COSTAS SIMITIS

Greece's deficit revision damaged Europe

The European Commission is likely today to pursue disciplinary action against Greece for breaking European Union rules on excessive deficits. It is a case that underlines the urgent need for reform of EU procedures for auditing government accounts.

The action follows the Commission's unexpected and unprecedented upward revision of Greece's general government deficit for the years between 1997 and 2003. That revision was itself conducted at the initiative of the new Greek government, which bent previously accepted rules.

Changing the rules of measurement and economic conduct after the fact is a surefire way to destroy the stability and reliability of economic policy-making and has immensely negative consequences for economic incentives and economic growth. It could prevent governments from carrying out proper long-term planning at the national level and from actively co-operating with other governments in the EU.

The new conservative government took over from my government following last March's elections. It promised an objective audit of the government accounts. But neither outside auditing firms nor the central bank were asked to carry out such an audit. Instead, the government produced new estimates.

The main lesson from the Greek case is that the Commission must design an auditing system that is the same for all EU countries and guarantees objectivity and impartiality, while ruling out domestic political interference. Otherwise, a system that allows national governments to recalculate at will the fiscal position they inherited from their predecessors and to impose that view on the rest of the EU is a recipe for disaster. It leads to widespread distrust and could prompt an endless round of revisions at European level. It puts the statistics on which national and European policy is based at the mercy of the electoral cycle. It thwarts long-term economic planning and destroys policy credibility. The Greek case is not the first in which statistics have been revised following a switch in government, but it should be the last.

is required, there ought to be an objective way to handle it. Otherwise, member states will rewrite data arbitrarily

During my tenure as Greek prime minister, we worked closely with Eurostat, the EU statistical office. We had agreements on the methodology of recording the fiscal accounts and the fiscal statistics were repeatedly validated by Eurostat. Greece was always ready to improve the reliability of the statistics and indeed made a number of revisions, which are mentioned in Eurostat's November report on the case. Such agreements should be binding and should not be altered after the fact. What is more, the outcome of consultations with Eurostat should be made public and statistics finalised within a reasonable time.

The Eurostat report makes clear that upward revisions in the Greek general government deficit were mainly due to the retroactive application of a new method for estimating defence expenditure. This retroactive application of new rules should be outlawed. It essentially shifted general government expenditure from the future to the past. It thus allowed room for a more expansionary fiscal policy towards the end of the current four-year electoral cycle.

But in the process, this change compromised Greece's international image. It allowed the Commission to reverse its previous assessment that the Greek deficit had stayed below 3 per cent of gross domestic product since 1998 – one benchmark for membership of Europe's single currency – and put Greece's accession to the eurozone under a shadow.

The previous Greek government managed to reduce the deficit from 13 per cent of GDP in 1993 to less than 3 per cent in 1998. It also managed to bring inflation down to 3 per cent from double digits and ignite steady growth, above the European average, for eight consecutive years from 1996. The recent report by Wim Kok, the former Dutch prime minister, on the Lisbon strategy for EU economic reform affirms that Greece, although still lagging behind on many fronts, showed the best overall progress on the 15 indicators of progress during the period 1999-2003.

The inordinately negative picture given by the revision of the Greek fiscal position has also damaged the credibility of the EU and its institutions.

I have no doubt that Eurostat has done its best. But good faith on Eurostat's part is not enough. If a major statistical revision is required, there ought to be an objective way to handle it. Otherwise, member states will continue to succumb to the temptation to rewrite past data arbitrarily, jeopardising relations between member states and the EU institutions.

The writer was prime minister of Greece from 1996 until March this year

Constantinos Simitis

Από: <Andrew.Hill@FT.com>
Προς: <csimitis@otenet.gr>
Αποστολή: Τρίτη, 21 Δεκεμβρίου 2004 4:14 μμ
Θέμα: Re: article - EDITED VERSION - URGENT

Άρθρο Financial Times

Dear Mr Simitis,

Here is the edited version of the text. I have had to reduce it in lenght and have made a number of stylistic changes, so please read it carefully. If you need to make any adjustments, please contact me - by telephone - before 5pm London time. Bear in mind that it is now almost exactly the right length for the space available, so any text that is restored or added will necessitate a cut elsewhere in the article.

I have changed the introduction to the piece to take account of the fact that the Commission is tomorrow expecxted to pursue disciplinary action against Greece in this case. I have also added a description of your position as former prime minister - please check that both these changes are in order.

Best regards,

Andrew

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By COSTAS SIMITIS

Today, the European Commission is likely to pursue disciplinary action against Greece for breaking European Union rules on excessive deficits. It is a case that underlines the urgent need for reform of EU procedures for auditing government accounts.

The action follows the Commission's unexpected and unprecedented upward revision of Greece's general government deficit for the years between 1997 and 2003. That revision was itself conducted at the initiative of the new Greek government, which bent previously accepted rules.

Changing the rules of measurement and economic conduct after the fact is a surefire way to destroy the stability and reliability of economic policymaking and has immensely negative consequences for economic incentives and economic growth. (Taken to extremes, it could prevent governments from carrying out proper long-term planning at the national level and from actively co-operating with other governments in the EU.)

Greek
new (Consecuative Government

The government of Costas Karamanlis took over from my government following last March's elections. It promised an objective audit of the government accounts. But neither outside auditing firms nor the central bank were asked to carry out such an audit. Instead, the government produced new estimates.

This is the main lesson from the Greek case. The Commission must design an auditing system that is the same for all EU countries and guarantees objectivity and impartiality, while ruling out domestic political interference (Otherwise) A system that allows national governments to recalculate at will the fiscal position they inherited from their predecessors and to impose that view on the rest of the EU is a recipe for disaster. It leads to widespread distrust and could prompt an endless round of revisions at European level. It puts the statistics on which national and European policy is based at the mercy of the electoral cycle. It thwarts long-term economic planning and destroys policy credibility. The Greek case is not the first time that statistics have been revised following a switch in government but it should be the last.

During my tenure as Greek prime minister, we worked closely and harmoniously with the staff of Eurostat, the EU statistical office. We had written agreements on the methodology of recording the fiscal accounts and the fiscal statistics were repeatedly validated by Eurostat. Greece was always ready to improve the reliability of the statistics and indeed made a number of revisions, which are mentioned in Eurostat November report on the case. Such agreements should be binding and should not be altered after the fact. What is more, the outcome of consultations with Eurostat should be made public and statistics finalised within a reasonable time. oral X

The Eurostat report makes clear that upward revisions in the Greek general government deficit were mainly due to the retroactive application of a new method for estimating defence expenditures. This retroactive application of new rules should be outlawed. It essentially shifted general government expenditure from the future to the past. It thus allowed room for a more expansionary fiscal policy towards the end of the current four-year electoral cycle.

But in the process, this change compromised Greece's international image. It allowed the Commission to reverse its previous assessment that the Greek deficit had stayed below 3 per cent of gross domestic product since 1998 - one benchmark for membership of Europe's single currency - and put Greece's accession to the eurozone under a shadow.

Yet no matter how one measures the fiscal deficit, the previous Greek government managed to reduce it from 13 per cent of GDP in 1993 to less than 3 per cent in 1998. It also managed to bring inflation down to 3 per cent from double digits. The recent report by Wim Kok, the former Dutch prime minister, on the Lisbon strategy for EU economic reform affirms that Greece, although still lagging on many fronts, showed the best overall progress on the 15 indicators of progress during the period 1999-2003. And last summer, Greece showed the world that, despite its size, it could organise a successful Olympic Games.

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and ignite steady growth, above the European average for 8 consecutive years since 1996

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