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Do you think Greece will exit from the Euro? ／Do you support the economic policies of New French President Mr. Hollande for more growth? : From in-house discussions on recent developments of the Euro

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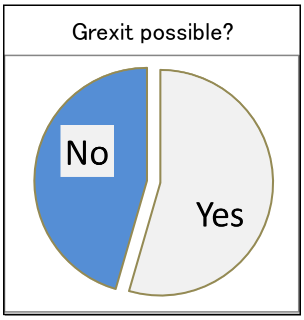
This institute, IIMA had two in-house opinion polls on recent developments of the euro. One focused the possibility of a Greek departure from the euro and the other discussed the economic policies of Mr. François Hollande, new French president, that focus more on growth.

On Greece

Question：Do you think Greece will be leaving the euro sometime in the future?



This poll was taken at the end of April, just before the first general election was held in Greece.

Votes for "Yes" prevailed by a slight margin, gaining 54.5% as against 45.5% for "No", indicating that more people see higher possibility for the outlook of a Greek departure from the euro. The voters for Yes argued that its exit will be a natural consequence of an economic rationality from two reasons of its competitiveness and cost of leaving. Many see the competitiveness of Greece is currently very weak and will continue to be so in the foreseeable future. Therefore, even if the Greeks wish to remain in the eurozone, they will not only continue to suffer from the burdens of paying debts but also they can do nothing more than causing troubles to other countries, which makes the departure from the euro the best choice, they argue. Comparing the cost of leaving the eurozone with that of remaining in the eurozone, level-headed estimate would suggest the former is smaller to both Greece and the EU in the long-run.

On the other hand, voters for “No departure of Greece” argued that they would not bring to nothing their past efforts to create a single currency. After all, they see, the introduction of the euro was a product of politics and its continuity would depend on their political will. Therefore, they see there will be no departure.

One unique opinion against the departure reminded us of the experience of Argentine's abolition of currency board system. Faced with the currency crisis of 2002, Argentine ran out of the mutual trust circle of international finance and it has not been able to come back to the international circle even now after 10 years. Rather, the politics and public opinions in Argentine seem to be more and more inclined to turn its back to the international rules and customs as is seen by its recent sudden declaration of nationalization of the companies foreign capitals have invested in. This shows that once a community ingenerates a stray sheep or deviator, it will have to suffer from an array of costs for a long time. If the European countries take some lessons from the past, therefore, they will not abandon Greece by just letting it go, they conclude.

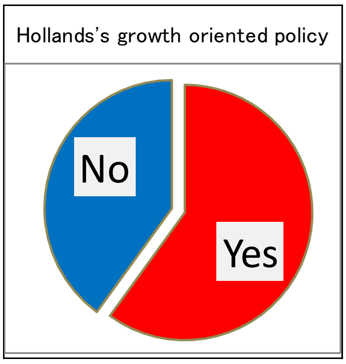
As the rivaling result of 54.5% vs. 45.5% shows, both opinions can give more or less persuasive explanation of their own. If the votes were cast in May 2010, just after the outbreak of Greek shock, we might have gotten overwhelming No answers. The shock was felt more keenly at that time than now, yet it would have been difficult to assume a Greek departure. For the credibility was stronger at that time to the political will of the EU to cope with whatever confusion it may face.

Two years have passed since then, and the politics are showing a new dimension of renewed decisions. A new framework of “European Semester” was introduced to mutually monitor the budgets of the eurozone countries from the start of their budget compilation process. New fiscal compact was established. The idea of common Euro bond has also been suggested. Despite these developments, however, it is still difficult to find a clear roadmap for Greece to strengthen its competitiveness and continue to survive in the framework of the euro. The competing ratio of the poll may be reflecting this difficulty.

On France

Question： Do you support the policies of new French president that attach more importance to economic growth and employment? (Choose “Yes” when you support the new movement to focus more on growth and employment, and "No" when you attach more importance to the fiscal discipline taken hitherto.)

The poll to this question was held in the latter half of May after the French presidential election.



The result was 60% of the polled supported the growth oriented policies that the new president advocated, and 40% considered the fiscal discipline is more important and should be maintained.

Two major reasons were given to growth oriented policies. One is that, as fiscal policies relate, in a little bit exaggeration, to the vital activities of human beings, too much austerity is socially impossible to maintain and the eurozone has been already facing its limit of endurance. The other points out that the common currency inevitably requires common fiscal policy and common fiscal policy is not so simple as introducing an upper limit of budget but should be more deliberate operation of income transfers in order to adjust the differentials caused by external shocks.

On the other hand, those who insist on austerity think in a different way. The proponents of budget austerity, they think, emphasize that the economic union without discipline tends to be easy going only to make things worse ultimately. Particularly at a time of economic hardships such as now, the politics are easily carried away towards the populism and therefore they fear that once the discipline is loosened the deterioration of the deficits will be accelerated.

Both opinions seem to be very persuasive by themselves, but what will be the result if we ask again, from a different point of view, whether the budget deficits are the cause of the crisis or the result of it. In the case of Greece, deficits are a strong factor as a cause of the crisis. The country had a problem of systematical excess of the expenditures over the revenues through high pensions and other benefits. On the other hand, in Spain and Ireland, the budget situation was aggravated by the recession caused by the burst of the bubbles which were generated in the private sector by the affluent bank credit and real estate investment. The situation would only worsen in a spiral if these cyclical deficits were to be dealt with by further tightening.

How about taking more flexible approach that will require stronger discipline to the countries with structural deficits that cause a crisis while allowing those with cyclical deficits more accommodative measures including extension of the target date for? It will not be impossible to try to classify the components of the deficit items into cyclical ones and structural ones, as is seen in the OECD statistics. Even then, it is important, however, to prepare a predetermined rule to apply as the market may doubt the arbitrariness of the classification if it is judged every time a deficit country comes up. In the same way, in order to deal with Greek problem, it can be suggested that we classify its expenditures into those on which strict austerity should be applied and those on which more loosened discipline may be applied. Although the consolidation schedule of the deficits will surely be extended as a result of this approach, it could make a good compromise if at all a satisfactory compromise should be struck out between Greece and its supporting countries.

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