	-7.3	-15.1	-15.3	-21.2	-7.0	-11.0	-5.5	-2.5	-6.0	-1.6	0.2	-0.1
2. Balance on services	4.7	0.3	5.5	-1.8	-1.7	2.2	1.9	3.6	2.6	0.8	0.5	0.6
3. Private transfers (net)	2.9	2.4	2.7	12.2	10.2	7.5	0.9	0.8	0.6	-0.1	0.0	-0.1
4. Balance (1+2+3)	-3.1	-12.4	-7.1	-10.8	1.5	-1.2	-2.7	1.9	-2.8	-0.9	0.7	0.6
5. Governm. transfers (net)	0.4	2.6	4.3	x	0.5	1.6	0.0	-0.2	0.2	-0.4	-0.3	-0.5
6. Long-term capital (net)	4.3	8.3	1.5	5.2	4.5	1.2	2.3	-0.8	2.2	0.1	0.5	x
7. Short-term capital (net)	0.6	1.2	x	-0.3	-0.8	x	1.0	-1.1	x	0.9	-0.2	x
8. Errors and omissions	1.1	-0.1	-0.3	5.4	-1.4	3.3	-1.0	-1.2	-0.9	0.0	0.1	0.3
9. Overall balance	-0.5	-2.8	0.4	-0.5	4.4	5.9	-0.4	-1.4	1.4	-0.3	-0.1	0.6

<sup>a</sup> Including errors and omissions. - <sup>b</sup> Data for 1980.

Source: Greece [1991]; Portugal [1991]; UNCTAD [1991]; IMF [1991]; own calculations.

Due to relatively sound economic policy, relatively good economic performance and additionally due to relatively low labour costs Portugal and particularly Spain attracted foreign investors. Therefore, an inflow of the foreign capital to these



countries could be observed [Taveira, 1989; Cabalero, Lahoz, Rios, 1989].

Table 34

Long-term Capital Accounts of Greece, Portugal and Spain in 1981-1990  
(millions of US dollars)

	Total	of which				
		Direct investment in the reporting country	Direct investment abroad	General government	Deposit money banks	Other private
Greece						
1981	1600	520	.	340	83	657
1982	1245	437	.	296	7	505
1983	2110	439	.	529	36	1106
1984	1773	485	.	386	-115	1017
1985	2766	447	.	1381	150	788
1986	2151	471	.	1398	-96	378
1987	1387	683	.	756	-119	67
1988	1438	907	.	110	18	403
1989	1941	752	.	999	-47	237
1990	.	1005	.	.	.	.
Portugal						
1981	1239	175	-19	479	77	528
1982	2111	146	-10	579	408	987
1983	1242	141	-18	534	268	317
1984	1150	196	-10	383	89	493
1985	951	255	-22	308	-281	691
1986	-502	239	-	-198	-275	-269
1987	-98	318	9	-57	-245	-123
1988	753	874	-53	-12	-332	276
1989	2554	1621	-75	-441	64	1386
1990	.	1984	.	.	.	.
Spain						
1981	4205	1711	-271	636	-	2130
1982	1768	1787	-509	1001	-	-512
1983	3122	1622	-243	961	-	783
1984	3274	1772	-248	531	-	1220
1985	-1372	1968	-250	-64	88	-3114
1986	-1634	3451	-378	-2170	-100	-2437
1987	9291	4571	-745	267	-282	5480
1988	9610	7021	-1235	-545	-515	4885
1989	16879	8428	-1473	2255	517	7152
1990	.	10904	.	.	.	.

Source: As in table 30.

In the first half of the 1980's foreign direct investment (FDI) in Spain fluctuated around the \$ 1.5 bn level, with many new companies being set up as well as capital bases being enlarged. Then in the year of the EC accession FDI in this country more than doubled, growing further in the following years. After the EC accession (more concrete after 1987) increased also remarkably the value of FDI in Portugal reaching in 1990 the \$ 1.9 bn level. It was not the case of Greece. In the 1980's FDI in this country fluctuated between \$ 0.4-0.9 bn. In contrast to Portugal and particularly to Spain, Greece almost didn't invest abroad. Despite of this, it's financial position was worse than that of Portugal and Spain.

Table 35

Currency Reserves of the EC Countries in 1981-1990  
(bn of ECU and % of GDP)

Year	Greece		Portugal		Spain		EC-12	
	Value	%	Value	%	Value	%	Value	%
1981	2,191	6.6	9,405	42.9	15,842	9.6	277,529	11.2
1982	2,309	5.9	8,573	36.2	13,268	7.3	259,854	9.6
1983	2,949	5.7	10,207	43.8	15,917	9.1	333,126	11.6
1984	3,212	7.5	9,953	41.0	23,505	11.8	348,816	11.2
1985	2,625	6.0	9,742	35.9	19,619	9.1	307,515	9.2
1986	2,638	6.5	8,690	29.1	17,973	7.7	292,281	8.3
1987	3,381	8.2	10,274	32.2	28,307	11.3	344,836	9.3
1988	4,401	9.6	10,291	29.1	36,906	12.8	354,486	8.8
1989	2,852	5.6	8,805	21.5	36,688	10.7	180,961	4.1
1990	2,556	4.7	10,850	23.5	38,373	10.1	186,451	4.0

Source: EC [1989, pp. 249 and 271]; IMF [1991, pp. 394-675]; own calculations.

Taking the EC-12 financial position as sound in order to cope with the foreign trade and/or current account deficit, Portugal was in the 1980's in a best situation out of the Three. While coping with such deficit Greece had to use foreign, often volatile sources of financing to the greatest extent. Of course, this adversely influenced its balance of payments.

### III. Lessons for Poland

An analysis of the experience of the Mediterranean countries with their accession to the European Communities leads to several conclusions. These can be divided into four groups.

#### 1. Political Environment and Dialogue

The most general conclusion which can be drawn for Poland from the experience of the Mediterranean countries with their accession to the EC is that specific widespread political consensus and social and political stability in a country are needed when approaching the Communities and leading dialogue with them. While not disregarding experiences and achievements of Greece and Portugal, Spain seems to provide the best example with regard to the solution of these problems. To put it briefly - Poland needs its own Moncloa Pact which can form a basis for political and economic consensus among all social partners and a guideline for political and economic austerity. For the target is known; it is to be in Europe and to follow the European political and economic model and way of life. Like in Spain or Portugal the promotion of "European" political, social, cultural and economic ideas, norms and standards seems to be additionally necessary. Anyway, as it seems, the authorities of Poland should prepare and consequently pursue "European integration policy", and it is necessary not only in order to cope with ambiguous response of many peoples and groupings.

Like the Mediterranean countries, Poland needs further the dialogue and compromises with many different multinational and international organizations which can impose, reinforce or sustaine democratization and transformation processes in the country and give it simultaneously more necessary stability and credibility. Due to many reasons dialogue and compromises with the EC seem to be of special importance. On the one hand, in December 1991 Poland has signed an association agreement with the European Communities towards which it gravitates economi-

cally, and on the other, just European Communities provide the only realistically available set of institutional arrangements to manage the integration of all the European economies. Moreover, they have the greatest experiences with regard to the appropriate organization of the preparatory phases for the new members (e.g. additional commitments, their moderations taking into account specific problems of the applicants for full membership, provision of necessary political and economic support). Anyway, dialogue and compromises taken with the European Communities can be profitable for all the partners. There is, however, one important aspect which should be underlined: commitments are to be fulfilled. This lesson can not be forgotten particularly during the transitional sub-period.

## 2. Economic Liberalization

Among the many requirements and preconditions for a satisfying economic performance, catching-up and full membership in the EC, a consequent and not reversible economic liberalization seems to be of great importance. It should accompany the political one. In other words, it is necessary to introduce gradually the rules of democratic game not only in the political arena but also in economic markets. Spain provides once again the best example how to materialize it.

Economic liberalization is a long-term process burdened with enormous difficulties, and the recent experience of the Three confirms it. But this experience leads simultaneously to the conclusion that there are no viable alternatives. Moreover, it is quite sure that countries more successful in promoting economic liberalization (e.g. Portugal and particularly Spain) are performing better than others (Greece in our case). The reason is well-known; liberalization leads to the gradual elimination of the many rigidities which exist in the markets of goods and services, and in the labour and capital markets. An additional lesson is that liberalization of domestic markets

should proceed hand in hand with liberalization of the current account.

It is rather difficult to compare the degree of the economic liberalization in the Three and in Poland, but some tentative conclusions can be drawn. While liberalization of internal prices in Poland is comparable with that in Spain or Portugal, the degree of regulation of other markets is in Poland unquestionably much higher than in the Three. One has to add to it the only partial (so-called internal) convertibility of the Polish currency what results among other things in distorted internal relative prices of goods and production factors. So there is great potential to deregulate, further liberalization of the domestic markets and a full currency convertibility being the first necessary ingredients. Without them, the real comparative advantages of Polish national economy will remain by and large unknown, while just establishing these advantages is clearly a starting point of the reintegration into the world economy and of the necessary increase in competitiveness. Without these crucial steps, the unavoidable speeding-up of the demonopolization and privatization processes are hardly to imagine. As can be learned from the experience of Portugal and Spain, it is also necessary to attract foreign portfolio and direct investment, and this in turn can result in high growth rates of production, exports and incomes and so contribute additionally to the improvement in the nowadays very distorted infrastructure and heavy demand conditions in Poland - these determinants being very important for growth and development, and for changes in comparative advantages.

Liberalization of the economic markets can be realized using two different approaches. On the one hand it is possible to create and put into force own original solutions and methods, and on the other to adopt the ones which proved correct and successful and simultaneously in such a way "bind own hands" by compromises taken with multilateral or international organizations. The experience of Greece, Portugal and particularly of Spain is quite clear. More promising and efficient is the second solution. Anyway, it helps to increase international con-

fidence and credibility as well as makes the process of systemic changes more understandable and transparent and credible for the foreign partners. Important is also, especially in Poland and other countries with long traditions of inward-looking development and protectionism, that international compromises and commitments create simultaneously rather effective vehicles to alleviate strong internal resistance to the liberalization of domestic markets and external sector.

Sequencing to the economic liberalization is an important precondition of success. There is no common pattern but Spanish experience seems to be very interesting. It is to liberalize when this is affordable while the external constraint being decisive to force the appropriate decisions. As Dehesa [1989] and Dolado and Vinals [1991] clearly point out, other important disequilibria as unemployment, public sector deficit or inflation have never been so important in Spain as the external financial disequilibrium has been. On the other hand also the order in which trade protection and financial protection are removed matters. The experience of the Three is that external trade liberalization precedes financial liberalization, especially liberalization of capital outflows.

### 3. Macroeconomic Policy

Greece's experience makes clear that sustainability of economic growth and credibility of partners are only to achieve and to secure when state corporatism and soft-budgeting are avoided. They lead to price distortions, markets' rigidities and allocative and x-inefficiency. Additional uncertainty is substantial, transaction costs are high, competition is not a central determinant of economic units' behaviour, efficiency criteria are not the main determinant of survivals, the underground economy develops and the economic imbalances are growing. In such circumstances even membership in the EC and their economic and political support do not by themselves secure the sa-

tisfying economic performance. This is why Greece is today the EC-member causing the biggest troubles and - in contrast to Portugal and Spain - "euro-pessimism" exists there on the eve of "Europe-1992".

The experience of the Three, particularly of Spain, indicates that macroeconomic stability is necessary for sustainable growth. Sound fiscal and monetary policies create a necessary climate for saving, for internal and external investments and thus promote productivity. Therefore, Poland seems to be well-advised to give priority to a prudent fiscal and tight monetary policy.

Macroeconomic stability and gradual economic liberalization (convertibility of the currency including) are also necessary for elastic structural adjustment to external and internal shocks. Only in such circumstances one can expect flexibility in the process of creation of the relative prices' structure which is additionally more or less coherent with their structure on the world market. Imbalances in the financial markets are to be removed by restrictive and transparent tax-system (of course VAT including) and sound monetary policy should be pursued by the fully independent national bank. A sound monetary policy means first of all correct money creation, management of reserve requirements and discount rate policy, and financial markets adjusting elastically.

Also with regards to macroeconomic stability (perhaps first of all) there is a lot to do in Poland in order to converge with participants of the European Monetary System's exchange rate mechanism, and even with Greece 1991 being with its Emu indicator of 53.2 in a class of its own. According to experts from the Polish Ministry of Finances the same indicator calculated for Poland reached 262.6 in 1990 and 77.1 in 1991 [Raport 1991, p. 29]. This means that in these years Poland have failed on every criterion used when inspecting states' suitability for European Monetary union (a rate of inflation "that does not exceed that of the, at most, three best performing member

states... by more than 1 1/2 percentage points" for the previous year; a currency that "shall have respected the normal fluctuation margins provided for by the exchange rate mechanism of the EMS without severe tensions for at least the last two years"; "a nominal long-term interest rate that does not exceed that of the, at most, three best performing member states... by more than 2 percentage points" in the previous year; and a fiscal policy that avoids "gross errors", the criteria being a ratio of planned or actual government deficit to gross domestic product of 3% and a ratio of government debt to GDP of 60%).

When discussing the Spanish experience and drawing conclusions for Poland, Spain's macroeconomic adjustment plans and programmes are especially studied and recommended by some Polish economists (e.g. Bernas, 1989; Wieczorek, 1991]. It seems to be a one-sided, even biased observation. It is true that some of the weaknesses of Spain's (and not only) newly industrialized economy had to do with energy plans and restructuring programmes. However, firstly, these governments' adjustment initiatives have been pursued having in mind the principle of minimum government intervention and secondly, and more importantly, particularly in Spain (but also in Portugal and - to a smaller degree - in Greece) structural policies are nowadays concerned with the supply side using mostly market allocation mechanism in an as much as possible stabilized macroeconomic environment. They address mainly the efficiency of resource use and are more and more understood as mobilization of internal and external savings and their redirection and allocation via market forces. Mobilization of savings goes through the creation of financial market institutions, through liberalization of these markets and through reprivatization, privatization and - if possible - improvement of efficiency of public enterprises (e.g. INI group's operations in Spain). Such an approach seems to be reasonable. What doesn't seem to be reasonable is Greece's experience to allocate many resources directly (including financial support for structural changes from the EC) to non-efficient sectors and branches. Petrification of the old structures and low efficiency of production are the final



outcomes [Beyfuß, Kleine, 1991].

The pace and sequencing of macroeconomic stabilization and structural policies are difficult issues for themselves. There are, however, some lessons from the experience of the Three and the first is to avoid the stop-go macroeconomic policies and their coincidence with political cycles. It is hard to avoid it in Greece (to a lesser extent also in Portugal) and that in turn influences clearly negatively economic performance.

Another lesson stems from Spain's experience, where the specific liberalization-adjustment sequencing has been observed. There appeared economic liberalization when it was possible (relatively high level of reserves due to good performance of the balance of payments), and adjustment usually followed when it was obligatory, this means when the balance of payments was in deficit. According to Dehesa [1989] the economic adjustment consisted usually of a strong devaluation followed by fiscal and monetary tightening. Then as a rule economic liberalization took place, first of all by means of gradually removing various trade barriers and exchange controls.

#### 4. Main Burdens and Gains of Eventual Membership

It seems to be an urgent task for Polish authorities to fulfil in the following years the commitments of the association agreement with the EC and this means first of all further economic liberalization and macroeconomic stability. For, however, this agreement is treated there as a vehicle for full membership in the Communities, some observations concerning the consequences of this possible event are reasonable to be made based on the experience of the Mediterranean countries.

The most probable real impact of Poland's membership in the EC seems to be a significant increase in the openness of the national economy, especially in imports. Therefore a transitional deterioration of the trade and current account is

possible with all the consequences for employment, investment and output (e.g. increase of unemployment, suffering of many enterprises from relatively insufficient size and a relatively low technological level, drop of output). The necessary structural adjustment and its costs are the accompanying ingredients. On the one hand, distributional costs are to be expected (costs of reallocation of resources from stagnating to expanding sectors), and on the other, some efficiency costs are possible (unemployment costs, waste of some resources etc.). Of course, changes in the structure of comparative advantage are also unavoidable and it is connected with adjustment costs, too. However, these costs are - as the experience of the Iberian countries makes clear - negatively correlated with the intensity of intra-industry trade; higher intensity of intra-industry division of labour means lower adjustment costs and the other way round. All this suggests appropriate anticipatory policies and real response.

On the reverse side of the problem are potential real gains from an eventual membership provided relatively (let's say like in the case of Portugal and Spain) constant economic liberalization and relatively sound macroeconomic policy. The first and probably the most important seem to be welfare gains connected with the increase of investment and aggregate demand as well as with the trade expansion effects due to virtually unrestricted access to the huge EC industrial market, greater openness and higher level of competitiveness being expected after accession. Without doubt, the possible accession can favour specialization and economies of scale, the benefits from this being bigger, the greater the flexibility of production factors and domestic markets and the smaller the distributional and efficiency costs of the necessary adjustment are. The experience of Portugal and Spain makes clear that the structure of comparative advantage transforms at the very beginning according to a typical Heckscher-Ohlin model but then, after the financial opening to foreign portfolio and direct investment, the comparative advantage may shift in the direction of mobile Schumpeter industries.

Just the inflow of foreign capital and technology and related effects seem to be the next positive real gains after opening and stabilizing internal economy. This is very important. On the one hand, the opening of domestic markets in conditions of a stabilized political and economic environment may increase the attractiveness of Poland for international capital and technology inflows (like in the case of Portugal and particularly in the case of Spain), and on the other, foreign capital and technology are in Poland urgently needed. Quite understandable, accession to the EC entitles to various funds from the many Communities' structural programmes. Additionally, the EMS entry is possible and this in turn increases almost automatically, and substantially, the credibility of a given country's monetary and exchange rate and fiscal policies (e.g. Spain).

Last but not least, the experience of Portugal and Spain leads to the conclusion that the opening of the markets to foreign competitors together with many positive supply-side effects connected with increased investment, invention and innovation activities, and with more sound fiscal and monetary discipline may reduce the inflation proneness of the national economy. For this proneness is to great extent also typical for Poland, its membership in the EC seems to be reasonable. Anyway, this aspect is also to be taken into account when discussing and evaluating pros and contras of the eventual EC entry. As mentioned earlier, also in the three Mediterranean countries opinions with regard to the EC membership are mixed. What we know today is that the majority of the reasons of "euro-pessimism" or "euro-optimism" are internal ones. This lesson seems to be also of great importance.

## A N N E X

Table 1

The Spanish Trade Liberalization Index<sup>a</sup>

Year	Index	Year	Index
1955	0.0	1971	9.0
1956	0.5	1972	9.5
1957	0.5	1973	11.5
1958	0.5	1974	10.7
1959	1.0	1975	8.1
1960	3.3	1976	7.6
1961	3.6	1977	9.1
1962	3.8	1978	9.2
1963	5.5	1979	11.4
1964	6.2	1980	15.9
1965	7.2	1981	16.0
1966	7.6	1982	15.9
1967	6.6	1983	15.8
1968	6.4	1984	15.7
1969	4.6	1985	15.6
1970	9.4	1986	18.5

<sup>a</sup> See explanation in the text.

Source: Dehesa [1989, p. 15].

Table 2

## Type of Macropolicy and Key Macroeconomic Data for Greece in 1959-1988

Year	Policy	Public Investment	% Change in		Deficit/GDP in %
			GDP	GDP Deflator	
1959	Expand	23.9	4.0	0.1	3.82
1960	Contract	18.7	3.1	3.8	3.44
1961	Contract	19.0	11.3	1.1	3.04
1962	Expand	1.5	0.6	5.1	3.08
1963	Contract	-4.0	10.1	1.1	2.37
1964	Expand	10.3	7.5	4.4	2.88
1965	Expand	10.4	9.2	4.3	4.23
1966	Contract	0.2	5.3	5.1	3.33
1967	Expand	10.7	4.7	3.0	4.91
1968	Contract	7.0	5.7	1.8	4.41
1969	Contract	24.4	9.3	3.4	3.88
1970	Contract	-3.1	8.3	4.0	3.68
1971	Expand	27.7	8.0	3.2	5.74
1972	Contract	13.4	9.1	5.2	5.45
1973	Contract	-3.3	8.3	19.8	4.87
1974	Expand	-20.1	-1.8	20.7	6.29
1975	Contract	-6.0	5.1	11.2	6.67
1976	Contract	2.0	6.1	15.8	5.38
1977	Expand	-10.2	2.9	12.6	6.07
1978	Expand	6.8	6.4	13.1	6.83
1979	Contract	10.9	3.6	18.2	5.83
1980	Expand	-2.2	2.1	19.9	6.58
1981	Expand	0.1	0.2	21.8	14.39
1982	Contract	6.9	0.6	23.5	12.96
1983	Expand	13.4	0.4	17.8	13.07
1984	Expand	10.1	2.9	19.5	13.88
1985	Expand	10.0	3.4	19.0	17.85
1986	Contract	-18.1	1.3	16.9	13.84
1987	Contract	-21.0	-0.4	13.6	11.15
1988	Expand	10.2	3.5	12.8	17.50

Source: Katseli [1990, p. 93].

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