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A MANIFESTATION OF EURASIANISM?
RUSSIA-SPONSORED REGIONAL COOPERATION

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Abstract

The article examines the entanglement of regionalism with a polysemous concept and its corresponding ideology, namely "Eurasia" and "Eurasianism", through the lens of region-building and identity formation efforts of Russia. The latter's promotion of schemes of regional cooperation or integration and architecture involves a variety of sectors, like economy, culture/identity, and strategy. Here, emphasis is placed on the inclusion of the Eurasia predicament in the political imaginary, within a specific national context, along with its reflection on Russia's troubling attempts to manage its "near abroad" and to advance or consolidate its economic and strategic influence. In a nutshell, how successful have Russian region-building efforts, distinctively invoking Eurasia, proven to be? Is this invocation merely epiphenomenal and instrumental or a constituent part of national identity? Overall, the country's steps towards regional integration and cooperation, specifically in the name of "Eurasia", brought mixed economic consequences and they have been followed or imitated only by a fraction of its post-soviet peers. On the other hand, the discussion of "Eurasia", in Russian debates on national identity and international role, has had a significant appeal and position, although actual policies have at times been informed and mitigated by pragmatism.

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Keywords: Eurasia(nism), political imaginary, regional cooperation/integration, Russia.

1. Introduction

The inclusion and growing importance of the "regions" predicament in international/world politics, particularly during the post-Cold War period, cannot be denied. Regionalism, namely the building of regional institutions and organizations which is formal and state-led, constitutes a manifestation of this predicament. A similar manifestation is regionalization, i.e., the transnational cooperation among market and society actors in various sectors like economy, politics, and society. In fact, the field of comparative regionalism emphasizes not only the mere presence and intensity of those manifestations, but it also puts them into a comparative perspective. This is so, taking into account the

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intricacies of a multiplex world order, indeed a probably multipolar one (Börzel and Risse, 2016). An issue that has drawn considerable attention is the leadership of rising powers, other than the USA, at global and regional levels, with the notable example of the BRICS countries. Nevertheless, their rise should not be taken as a given, in light of the challenges they have to face (Kingah and Quiliconi, 2016). As a matter of fact, this includes the formation of the so called "mega-regions", with the notable examples of Eurasia or the Indo-Pacific, and the possibility of considerable shifts in global power (Paikin et al., 2022).

In this broader context, the article examines the region-building and identity formation efforts of Russia (the Russian Federation), in its capacity as an ex-superpower and an aspiring great power, and their manifestation through a complex and polysemous concept and its corresponding ideology, namely "Eurasia" and "Eurasianism". The country's promotion of schemes of regional cooperation/integration and architecture involves a variety of sectors, such as economy, culture/identity, and strategy. Here, emphasis is put to the inclusion of the Eurasia predicament in political imaginary, at a specific national context, along with its reflection to Russia's troubling attempts of managing its "near abroad" and of advancing or consolidating its economic and strategic influence. In this regard, how successful have Russian region-building efforts, distinctively invoking Eurasia, been proven to be? Is this invocation merely epiphenomenal and instrumental or a constituent part of national identity?

Concerning the structure of the article, the next section lays the participation of Russia in multiple schemes of regional cooperation and integration, followed by a section focusing on the role of the Eurasian ideology and concept. Overall, the country's steps towards regional integration and cooperation, specifically in the name of Eurasia, brought mixed economic consequences. They have also been followed or imitated all the way down only by a fraction of the post-soviet peers, in a process which is characterized by great challenges and stakes. On the other hand and bearing in mind the need for not merely conflating Eurasia merely with Russia and institutions led by it (Mikelis, 2018: 99), the discussion of "Eurasia" (or bluntly put "Eurasia in discourse"), in Russian debates on national identity and international role, has had a significant appeal and position, although actual policies have at times been informed and mitigated by pragmatism.

2. Russia and regional cooperation: An outline

From a geographical point of view, the participation of Russia in regional

cooperation schemes is primarily affected by its capacity as a bicontinental country. Joining the organizations hosting nearly the entirety of states on their respective continents is not surprising. However, in both cases of the Council of Europe (CoE) and the Asia Cooperation Dialogue (ACD), Russia was not a founding member. Most importantly, Russian actions towards the Ukraine since the 2010s (e.g., the annexation of Crimea and the War of 2022) have led to its suspension and utterly expansion from the CoE. Participation of Russia to the latter had actually rendered it a part, even if peripheral, of the European regional architecture. At present, an organization still grouping Russia with the majority of European states, along with some non-European ones, is the Organization for Security and Co-operation in Europe (OSCE), in the framework of which dissatisfaction was anyways expressed towards Russia. Concerning smaller organizations/entities incorporating European states, Russia's absence –or the very least low– presence is striking. The only scheme essentially still bringing Russia together with certain non-post-soviet states, as well as some post-soviet countries, is the Black Sea Economic Cooperation (BSEC). It is a noteworthy case-study of state-sponsored regional cooperation, but with Turkey –not Russia– having the role of the pioneer (Üstün, 2016). There is also the case of Council of the Baltic Sea States, from which the country's membership was suspended in 2022, leading to its withdrawal.

As regards Asian architecture, Russian participation is deemed less peripheral. This is so in terms not of regional schemes based on a particular part of the continent, but in terms of interregionalism and transregionalism. Cases in point are the ASEAN Regional Forum (ARF) and the Asia-Pacific Economic Cooperation (APEC). In both cases, Russia did not play a pioneering role. In fact, in the case of the latter, it was a latecomer. Anyway, full membership in those two institutions signifies Russian participation in the regional architecture of the broader Asia-Pacific. However, there is another mega-region that has captured the distinctive attention of Russia, i.e., Eurasia. In this regard, the Shanghai Cooperation Organization, which ultimately succeeded the Shanghai Five, stands out, bringing together Russia and China with certain countries of Central Asia in the early 2000s, and later with major powers of South Asia as well (India and Pakistan). Iran also became a full member, very recently. Given the fact that the "Euro" part of Eurasia is established by Russia, it seems illusionary to envisage an SCO, as an organization of the broader region, with no participation of Russia. However, considering China's role (Yuan, 2010; Song: 2014), it would be equally problematic to perceive this organization as sponsored purely and exclusively by Russia. It goes without saying that the "making of Eurasia" (Pieper, 2022) includes not only Russian-sponsored

initiatives but also China-led ones, with the formidable example of the Belt and Road Initiative (Kordosis, 2018). To accommodate the latter, Russia developed a vision of a "Greater Eurasia", whereby Russia was presented as an indispensable power. These and other regional connectivities are usually formed in economic language, bearing at the same time an ideational element of forming transnational bonds (Pieper, 2022: 105-109). Here, Russia's resolve is signaled for the affirmation of the importance of strategic partnership with China and power redistribution (Paikin et al. 2022: 1).

Within the Eurasian context (e.g., Molchanov, 2016: 115-125; Hancock and Libman, 2016: 206-215, Vikonurov, 2018: ch.1), Russia-sponsored regional cooperation and integration has risen as an attempt of Russia to manage the post-soviet space and what was often referred to as (its) "near abroad". This involved the explicit invocation of Eurasia, although not in the very beginnings of the Post-Cold War. The first organizations were the Commonwealth of Independent States (CIS, in 1991) and, emphasizing the defense sector, the Collective Security Treaty Organization (CSTO, in 2002 following a ten-year period of the Collective Security Treaty). Moreover, the mid-1990s marked discussions, between Russia and Belarus, ultimately leading to the creation of the Union State. Since the early 2000s and particularly regarding the economic sector, there was also the Eurasian Economic Community (EurAsEC). It explicitly invoked the notion of "Eurasia" and strove for economic and regulatory integration through a Customs Union and a Single Economic Space (SES). It was subsequently succeeded by the Eurasian Economic Union (EAEU), in the mid-2010s. All these do not preclude international organizations with no participation of Russia, such as the Baltic Assembly and the GUAM Organization for Democracy and Economic Development. The acronym relates to Georgia, Ukraine, Azerbaijan, and Moldova. At a time, the scheme was named GUUAM due to the then participation of Uzbekistan. However, the Russian presence in the regional architecture of Eurasia is much more central, compared to the country's peripheral, if any, presence in the regional architecture led by the European Union (EU).

Evidently, Eurasian integration has broadly involved a series of overlapping regional cooperation projects, with actors and collectivities at varied levels. On the whole, those projects have often been non-mutually exclusive and complementary, at least initially. Moreover, open regionalism had an appeal as an economically optimal supplement to regional integration initiatives. Equally importantly, tackling economic development was perceived to entail energy issues, trade, transport, capital, or labor flows, while also tourism, human security, and the build-up of a common infrastructure (Vinokurov and Libman,

2012: ch. 17). Out of those projects, the most fairly recent is the creation of the EAEU, which came as a result of the revamped Eurasian policy of Russia. This policy was linked to several factors: the country's rising power, identity, and elite perceptions particularly in terms of either imperial hangover or imperial nostalgia, as well as shifts in the international system and the respective balance of power (Krickovic, 2014: 509-515). Its central characteristic was the formation of new institutions, assigning proper weight to Russian interests, while also securing the respect of agreements by the partners. This included the possibility of putting economic pressure on states when the latter adopted an anti-Russian or ambivalent stance, in the form of increased prices of Russian resources, along with restricted access to the Russian market. Other major characteristics included attention to the economic dimension of cooperation, the recognition of the principle of equality, and finally the preservation of subsidies and preferences for the participating countries, in exchange for reciprocal economic, diplomatic, or military concessions (Bordachev and Skriba, 2014: 20).

From the Russian perspective, the emergence of the EAEU signified an increase in the geopolitical stakes of economic integration (Cadier, 2014a), serving as part of Russia's grand strategy in its objective of ensuring regional influence and preponderance (Margaritou, 2018). Regional influence was thought of as a prerequisite for great power status, whereby the ability to use power tramped economic performance. Admittedly, the prospects of integration were negatively influenced by a series of factors. Those were the egotistical nature of state elites, the burden of past memories, and a growing arrogance. On the other hand, the launch of the Eurasia project had marked a point of no return for Russia, since it showed the resolve to wave the soviet ideological legacy as well as to reinstall its great power status and lost influence (Bordachev and Skriba, 2014: 21-22). Despite steps towards the removal of non-tariff barriers, constraints are still pertinent, concerning reluctance in the delegation of substantial powers to the Eurasian Economic Commission and the perception of the nature of cooperation in such terms that actually put obstacle to political spillover (Braun et al., 2023). Equally importantly, an often missed point in relevant accounts is related to Russia's direct or indirect baking to de facto (internationally non-recognized) states in Eurasia, although the internal logic of those states should be kept in mind (Hoch and Kopeček, 2020). The sovereign states, to the detriment of which the de facto states emerged, had a negative or mixed attitude towards Russia's regional ventures.

Moreover, the leading role of Russia is utterly linked to who is led and who follows. In this respect, it is noteworthy that out of a total number of fifteen

post-soviet states, twelve (all but the Baltic ones) turned out to be some sort of member or participant in the most-all encompassing (in the sense of most populated) institution, i.e., the CIS. Even in that case, two of those states eventually withdrew (Georgia, Ukraine), while Moldova has intensified its distancing from the scheme, especially since the invasion of the Ukraine. The Russian-led core of the regional architecture, *vis à vis* the post-soviet space, consists of CSTO and the EAEU, with five and six current members, respectively. In the withdrawal case of CSTO, the option was followed by three states (Azerbaijan, Georgia, and –twice– Uzbekistan). Moreover, the transition from EurAsEC to the EAEU was also not very neat. Of the original members of the former, three of them led the way to the transition (Belarus, Kazakhstan, Russia) soon to be followed by a fourth (Kirgizstan) and a non-member of EurAsEC (Armenia), but neither the fifth (Tajikistan) nor –for that matter– Uzbekistan, which had been a member of EurAsEC for a brief period of time. Tajikistan, which opted out of joining the EAEU, is still a member of the CSTO, along with the five members of the EAEU.

So the stance of post-soviet states in regional cooperation/integration, particularly encouraged by Russia, is distinctively varied. On the one hand, it includes essentially non-participation and essentially distinct detachment either from the very beginning (Baltic states) or at the end of the day (Georgia or Ukraine and possibly eventually Moldova). On the other hand, it involves participation in nearly all related institutions, notably the EAEU. Between these options lies an oscillating chance, bluntly manifested by withdrawals (very often chosen by Uzbekistan) and participation only in a certain number of schemes. A minimal facet of this oscillation lies in being and remaining a member of the CIS, like in the case of Uzbekistan or in the case of Azerbaijan and Moldova, i.e., the two countries which form GUAM with two states which broke previous ties with Russian-led schemes (Georgia and Ukraine). Turkmenistan, although refraining from the ratification of the CIS chapter, has essentially participated in the scheme. In a more pro-Russian tone, Tajikistan chose another path, regarding its participation in the CSTO but still not the EAEU, despite having joined its predecessor.

According to an illustrative taxonomy of this diversified stance, the states that opted to stay out of the EAEU can be perceived as Eurasia outliers. On the one hand, there are the "escapers", aiming at a substantial diminishing of the Russian impact in favor of the European or Euro-Atlantic impact. Examples are given by Georgia and Ukraine, or even Moldova. On the other hand, there are the "isolationists" or "non-aligners", like Azerbaijan, Turkmenistan, and Uzbekistan. A varied stance on post-soviet regionalism was at play, since they

had to address complex economic choices. Thus, some margin was allowed for a loose association with the EAEU. The result was the emergence of a porous periphery of the Eurasian core, by which other powers, like China and the EU, could strive for the improvement of their role (Samokhvalov, 2016: 83).

A similar complexity, as already noted, was a feature of the evolution of the EAEU. The latter's aim was the integration of post-soviet states into a cohesive economic entity, supported by bilateral deals led by Russia, but in a spirit of minimization of commitments and maximizing flexibility. This reflected a low commitment to further integration. It also explains the little progress, after the EAEU's promising beginning. For Russia, the very creation of this scheme seems to be enough as a criterion of success. Little attention was paid to the functionality of the project and to how poor governance would hamper improved economic integration and regulatory modernization. In fact, while the breakup of the EAEU may seem unlikely, taking into account its significance for Russia, it was still impeded by divergent motives or preferences and by institutional weakness (Dragneva and Wolczuk, 2017: 2). Rather, the rise of the EAEU project may well be regarded as the result of several aspects. These relate to the Russian economy and to the need for its reinvigoration, along with ensuring Russia's role in an emerging competitive trade block. Domestic political considerations include the consolidation of the legitimacy of the regime and the EU's impetus in light of the goal of creating a buffer zone that counters western influence. However, diversity may well have contrasting results, jeopardizing the success of the project with respect to economic objectives (Cadier, 2015: 172-174).

Expanding on the strictly economic point of view, the evaluation of the EAEU as a regional development project reveals expectations superseded by harsh realities (Yarashevich, 2021). At the transition from the EurAsEC to the EAEU, the impact of non-tarrif barriers on trade among the member states was considerable at least in certain sectors (Vakulchuk and Knobel, 2018) or generally, rendering successful implementation or wider liberalization necessary (Knobel et al., 2019). Concerning the relationship between regional integration and economic performance, the EAEU is found to have had a distinctive impact on two sectors, particularly a positive one in trade flows and a negative one at the level of employment. Despite the declared level of economic integration, namely customs union, the scheme's main function thus relates more to a free trade area facilitating mutual trade, while overlooking broader economic objectives (Pomerlyan and Belitski, 2023). Moreover, the formation of the EAEU did not invigorate Foreign Direct Investment, neither was the growth of Gross Domestic Product associated with the latter (Kemme et al.,

2021). Overall, the dynamics of mutual trade notwithstanding, commitments and changes to the institutional processes would be far from bringing economic liberalization either in the individual member states or within the block. In fact, the robustness of the scheme's institutional framework was seriously put in question. In that sense, the EAEU has emerged more as a geopolitical rather than economic project (Dragneva and Hartwell, 2021: esp. 216). Consequently, an expectations-capabilities conundrum lies in the development of this particular scheme.

On the whole, Eurasian regionalism is characterized by relative weakness and by the fact that economic development potentially functions either as a motive for more intense cooperation with other organizations or as a pretext for isolation and protectionism. In light of the not fully blown democratic character of most implicated states, commitment to economic liberalization or to international agreements is not taken as a given. Direct competition or clash with other cooperative initiatives is a possibility but not an inevitable scenario (Libman and Obydenkova, 2021: esp. 363-366). Furthermore, a concise assessment of Russia's leadership in post-Soviet Eurasia includes three facets: willingness, acceptance, and capacity. As far as the first facet is concerned, an initial reluctance of Russia should be noted, indeed to the extent that Kazakhstan's proposal for Eurasian Economic Union in the mid-1990s was rejected. Further and deeper cooperation, other than the CIS or the Union State, would need the change in government, i.e., the ascent of V. Putin. Regarding the second facet, a reasonable measure of success can be discerned in the creation of multilateral commitment institutions and rules, region-based trade, policy coordination, and good-neighborly preferences, at least insofar as there was a distinct response to the failure of the CIS to deliver. Third, the progress of the EAEU required the investment of tangible resources on behalf of Russia (Molchanov, 2016: 125-130).

Complementary to the remarks just mentioned above, another criterion for evaluating Russian attempts at regional preponderance can be provided by the entanglement of Central Asia with Eurasia, not only from the vantage point of post-soviet Eurasia but also more broadly. In this regard, Russia saw its symbolic domination in Central Asia and its role as the main civilizer of a vast Eurasian space, challenged by China. However, it engaged in non-conflictual region-spoiling tactics, by means of widening the geographic scope of neighborhood, namely from Central Asia to Greater Eurasia, thus diluting the former to the latter and other regional complexes. Consequently, broader and composite modes of great power interaction are made possible, such as balancing and bargaining or trade-offs, allowing the avoidance of direct conflict (Samokhvalov, 2018).

Before continuing with the next section, it is useful, in a transition mode, to note that two grand narratives on the Russian role and position stand out. First, the "authoritarian expansionism" thesis, where assertive behavior comes as a result of history, geography, and a political culture based on strength and authority. Second and indeed very preferable in Russian discourse, the "Western encirclement" thesis, according to which Russian behavior is essentially a reaction toward western expansionism. A synthetic middle position emphasizes the mitigation of the external input by domestic perceptions, in the sense of the filtering of the EU's structural power, in the post-soviet space, by the domestic perception of ideas on international politics (Cadier, 2015: esp. 156-157).

3. "Eurasia" and "Eurasianism": The Russian connection

Having established the outline of Russian participation in regional cooperation, often with a pioneering role, this section proceeds with the Russian view point and use on the concept of Eurasia(nism). Initially, it is important to recognize the existence of multiple conceptualizations of "Eurasia". Varied contents may be denoted and hardly cause surprise, taking into account a variety of national settings and the respective versions. Complexity and multiplicity may even characterize a single and specific context. The Russian case is certainly an example of this, although not a unique case. So, "speaking Eurasia" certainly relates to the context of reference. With many alternatives, the mere utterance of the term does not axiomatically entail a particular set of unqualified traits. Simply put, the question "Eurasia, what do you mean?" (or similarly "Whose Eurasia?") is a valid question, subject to many answers.

For example, the notion of "Eurasia" includes three facets, the least. Firstly, the post-Soviet area. Second, Eurasianism as ideology, i.e., an ideological framework on Russia's relations with its neighbors, but also generally the East or West. Third, pragmatic Eurasianism, involving Europe plus Asia. In those facets, varied conceptualizations on Asia, Europe, and modernization have been raised (Vinokurov and Libman, 2012: ch. 2). In particular, Eurasia thought of in terms of the post-soviet area is a geographical notion, stemming from the shadow of the soviet past. It usually entails an exclusionary perception of Europe and Asia, along with a fairly pessimistic stance *vis à vis* westernization. Furthermore, Eurasia in terms of Eurasianism indicates an ideology which features cultural, geopolitical, and historical affinities. It is characterized by an exclusionary perception of Europe, a partial inclusion of Asia, and finally the rejection of West-led modernization. By its turn, pragmatic Eurasianism relates to a framework of ideas on foreign policy and economic policy, emphasizing economic links. It

includes inclusionary perceptions of both Europe and Asia, leaving some margin for considering Western lessons on modernization (ibid.: 26).

In a similar fashion, three principles have been put forward as relevant in the respective discussion, namely "geopolitical", "philosophical", and "memory-related". Out of the three, the former is related to the desire of Russia to be a leading state in the post-soviet space, while the second is related to the perception of the country in terms of the "other Europe". Here, Eurasia comes out as a mirror of the West/Europe or as a response to the challenge of the latter or even as an alternative to Western civilization and liberal ideology. The final principle has to do with commemoration and mourning, particularly the tackling of the (imperial or soviet) past, in grand narratives. In general, the frequently competing premises that entangle "Eurasia" are at play, indicatively: "Europe and Asia", "no Europe nor Asia", "Russia and the new states" and "the new states without Russia". In light of the above, therefore, it is safe to argue for the existence of a fundamental terminological ambiguity (Laurelle, 2015: 190-191. Also see Hancock and Libman, 2016: 202-205).

The aforementioned ambiguity and obviously the very importance of the notion of "Eurasia" are reflected in manifestations of the political imaginary and identity in Russia. As a matter of fact, the relevant discussions on national and regional identity formation have included a distinctive civilizational dimension, which is considered to be their understanding in terms of civilizational debates. Here, emphasis is given to the role and the position of Russia, as regards the East, the West, and the World. Eurasianism, in many variants, has a notable place, rooted primarily in the thought of intellectuals particularly during the Interwar, although the relation with the West was considered to be a key issue also before. Its central premise is the perception of Russia as a land-based civilization, characterized by some cultural and geopolitical independence as well as by strong ties in Asia, the former Soviet region, and the Muslim world. Key issues are border stability, addressing the West, and dealing with ethnic diversity. During the post-Cold War era, it has primarily opposed westernizers, conveying an overwhelming sentiment of pride, needless to say glorification of the country's past. It is marked by the prevalent tendency for an essentialist stance toward the Other and particularly the West, but also by less essentialist perspectives, which involve civilization building as multicultural interaction and intercultural learning, such as "civilized Eurasia" or "Euro-East" (Tsygankov, 2008: 767-768). Characterizing the above debates as civilizational, does not mean the absence of the "nation" at their epicenter. Here, speaking "Eurasia" overlaps with speaking "Russia" (Bassin et al., 2015; Bassin and Pozo (2017a); Torbakov, 2018; Kazharski, 2019: ch. 3-4).

Eurasianism presumably has common ground with the concept of the "Russian World", taking into account the emphasis on the status and vision of great power, the distinctiveness of civilization, on a continental scale, and the resistance to Western hegemony at a normative level. At the same time, the country's intellectual and structural vulnerabilities were exposed, in relation to the need for recognition as a great power, the dissatisfaction with territorial contraction after the end of the Cold War, the search for an authentic Self, and finally the fear of losing control of its destiny (Kotkina, 2017: 74). On a general note, Eurasianism is seen as part of a tension between ethno-national individualism (including ethno-exclusivism, at an extreme) and polyethnic collectivism, on Russia's course, certainly in the post-soviet years but also before. This tension includes drawing inspiration from even the same sources, such as the work of L. Gumilev, who had construed a holistic and ecological-orientated 'systems theory' of ethnicity, emphasizing the rationalization of ethnic individuality and its synergy with polyethnic integration. Despite the intentions of the European pioneers, the same material was used in various arguments, for example against ethnic intolerance or social exclusion, or in favor of the dynamics of the inter-ethnic unity of Eurasia, or even in the context of conflict resolution (Bassin, 2016: esp. 306-316).

When compared with older Eurasianist versions, it seems that there is some distancing of neo-Eurasianism, in the sense of a radicalizing determinism and the refraining from a praise of the East or of a romantic orientalism, while not displaying equally sophisticated accounts of history or geography. But in any case, multiplicity was at play, given the development of the new variant in Russia, either as a whole or particularly in autonomous republics of the Russian Federation (Tatarstan), as well as in other post-soviet states (e.g., Kazakhstan. Cf. Anceschi, 2020). Most importantly, the early 1990s entailed the emphasis in tackling the Soviet collapse or fragmentation, while the 2000s entailed the rehabilitation of the Soviet past. Eventually, the promotion of the EAEU project was also included, settling the respective narratives on a fairly pragmatic note. Another facet related to the tension of the emphasis in a unique ethnos, which is integrated though into a larger entity, and chauvinistic or imperialist versions. The emerging diversity does not necessarily preclude the common acceptance of the idea of Russia as an empire or Russia's right to the European legacy (Laurelle, 2015: 187-190). Interestingly enough, the evocation of a Eurasianist vision with the presence of certain pragmatic overtones has characterized the pursuit of international role in other states as well, like in the case of Turkey (Türkiye) (Atmaca and Torun, 2022).

In general, the Eurasia tradition has mainly prompted a "recognition threat

attitude" toward the West. This is so in the sense of a struggle for identity and domination among culturally different collectivities at a global level. According to the respective reasoning, the Euro-Atlantic civilization and cultural influence pose a major threat for Russian identity or status, thus deeming containment. On the one hand, emphasis is put on power or territorial expansion, along with the build-up of a sizeable geopolitical axis of allies, which could even include European partners. On the other hand, attention is paid to the restoration of the union in terms of a stable and self-sufficient entity, within the former Soviet borders. While the zero-sum civilizational dichotomy surely involves a critique against the universal claims of the West, this did not automatically require a complete breakdown. There had been a margin for some sort of intercultural dialogue. Here, Russia would move forward towards democracy and freedom, as just another European power, at a pace of its own, without cutting ties with non-Europeans. Broadly speaking, the prominence of an essentialist stance toward the Western Other did not outright negate the possibility of moving in a number of different directions, like identity building in less essentialist and non-monolithic terms. In this respect, Putin's several references to Russia as a nation of "Eurasian" identity are part of further forging ties with non-Western nations. At least at an initial stage, "European" and "Eurasian" weren't automatically viewed as inconsistent (Tsygankov, 2008: 770-772. See Bassin and Pozo, 2017a: part 3).

In this way, Russian nationalism included a competition between two strands of thought, at political and intellectual domains, namely ethnonationalists and imperial Eurasianists, who both aimed at influence in decision-making processes of Russian foreign policy. It was in the framework of this competition that the ruling regime would be able to oscillate between these strands. This was done by means of choosing and peeking from either ethnonationalist or Eurasianist discourses, in order to form an eclectic ideological platform, while playing the two sides off against each other (Torbakov 2017: 33). An example of that oscillation is given by the reception of the work of A. Dugin and his suspicion towards the West, along with his insistence on the irrevocability between a US-led West and Eurasia. His perspective, since the 1990s had few direct translations into actual Russian foreign policy, although an indirect relationship was evident to Putin's posture in Crimea and Ukraine and to the economy-driven Eurasian Union. This perspective would hardly be considered a manifestation of official policy. Subsequently, a pragmatic lens proved to be influential for the most part (Shlapentokh, 2014: 380. Also, see Akchurina and Della Sala, 2018: esp. 1646-1652).

The aforementioned pragmatic stance is compatible with the initial viewing

of the EU not only as an adversary of the EAEU but also as a source of inspiration. Both the EU, with its European Neighborhood Policy or the Eastern Partnership (EaP), and the EAEU targeted the same states, which by their turn attempted initially not to be committed in a domestically costly binary choice, at least until the Ukraine crisis in the mid-2010s. Obviously, the latter had made the oscillation between the two regional cooperation projects more difficult. However, by the continuous framing of the relations between the two projects as geopolitical rivalry, there was a strategic shift of Russia, from persuasion to coercion, with respect to dealing with the countries caught in the middle. In fact, this shift reflects the limitations of Moscow's transformative power. Despite Russian condemnation of the EaP, the transformative power of the EU can be discerned in the fact that the institutional design of the Eurasian Customs Union and the SES echoed the EU's structures, taking into account the existence of institutions like a council for decision making, a gate-keeping commission and a court for judicial control (Cadier, 2014b: 60-62).

Succinctly put, the link between the Eurasianist ideology and Eurasian regionalism as a particular form of current regionalism isn't an automatic one and needs substantiation. Moreover, for the majority of English-speaking scholars "Eurasia" does not come with a political connotation (Hancock and Libman, 2016: 203).While it certainly makes sense to take stock of the ideological roots of Eurasian Integration, the drive of the latter's regulatory framework and working institutions conformed to a pragmatic approach concerning building integration. Goal-setting prevailed over ideological content, in the EAEU Treaty's wording and generally in the logic of the respective institutions (Vikonurov, 2018: 147). The obvious presence of Eurasianist references in the rhetoric, pertaining to the EAEU project, does not negate the need to distinguish between the economic or political imperatives of the aforementioned project and the use of those references. In any case and emerging as part of a program that underscores the strong state and Russia's leading or hegemonic role in the near abroad, Eurasianism came to be helpful in the legitimizing process of an essentially neo-imperial agenda in the post-Soviet area. The priority of the project was concomitant with the objective of facilitating an alternative to the EU in post-Soviet space, despite the high economic costs and the obstacles to long-term investment and development of the Russian economy in the context of the confluence of state and business interests (Pozo, 2017: 174-175).

It is equally crucial to stress that, according to a thorough analysis of Russian discourses on cultural and economic regionalism in the capacity of authority or think tanks, these discourses point to the direction of constructing Russia as a supranational community, transcending the country's official borders. It

is through them that the political project of Eurasian integration connects with the dictums of "Russian World" and "Russian civilization" dictums. Therefore, a case is offered for the crystallization of identitary concepts in foreign policy, generally under Putin's reign but certainly over time. That is bluntly presented in terms of "regionalism as an identitary enterprise" (Kazharski, 2019). More specifically, regionalism rises as a project pertaining to Russian identity (ibid.: ch. 1). However but not less importantly, the strengthening of the Eurasian integration generally is presumably impeded, rather than enabled as would be typically expected, in light of a distinctive dissonance in Russian rhetoric. This is composed of a rhetorical commitment to regionalism at a high level, on behalf of Russian elites, which is at odds with to statements in domestic audience. It is a discrepancy between the emphasis on equality of participating states and on respect for their sovereignty and assertions of an imperialist nature, by Russian politicians or bureaucrats, to accommodate Russian society. As a consequence, the appeal of the majority of framings of Eurasian regionalism, derived from Russian discourses, to other partners is low (Libman, 2022).

Similarly, it is consistently argued that regional cooperation in Eurasia involves ideational interaction and a discourse developed in Russian scholarship, primarily available in the respective language. The Russian scholarship underscores the possibility for Russia, through the regional organizations it leads, of a special civilizational status connecting Europe and Asia. Russian political discourse entails the incorporation of neo-Eurasianism, which affects public opinion through specific interpretation of economic, political, and cultural processes. The concept was able to become a dominant part of the higher education curriculum, but other strategies aimed at public opinion were less successful compared to the EU initiatives. In this respect, it can be juxtaposed with that of Europeanization as part of an integrative mentality approach. It can thus be seen as an example of the importance of ideational foundation generally in international organizations (Izotov and Obydenkova, 2021: esp. 163-165).

Summing up all the above, it is noteworthy that the notion of a "post-soviet Eurasianist 'minimum' has been put forward, in the attempt of comprehending the mutiplicity of 'Eurasia". It is centered upon the organic unity of the Eurasian space as a single political entity, along with Eurasian civilization conceived as a mosaic of peoples with cultural and historical affinities. From this minimum as a point of departure, a great margin is thus left for the boundaries, membership, and nature of this entity. According to a proposed typology, Russian neo-Eurasianism, offering an ideological basis for the succession of the former Soviet Union by an anti-European or anti-Western neo-soviet imperial

collectivity, is certainly part of the whole picture, but not only that. The latter equally consists of particular versions associated with sovereign or federative states. It also relates to an "official" Russian Eurasianism, namely the project of gathering certain post-soviet states into the EAEU, with an initial downplay of Eurasianist resentment towards the West and an emphasis on the affinities between the two or even the margin for collaboration. Anti-Western and Russo-centric premises eventually followed. Bluntly put, "Eurasianism" denotes either some sort of a nationalist and conservative ideology or a set of views informing Russian foreign policy. At the end of the day, it crucially functions as a meta-narrative. Seen in this way, it is a central conceptual generator of tropes and narratives, characterized by considerable doctrinal flexibility and geographical scope to address a variety of concerns. Those are questions of national and ethnic identity, officially endorsed state-national doctrines, the post-imperial status of Russia, and multinational efforts at regional integration (Bassin and Pozo, 2017b: 6-9).

Lastly, attention is recommended to the entanglement of the ideational and values-related framework, the strong state tradition, and the authoritarian predicament. Post-Soviet Eurasia turned to be a hub of authoritarian regionalism, i.e., regional organizations that help the promotion and diffusion of authoritarian or autocratic regimes. In the Eurasian case, their development took place in the context of the Soviet legacy, several ethnic conflicts, secessionism and the resource curse predicament. However, just like other cases globally, they are characterized by diversity of members or impacts and the leading role of certain states. A distinct feature of Russia has to do with the fact that Russia was indeed powerful enough to raise concerns about control, but not strong enough to coerce other countries into membership. Similarly, there is no single value basis. For example of this multitude, the CIS involved the use of the rhetoric of democracy although reinterpreting its content. The EAEU presented itself as a purely economic organization (no matter the ensuing inconsistencies), while the SCO emphasized security and sovereignty. Promotion of autocracy entailed multiple mechanisms and channels, including the use of regionalist rhetoric with the aim of increasing domestic legitimacy. Certain important mechanisms at the global level appeared in this case as well, for example, the criterion of the tenure of presidents of member states (Obydenkova and Libman, 2019: esp. ch.12).

4. Conclusions-final remarks

Reaching the concluding section of this article, it is useful to stress that Russia-sponsored regional integration involves a space pertaining to Russia

and Eurasia as seen by the country, which has been characterized by a variety of forms of socio-political organization, like a series of principalities or the Mongol hegemony or a revolutionary state comprising eventually fifteen federative states. Consequently, the dissolution of the Soviet Union into the corresponding sovereign states is an important episode of the history of the respective region, only a part of it (Mikelis, 2018: 93). In this context, attention is drawn to the fact that the very definition of "Russia" and "Russianness" is subject to continuous struggle and contestation (Torbakov, 2018: 11-27). Equally importantly, the historical development of Russia includes two interesting characteristics that distinguish the country from other cases. First, a dramatic political discontinuity and transformation during the last hundred years, i.e., the shift from a dynastic Russian Empire to a communist Union and subsequently to a federation. What "Russia(n)" means and is has been strongly influenced by these changes. Second, the subsequent political instability is paradoxically accompanied by a geopolitical stability, in the sense that, one way or the other, Russia as geopolitical entity has existed. The predicament of Russia located on the north-eastern margins of Europe of Europe with its persistent pretense of the status of a great power is not new but goes back to at least the beginning of the 18th century. This historical context informs the understanding of the emergence of Eurasianism as a form of (post)imperial ideology and its interaction with the other strands of Russian nationalism, the inclusion of particular regions in Russian self-understanding, and the bid of contemporary Russian elites for historical legitimation (ibid.: 12).

Russian attempts for region-building and enhancing regional cooperation or integration certainly are not unique, given the fact that regional leadership is a larger issue with many case studies. However, the former constitute an intriguing instance, due to the country's status as an ex-superpower and an aspiring great power and an expectations-capabilities gap concerning a Russian re-rise. The management of the country's neighborhood and the advancement of its regional influence have proven to be both considerable and somewhat troubling, reflected in mixed economic consequences and the diverse stance of post-soviet peers even in light of the distinct invocation of Eurasia, that is, a mixed record that includes full acceptance, outright rejection, or oscillation. In any case, some sort of leadership has been at play. However, positive inclination was influenced by regional authoritarianism concerns, i.e., the enhancement of internal and regime legitimacy. Moreover, speaking Eurasia, alternatively "Eurasia in discourse", isn't a Russian particularity or monopoly, constituting a multiple endeavor. But, even in Russia itself, it has proven to be complex, being a substantial part of speaking "Russia in the World" and

the respective political imaginary. In this respect, Russia-sponsored regional cooperation has an ideational component, but it is not *per se* ideological. The discussion of "Eurasia", in Russian debates on national identity and international role, has had a significant appeal and position, although actual policies have at times been informed and mitigated by pragmatism and instrumentality. To be sure, the latter means the ultimate preeminence of political considerations which may relate not only to the politics of attraction but the politics of coercion, something that can hardly be denied the appeal of more coercive strategies particularly since the mid-2010s.

Although not unique, the case discussed above shows a noticeable entanglement of "national", as well as "regional" with "civilizational". Politics and political economy in Eurasia and for Eurasia do not go all the way down to civilizational analysis, but just as civilizational logics and practices are relevant in the politics of European powers on the whole (Mikelis, 2017), they are present in Eurasian politics or political economy as well. Then again, the impact of the Russian turn to coercion, particularly in the Ukraine since the mid-2010s, has already been noted. Since February 2022, where long-term and dramatic war is at play, Russia's partners appear to have been dragged into a geopolitical calamity not of their choice. They have also been forced to feel the benefits of Eurasian integration less than increasing costs, along with the growth of domestic sensitivities and regional tensions. Support for Russia and its leading regional role was not withdrawn, but it is not to be taken as granted or a given (Wolczuk and Dragneva, 2022). The war's outcome in all probability will have a crucial impact not only in international politics and economics but also in "speaking Eurasia".

Acknowledgments

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THE CHARACTERISTICS OF AN EFFICIENT WORLD MONETARY ORDER

K. GAROUFALIS[*]

Abstract

The focus of this paper is the theoretically efficient international monetary system. I have found myself in the same position as Milton Friedman when he discovered the optimum quantity of money arguments in late 1960's. In his important paper he had believed that there were no price-theoretic criteria for choosing a proper rate of price level changes for an economy, the choice depending entirely on personal and empirical judgments.

The optimum quantity of money argument provided such a price-theoretic justification for a theoretical optimum and efficient rate of price level changes and permits the model of the market economy to be complete and consistent.

JEL Classification: E42, E52

Keywords: Federal Reserve, macroeconomics, international reserves, exchange rate, balance of payments

1. Introduction

A long time ago Adam Smith pointed out that given the resources of labor and capital they could be more productive the greater the specialization of human skills and machines. One necessary ingredient for such an efficient exchange is the existence of money. Because money is so important in modern times, governments in all countries have taken on the responsibility for the creation and maintenance of national money supplies.

The world productivity and the material well-being of man can also be increased by national specialization in production and the international exchange of output. As in national economies, the existence of an efficient international financial system facilitates this exchange. Yet, for the international economy the existence of a well functioning financial system is as important as it is for national economies. For this simple reason the problems of international monetary organization deserves to be studied with great care.

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2. Problems and Politics

The history of reforms in world monetary organization illustrates they have been influenced by technical changes and shift in economic and military power. For example, the gold standard functions well only if individual countries do not engage in independent employment policies. But as the world's population lived off the land the relative self-efficiency and cyclical instabilities characteristic of capitalist economies had relatively minor welfare effects, the gold standard worked well. But as countries began to industrialize and population shifted into urban centers, cyclical fluctuations in employment had increasingly more significant effects on the well being of the public. The end of *laissez-faire* in national economies also brought to an end the gold standard's usefulness as the system under which the international monetary affairs of the world were carried on.

The redistribution of economic and military power since the end of the Second World War has led to a reorganization of the world monetary mechanism that had evolved during that period. The mechanism is known as the gold exchange standard, whose, somehow, the feature was that the USA and the UK were the "World's Bankers". These countries had reserves of gold which they were willing to exchange on demand for dollar and sterling pound claims held by foreign governments. The dollar and sterling claims were thus very much like an international "money".

The USA and the UK gained some advantages from issuing this money and from being the World's Bankers. Their national prestige was enhanced because the acceptability of the dollar and sterling reflected the world's confidence in the ability and strength of these countries. Later on, the formation of the European Economic Community and the rapid rates of economic development led to a relative decline in the economic weight of the USA and the UK.

During the late1970's the world community of nations had not reached a detailed agreement on a new form of international monetary organization to replace the dollar-gold exchange standard, except in the most general form that the past key role of the dollar in the system should not be resurrected and that instead the main forms of reserves should be centrally created by the International Monetary Fund (IMF).

3. International Monetary Organization and Other Problems

One of the most serious problems of the 1970's has been the acceleration of inflation in many countries in the world and the recession and unemployment

following attempts to reduce the price increases. It has been argued that this inflation has been caused, to a significant degree, by the excessive international reserve creation during the years of the gold exchange standard. The important of inflation will be influenced importantly by the particular form of the international monetary organization to be adopted in the future.

Another major problem of the post war years has been the widening gap in *per capita* income between the developed and less developed countries of the world. This problem may become an increasing threat to the political and economic stability of the world.

Finally, a major set of the world problems is due to the existence of tariff and other barriers to the free movement of goods and services. The expected gained in world welfare following from the removal of these barriers to international specialization and trade are very great.

It can be seen that the major problems facing the international economic community, the dollar overhang, the payments imbalances caused by the oil price increase in mid 1970's, the world inflation, recession and unemployment of the last years, the growing gap between rich and poor countries and the existence of barriers to free world trade, are in some important way linked to the operation of the world's payments system. In fact, it is this relationship which has led to the demand for an international monetary reform and it will be the reappearance of similar problems in the future which will give rise to the need of other necessary reforms.

4. The Demand for International Reserves

It is necessary to give some precision to the terms "international reserves" and "international money". International reserves are formally defined to be assets that national governments are willing to accept from other national governments in settlement of debts. Because of this acceptability in international transactions between countries, governments are willing to accumulate these assets and use them as national "reserves" against periods when aggregate payments to foreigners exceed aggregate receipts from them.

What are the characteristics of these assets countries are willing to use as reserves? As in the case of national money, the most important characteristic of the assets is that they are willingly accepted by others in payments of debts and that there exists confidence in their future acceptability.

Historically, most of the money instruments were produced in the economy. Their production required scarce resources, which were thus not available for the production of goods and services for consumption or investment. Gold

and silver, the commodities which were the most widespread, used as money in the past. The recognition that pieces of paper and cheap metal carrying the government's seal and book entries reflecting transfer of assets could do the job as well. The government – issued types of money became known as fiat money and the commodity substitutes produced by the private banking system were named credit money. They both permitted society to have an efficient financial system without requiring the expenditures of real resources as does commodity money.

What is true for national economies is also true for international monetary relations. The family of nations has the conscious choice of making international money what it wants that money to be. This is the essential point implicit to the modern definition of money as assets that are acceptable as means of payment. If countries agree that they will accept only gold, then gold will be the international money. But if countries are willing to receive payments in the form of claims exchangeable for gold, then these claims will be money, either alone or together with the gold itself. Naturally, fiat or credit money can similarly become the only form in which national monetary reserves are held and inter-country debts are settled.

It has to be pointed out that in one important respect the fiat and credit money, both national and international, are different from the commodity money. While the supply of commodity money is regulated by market forces and ideally requires no government intervention, the fiat and credit money involve governments in the issue and surveillance of its supply. These government activities in the monetary field result in some very important and difficult problems which the market tends to solve automatically. For those persons who like the social and economic consequences resulting from unmitigated market forces and who distrust the wisdom of government decision makers in the sphere of economics, this characteristic of commodity money represents a great advantage compensating in full for the greater social cost of producing commodity rather than fiat or credit money.

5. Reserves and Exchange Rate Stability

Countries hold international reserves in order to stabilize exchange rates and the more reserves they hold on average, the greater is the exchange rate stability. These two propositions are developed with the help of the following model (Figure 1).

Consider the foreign exchange market of country A as shown in Figure 1. Abstracting from all private capital movements, both long and short term,

Figure 1: Exchange rate flexibility and national demand for reserves

Quantity of foreign exchange per time period
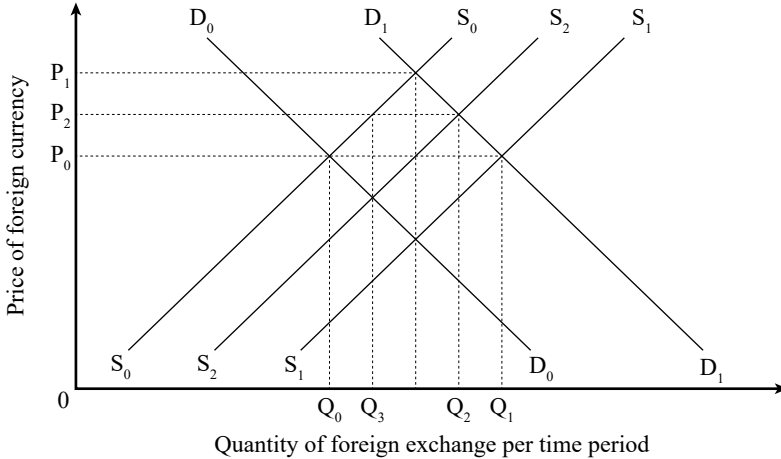
speculative and normal, the demand for foreign exchange D_0D_0 is due to the fact that the population in A wishes to acquire goods and services from the rest of the world, which for the sake of simplicity is assumed to consist of one country, say country B. The greater the price of country B's currency the more expensive are the country's products for the residents of A and the smaller is the quantity of foreign exchange demanded. The supply curve of foreign exchange S_0S_0 in Figure 1 is analogously derived from country B's demand for the goods and services produced in country A. The higher the price of foreign exchange from the point of view of country A, the cheaper is that country's domestic currency and output for foreigners and therefore the more of their own currency is supplied by foreigners in the process of purchasing A's output. It should be noted that the slope of the supply curve shown in Figure 1 implies that country A's excess demand curve for country B's products expressed in foreign currency is not perfect inelastic. Similarly, the slope of the demand curve indicates that country B's excess demand curve for country A;s exports has an elasticity greater than one, expressed in foreign currency.

Initially the foreign exchange market is in equilibrium at the rate OP_0 and at a trade of OQ_0 foreign currency per time period. Let us assume that this equilibrium is disturbed through a change in taste, technology, differential rates of

income growth or inflation, such that the demand for foreign exchange in country A shifts from D_0D_0 to D_1D_1 while the supply curve remains unchanged. It is more convenient to assume that the demand curve shifts upward as shown, stays there for one period and then returns to its original position for a period before shifting downward by an equal amount for the duration of another period and so on in a cycle. In order to keep our analysis simple, only the first third of the cycle i.e the upward shift of the demand curve has been shown. Note that, such a pattern of shifts may be considered as reflecting seasonal or cyclical variations in real net demand for foreign products.

The theory of the international adjustment mechanism suggests that a disturbance, such as the initial outward shift of the demand curve to D_1D_1 , leads to internal changes in relative factor and product prices and movement of factors which cause automatic adjusting shifts in the supply and demand curves.

Let us examine an example. Consider a sudden shift in country A's demand away from domestically to foreign produced cars. The resultant decrease in the demand for A's cars tends to lower their prices, including consumers to substitute A's cars for B's and resulting in a shift of the demand curve back towards its initial position by a magnitude depending on demand and supply elasticities but never quite equal to the initial shift. At the same time, unemployed resources from the car industry tend to move into country A's export industry, increasing supply and resulting in a shift of the supply curve for foreign exchange downward and to the right. In the long run equilibrium the change in country A's taste may or may not result in a new price of foreign currency.

The governments of both countries are assumed to have the option of entering into the foreign exchange market by buying or selling foreign exchange as they desire. For example, if country A decides to sell foreign exchange the supply schedule is shifted outward from S_0S_0 to S_1S_1 as shown in Figure 1. It is then clear that country A sells foreign currency it must be able to deliver it to the buyers and must either own it or acquire it somewhere. It is reasonable to assume that each of the countries owns a stock of gold which can be exchanged for the currency of the other country, which can then be used for the market intervention. It can also be assumed that when a country acquires foreign exchange by entering the market as a purchaser, it immediately presents this currency to the other country for payment in gold. It is worth to point out that in a two country model the appreciation of one currency means the depreciation of the other. Consequently, neither country ever had to purchase foreign currency to avoid appreciation as long as the other country prevents the depreciation of its own currency.

6. The Social Productivity of Reserves

We must now turn to the very fundamental question of why countries wish to narrow the exchange rate fluctuations produced by the free market.

There are three different answers to this question. First, is the answer that the historic evolution of the international monetary system has led directly to the institutions and practices of government stabilization of exchange rates. The second answer to the question of why stabilization of exchange rates is desirable tends to be provided by businessmen and bankers. They believe that in the absence of government stabilization efforts exchange rates would fluctuate widely, creating uncertainty about the domestic prices of foreign goods and assets, which is generally bad for business, raises costs of production and reduces international trade. The third justification for exchange rate intervention is based on the view that even if markets are free from imperfections due to speculation, low trade elasticities and actions of irresponsible politicians, the exchange rate instability produced by this market results in social costs in the form of externalities. In such a world without imperfections traders can eliminate uncertainty through forward exchange market dealings and speculators generally can stabilize exchange rates.

It should be noted that greater rate stability creates externalities through increased international trade and capital flows, leading to a greater international division of labor and real levels of output. On the other hand, domestic price stability is enhanced because the prices of traded goods entering into price indices are more stable. The greater price stability raises the usefulness of money and leads to further external benefits. Finally, there are social savings through the reduced need for the exchange of domestic and foreign currencies and the gathering of information, since the domestic currency value of foreign assets and goods is more stable.

Unfortunately, however, the stabilization of exchange rates also leads to negative externalities in the form of constraints on government's ability to deal with economic disturbances through the use of monetary and fiscal policies. Furthermore, there may be costs because of the need to harmonize interest and inflation rates among countries attempting to influence growth and unemployment through mixtures of monetary and fiscal policy.

7. The Optimum Level of Reserves and Exchange Rate Stability

In Figure 2 we measure the quantity of marginal social productivity of reserves on the horizontal and vertical axes, respectively.
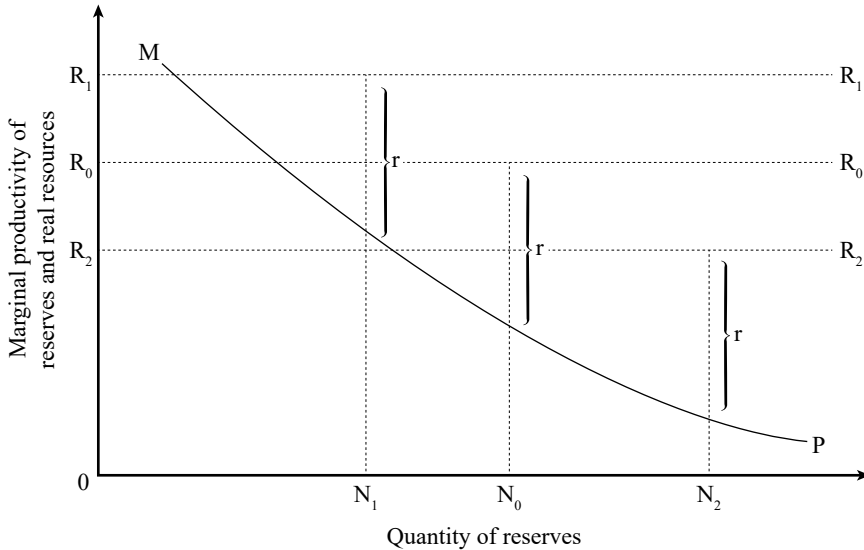
Figure 2: Productivity of Reserves
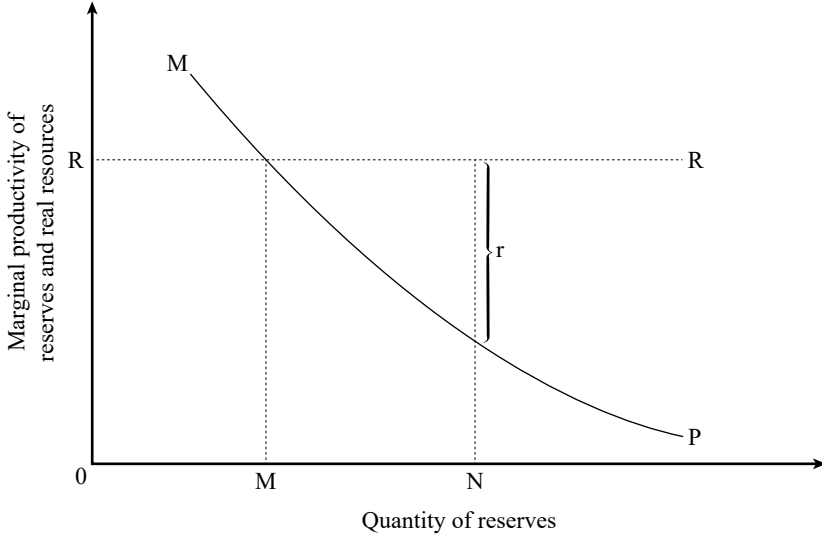
A small country A is assumed to have domestic productivity of real resources equal to OR and given the mobility of resources, pattern of domestic and foreign disturbances, and the magnitude of positive and negative externalities, a marginal social productivity schedule of reserves shown by MP in Figure 2.

Suppose that country A holds stock of reserves it forgoes the social return from holding real resources with a yield of OR. If that is it can readily be seen by remembering that by running a balance of payments deficit the country obtains real resources and pays for them with its reserves.

Given the preceding assumptions we are now in a position to determine the optimum level of reserves held in long term equilibrium by country A. We consider that reserves consist only of gold, the price of which is expected to remain unchanged in the future. Since under these conditions reserves provide no interest or capital gain yield, efficiency requires that in the long run average target for reserve holdings is at OM in Figure 2, or where the marginal productivities of reserves and resources are equal. Let us now consider that reserves are in the form of dollars which yield an interest return r per cent per year.

Figure 3: Adjustments to Disturbances

Under this condition country A's efficient long run target level of reserves is ON, where the marginal productivity plus interest yield on reserves just equal the return on real resources.

Let's put the equilibrium reserve holding model in analyzing it in the presence of payments imbalances. Considering Figure 3, in which the essential features of Figure 2 are repeated and equilibrium is assumed to exist at the target holding of ON_0 reserves yielding, r, interest. Now let us assume that a bad harvest occurs in country A, raising temporarily the marginal productivity of real resources to OR_1, which is above their normal yield of OR_0. Under these conditions efficiency requires that country A aim for a target level of ON_1 reserves using N_1N_0 to finance the excess demand for food created by the bad harvest.

In effect the reserves are used to eliminate the need for reduced food consumption immediately by the full amount of the harvest failure permitting the society to space out the payment for the calamity of the shortages. The most important insight derived from the above is that a small country facing a given

interst rate on reserves and all of the conditions determining the social productivity, has a determinant target level of international reserves from which it deviates according to the nature and strength of balance of payments disequilibrium.

8. Aggregate World Reserve Demand Schedule

The preceding analysis involved the derivation of the reserve demand curve for an individual country. However, for many purposes of analysis it is useful to consider aggregate world conditions and it is necessary therefore to derive an aggregate world demand schedules for reserves.

Such a world reserve demand schedule is formed simply by adding up horizontally all of the individual country demand schedules such as found in Figure 2. It is easy to see that such a procedure results in a graph qualitatively identical to that in Figure 2 except that the horizontal axis measures total world reserves and the RR and MP schedules represent the world average rate of return on real assets and the aggregate world marginal productivity or reserves schedule respectively. In addition, the distance ON is equal to the total quantity of reserves countries wish to hold in long term equilibrium.

The interesting analytical application of the world demand schedule is found in connection with the introduction of a world supply schedule for reserves. In analogy with domestic money supply theory it is assumed that at any given moment in time aggregate world reserves are given exogenously and independently of their productivity. Therefore, the world reserve supply curve would be a vertical line in Figure 2, though to keep the graph simple we do not show it. The key point is that only when the aggregate reserves are equal to ON, the optimal quantity demanded is there equilibrium and the international monetary system operates at top efficiency. If reserves are less than the optimal quantity, exchange rate variances are too great and unnecessary negative externalities reduce the world welfare. On the other hand, if the supply is above the optimum demand, then individual countries attempt to dispose of reserves by running payments deficits.

9. Major Determinants of the Demand for Reserves

Propensity to Make Domestic Adjustments

Classical economists used to stress the role of prices in the determination

of balance of payments. Thus, country A which was normally assumed to be a full employment can improve its balance of payments by lowering its domestic price level. Lower prices in country A reduce its residents' demand for foreign products (demand curve for foreign exchange shifts down and to the left), while the rest of the world finds country A a more attractive place to buy (supply curve shifts down and to the left). It is obvious how these results of domestic price decreases can be used to neutralize the disturbing outward shift of the demand curve.

On the other hand, while classical economists discussed the role of prices in balance of payments determination, the Keynesian revolution led to the emphasis of the relationship between income changes and the balance of payments. When countries are at a level below full employment, then any change in the level of employment and income is accompanied by a change in imports in the same direction. Thus, if country A's income decreases by one million dollars and the marginal propensity to import is one tenth, then imports go down by a hundred thousand dollars. In Figure 1 such a decrease in imports due to a change in income is represented by a shift of the demand curve downward and to the left. It should be noted that this shift of the demand curve may be partially offset by a shift of the supply curve upward and to the left, because country A's decreased demand for products from the rest of the world is likely to reduce income there and consequently the demand for A's products.

The reduction of income can be expressed in terms of US dollars by a set of calculations which takes into account the man hours lost, the lower productivity of capital, the smaller labor force participation etc.

Tariffs and Direct Controls

The use of tariffs and direct controls is politically more convenient because, first, the resultant welfare losses are widely distributed throughout the economy and most often the losers are not effectively organized to a lobby for their interests. For example, when tariffs on textile imports are raised to shift down country A's demand curve for foreign exchange and return it to its equilibrium position, the welfare losses of the consumers of textiles having to pay higher prices are widely dispersed and only marginal.

In addition, the use of tariffs and direct controls often benefits specific and highly organized groups of capitalists and laborers. These groups such as the producers of textiles, steel, oil etc, quite frequently have a long-standing and traditional demand before the government that their industries be protected from foreign imports for a variety of reasons, the most popular of which are

that the industry is in its infancy, that foreign labor is exploited and the resultant competition is "unfair", that the industry's output is needed for national defence etc.

World Economic Stability and Co-operation Among Nations

Since national governments have engaged in full employment policies many of the balance of payments disequilibrium experienced by countries of the Western world have not been caused by what previously had been considered "random" disturbances, but instead by conflicting national policies. When one country decides that it is socially optimum to operate at such a low level of unemployment that its annual rate of price increases is say 5% while the rest of the world operates at an annual rate say of 3% price increases, then balance of payments disequilibrium appear. These kinds of disequilibrium require the same types of adjustments and reserve holdings as do those caused by random disturbances. However, as random shocks by definition cannot be foreseen or avoided, the policy caused disturbances can be reduced by the proper co-ordination of national policies at the international level.

In terms of the basic analytical framework, increased co-operation among national economic policy makers and actual economic integration through the surrender of some national sovereignty to national authorities tend to reduce the frequency and intensity of disturbing shifts of demand and supply curves in foreign exchange markets. They thus reduce the need to hold international reserves used to stabilize the exchange rates.

Private Short-term Capital Movements

Consider country A initially in international payments equilibrium when a random even shifts up permanently its demand curve for foreign exchange (from D_0D_0 to D_1D_1 in Figure 1). One result of such a shift, accompanies the government's intervention in the exchange market. The public purchases the foreign exchange from the government through the surrender of domestic currency. Unless the monetary authorities neutralize the resultant decrease in domestic currency in the public's hands, country A's domestic money supply is reduced and interest rates go up. How far these rates rise in the absence of any action by the monetary authorities depends on the interest elasticity of the supply of foreign short-term capital. For example, if this elasticity is high, then a small rise in country A's interest rate attracts large quantities of foreign capital through the arbitrage procedure. These private capital imports into country

A increase the supply of country B's currency in the foreign exchange market, i.e they shift the supply curve downward to the right. If this shift is inefficient to neutralize the initial disequilibrating shift in the demand curve, the government of country A has to sell more gold or foreign exchange to keep the exchange rate at its initial level in the next time period, the money supply is reduced further and interest rates rise attracting more foreign capital e.t.c, until in the end the exchange rate is stabilized and the deficit in the trade balance of each period is matched by an equal sized capital inflow in each period. It is more than clear that the total intervention in the exchange market is smaller the greater the flows of foreign interest arbitrage capital attracted for a given rise in country A's interest rate. It should be noted that in the extreme case of perfectly elastic supply of foreign private funds only marginal sales of gold, marginal reduction of money supply and marginal increases in the interest rate are required to attain stability in the foreign exchange market.

Differences in Individual Countries' Demand for Reserves

The theoretical consideration about the determinants of the demand for reserves permits the specification of some hypothesis about inter-country differences in the demand for reserves. There are eight characteristics influencing individual countries' demand for reserves.

First, the size of the marginal propensity to import determines how big a country's domestic real income changes have to be if it chooses to correct a balance of payments deficit in this manner. For example, if the marginal propensity to import is 0.1 then the elimination of 1 million dollars deficit requires an income reduction of 10 million whereas the same deficit requires an income reduction of only 2 million if the marginal propensity to import is 0.5. Thus, the cost of running out of reserves and having to use income adjustments to correct a given balance of payments deficit is greater the smaller the marginal propensity to import. Therefore, national demand for reserves is a decreasing function of the marginal propensity to import.

Second, the greater a country's foreign trade sector the more significant are the effects of a given real disturbance to foreign demand or supply. For example, if 10% of the normal foreign customers of a country's cars do not like the new style and switch to another country's output, the total dollar value of the decrease in exports is greater the greater the normal level of car exports that is the base to which the 10% figure has to be applied. For this reason the absolute level of the national demand for reserves is an increasing function of the absolute size of the foreign trade sector.

Third, the greater the probability and magnitude of cyclical and reform fluctuations in the demand for or supply of a country's export and import of goods the greater are the fluctuations in the balance of payments. For example, agricultural products are frequently subject to seasonal and random fluctuations of supply and prices. Some manufactured products suffer more than others from cyclical instabilities of sales due to the high income elasticity of the demand for them. How widely and for what length of time a given country's trade balance tends to be imbalanced depends therefore on the relevant characteristics of the products entering its foreign trade. In general, the more unstable the demand for or the supply of a country's goods traded abroad, the grater the country's demand for reserves.

Fourth, the smaller the correlation of demand and supply fluctuations of individual goods the more stable the average demand and supply and the smaller the demand for reserves. Generally speaking, the greater the number of different products in a country's foreign trade the greater the probability that given instabilities in demand or supply for individual products tend to offset each other and therefore the greater tends to be the overall stability of the trade balance and the smaller the demand for reserves.

Fifth, the preceding four points concerning the size, demand elasticity and structural characteristics of individual countries' foreign trade have their nearly identical counterparts in the foreign capital section of the balance of payments. Thus, the larger a country's absolute size of foreign investments at home or abroad, the greater the interest sensitivity and cyclical instability of various types of capital flows and the smaller the diversity of the types of capital, the greater therefore is the instability of that country's capital account balance and its demand for international reserves.

Sixth, the flexibility of the domestic wages and prices and the general mobility of resources in a country facilitate the economy's adjustment to external disturbances. Therefore, the greater this flexibility and mobility, the shorter in the duration of a given cyclical or random deficit in the balance of trade or capital flows and the smaller a country's demand for reserves.

Seventh, the income, per capita, and wealth of nations tends to influence their demand for reserves in two distinct ways. First, a high income, wealthy country can afford more readily to keep a share of its national wealth in foreign reserves because the social opportunity cost of these resources tends to be lower than it is in countries with lower income. Second, the greater the wealth holdings in a country the greater tends to be the stock of financial claims which can readily be shifted abroad for speculative purposes or to take advantage of

higher interest rates. For both reasons the demand for international reserves is an increasing function of nations' income and wealth.

Eighth, countries like individuals, have different attitudes towards risk, which enter the determination of the demand for reserves through the fact that future balance of payments disequilibrium are uncertain. The fact whether a country at any moment in time wishes to be protected against the loss of all reserves over a time horizon of 5, 10 or 50 years with the probability of 0.01, 0.1, or 0.9 depends on its attitudes towards risk. The cost of running out of reserves and the opportunity cost of holding them enter into the determination of this attitude and the tastes of individual countries are important determinants as well. The element of taste considered as a determinant of the optimum level of reserves is the same which makes a salesman travelling in a car carrying 100 dollars as a precautionary reserve against the breakdown of his car and the probability of missing an important sales meeting, while another salesman under the same circumstances carries 200 dollars. In general, we could say that the greater the country's dislike for the risk of being caught short of reserves and having to face exchange rate and domestic adjustments, the greater will be a country's demand for reserves.

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PRICE FLUCTUATIONS OF A KEY-AGRICULTURAL EXPORTED PRODUCT: THE CASE OF CURRANT IN GREECE AND THE INTERWAR DEPRESSION[1]

A. ANTONIOU*

Abstract

Greece's international trade relations were heavily influenced by the demand for its main exported commodity, currant. In the period from 1920 to 1933, currant producers faced a significant decline in income, attributed to both domestic conditions and the global economic downturn, which notably affected the currant trade. The study found that the decrease in income was linked to a more stable monetary base compared to the drachma. Courant prices, especially in English pound sterling and dollars, dropped, while the cost of living increased, contributing to a challenging economic environment.

JEL Classification: N14, N24, N44, N54, N74, N94
Keywords: currant, price, Greece, crisis, exchange rate

1. Introduction

This article explores the functioning of the local currant market and exchange rates at the port of Patra, examining the interplay between international and national variables in the market of this key-exportable product of Greece during of our examined period. We present and evaluates the seasonal and yearly fluctuations in currant export prices and assesses the decline in income for currant producers relative to a more stable monetary base compared to her domestic currency the drachma. The impact of the global interwar economic crisis on the currant trade is also analyzed. The interest in this investigation stems from the diverse forms of economic development in the agricultural European space, particularly in the Balkans.

It is crucial to clarify that the term "currant" is a kind of raisin and in particular refers to small dried black Corinth grapes, characterized by their diminutive size, dark color, and frequent use in baking. The remainder of the article is structured as follows: Section 2, is a historical excursion over the Greek economic history and in particular the production and exports of currants one

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of the major exporting products. Section 3 collates a new set of data related to Greece's key-exporting product and discusses their implications. Finally, Section 4 makes some concluding observations.

1. Historical Excursion

During the interwar period, Greece's primary economic focus revolved around agricultural production, with exports centering on key products such as tobacco and currant. Imports during this period were predominantly comprised of industrial products. Greek shipping played a pivotal role in international trade, driven by a small domestic market, a scarcity of natural resources, and notably, inadequate food resources. Consequently, Greece's economic orientation leaned heavily towards dependency on international markets. (Luna and Tortolero, 2020, pp. 13-21) While Greece did not reach the level of international trade dependency seen in Western European economies, it surpassed its Balkan neighbors in terms of participation in international trade.

Since the 19th century, currant cultivation has emerged as a pivotal and dynamic component of the agricultural economy. In the latter half of the 19th century, the development and enhancement of transportation networks played a crucial role in fostering the growth of the international currant trade. (Inal, 2019, pp. 549–574) This trade not only connected the local Peloponnesian economy to global markets but also spurred the expansion of warehouses, ports, railway networks, and social structures. Currant cultivation, along with the cultivation of tobacco in the 20th century, was unsurprisingly labor-intensive, aiming to address the challenges of small agricultural properties and rural underemployment. Unlike other agricultural products primarily intended for self-consumption, currants served as a unique agricultural product that significantly bridged the urban and provincial divide. The port of Patras stood as the central hub for the transit and export of currants, forming a vital pillar for the trade. However, the latter part of the 19th century witnessed a pronounced crisis in the currant trade, with repercussions intensifying during this period.

The surge in demand and crop expansion followed the devastation of French vineyards by diseases, prompting a shift to using currants for cognac production. The recovery of French vineyards in 1891, coupled with protective measures, led to a decline in currant demand. (Pizanias, 1988, pp. 13-28) The downturn in French exports was further linked to the public debt default of 1893. (Schönhärl, 2013, pp. 107–134) To address the crisis, the Greek government took steps to stabilize prices, removing low-quality quantities from currant exports. Additionally, efforts were made to organize the storage of the

currants and absorb excess quantities from wineries and distilleries, and at the same time combat usury.

In response to these challenges, the Currant Bank was established, followed by the creation of the Single Preferential Company in 1906, with foreign capital investment. The Hellenic Wine and Spirits Company, founded in the same year, aimed to absorb surplus currants from wineries and distilleries. During the interwar period, a significant portion of bank credit supported currant, grain, and tobacco producers, mitigating the severity of the crisis and sustaining production. Immigration further alleviated human surpluses. (Bregianni, 2002, pp. 90-98)

The First World War posed difficulties for currant and tobacco absorption due to Greece's restricted access to Entente; enemy ports closed for Greek exports, leaving 80,000 tons unused. In 1925, the state-controlled Autonomous Currant Organization (ACO) replaced the private Single Privileged Company (Ενιαία Προνομιούχος Εταιρεία), intensifying regional economic intervention policies developed in Europe during the interwar period. (Sakelaropoulos, 1991, pp. 33-43) Conflicting interests arose among currant cultivators, producers, bankers, civil servants, and politicians. (Aroni – Tsihli, 2000, pp. 247–258)

The currant trade's significance attracted government attention, reflected in permanent fiscal measures and emergency interventions. Prices of currant exports were closely monitored, and the trade continued to play a vital role in public finance during the interwar period. In a letter dated March 19, 1932, banker Carl Hambro suggested to Greek Minister of Finance George Maris an agreement for British businesspeople to buy currants to strengthen Greece's creditworthiness. The same banker proposed, in 1932, combining currant cultivators' payments with gold-backed interest servicing, acknowledging the fiscal challenges and over-indebtedness hindering production and trade. (Bregianni, 2019, pp. 125-157) The pervasive issue of usury dominated currant producers' appeals for a solution. (Benaki Museum- Eleftherios Venizelos File- Folder 362-60 http://www.venizelosarchives.gr/rec.asp?id=69566)

ACO had a significant impact on industrial production by encouraging the use of currants within the specific sector. Despite challenging economic conditions, ACO undertook crucial initiatives, including the promotion of the product internationally, fostering a cooperative spirit, and establishing infrastructure such as a warehouse network. (Simonidi, 1931, pp. 31-73) Since 1926, currant producers have opted to entrust the management of their product to agricultural cooperatives. (Bitsani 2015) Starting in 1931, in response to the declining price of the currants, efforts were undertaken to address the surplus quantity. This involved promoting currant bread not only in schools and the

military but also to the general population. (Theodorou, 2011, 233–262) Following the intense social conflict in August 1935 surrounding the raisin issue, there was a shift towards a more systematic absorption of larger quantities for internal consumption. Raisins began to be utilized as a substitute for sugar during this period. (General Statistical Service of Greece, 1940, p. 115) The role of ACO, initially serving as a collaborative entity that brought together representatives and producers, while establishing bureaucratic infrastructures, engaging scientific personnel, and receiving governmental support, was instrumental in supporting production and facilitating the movement of products. Over time, however, its functioning became entangled in conflicting interests and political disputes of the era, ultimately leading to its curtailment and a decline in its reputation. (Papakontstantinou, 2020, pp. 81-84)

The currant trade gradually diminished in significance from the last quarter of the 19th century, primarily due to the long depression of 1873-1896. (L. Tsoulfidis, 2003, 195-223) However, despite this downturn, during the interwar period, it remained a crucial sector with a robust export focus for the agricultural economy of the Peloponnese and Greece as a whole. The foreign exchange trade balance continued to receive substantial support from the exportation of tobacco and currants throughout the interwar years. (Economie et Statistique, p. 1947) In retrospect, the income generated from trade far surpassed other agricultural revenues, despite challenges arising from the absorption of the product. (Chasiotis, 1936, pp. 112-197) In 1930, during a discussion in the Fiscal Committee of the League of Nations, it was highlighted that the 25% reduction in the currant price had an unfortunate impact on the foreign exchange balance. (Evlabiou, Magazin of Athens Ergasia, 11 February 1934) The urban landscape of many Peloponnesian cities had been transformed by structures dedicated to the storage and processing of currant. The working class had migrated from villages to nearby cities, serving the processing and transportation of the product. According to the 1930 labor census, 919 workers in Peloponnese were exclusively involved in the packaging of currant. The majority of other workers congregated around the port of Piraeus. Their wages were notably low, averaging 46 drachmas per day, compared to the general average of around 60 drachmas per day during the same period[2].

2. The Data Related to the Currant Production

According to the data of Table 1, between the period 1920-1933, the production of currant consisted of 4% to 6% of the cultivated areas of the country[3]. During the interwar period in Greece, 85% of exports constituted

agricultural products and currants and tobacco were the main exported items. (Saras, 2014, pp. 56-59) Competing crops had been developed around the Mediterranean, Australia and California of USA. (Marres, 1945, pp. 76-77) Gradually, tobacco overcame the currant export value. During the years 1937 and 1938 the value of the exported tobacco was tripled compared to the value of the exported currant. Competition and the increase in demand for Turkish raisin -its sales increased significantly between the 1926-32 period in Great Britain, Germany, and Netherlands- played an important role in the reduction in the interest for the Greek currant, resulting in the Greek currant export to remain steady. (Zaka, 1934, Magazin of Athens Ergasia, 8 Avril 1934) The difficult position in which the currant producers were found, could also be detected by the fact that despite the cultivation of currant constituted 4-6% of the cultivated areas, the debt of currant producers to the Agricultural Bank on the 31st December 1933 reached 23% of the debt of all producers. (Economics Department of Magazin of Athens Ergasia, 15 Avril 1934). During the interwar period, the main point of the currant export network continued to be the port of Patras. The currant export network served by the port of Patras during the inter-war period, extended mainly to Peloponnese. The city was connected through a transport network from the hinterland to the European ports. The shipments were headed towards Great Britain, USA, Italy, France, Netherlands, Yugoslavia and Germany. (Sion, 1932, pp. 309-314) In 1925, with the establishment of the Autonomous Currant Organization, which was based in the capital, the port of Piraeus began to extract part of the currant trade.

The evolution of the exchange rates over time is a useful indicator for assessing both the course of the national economy and the individual regional phenomena. Foreign exchange prices are examined, both in Athens and Patras to detect the course of prices during the crisis, the interaction of prices with international trade, as well as the diffusion of the crisis in the region. The aim is also to identify any price differences at the local level and the impact of government policy on the local foreign exchange market with a clear tendency to strengthen the centrally set exchange rates.

The range of exchange rates also allows us to reflect the selling prices of currants in foreign currency. During the period examined, as it appears from the data by the sources, there is a tendency for equalization of the exchange rates in Patras with the official prices of Athens. In Patra, there was a variety of coins that took days to transact, which did not reach the range of coins that appeared in Athens but was quite extensive and revealed the number and variety of transactions. The British pound, the dollar, the French franc, the mark, the Italian liretta, the Swiss franc, the Romanian leu, the Turkish lira

Table 1: Evolution of the currant cultivation area

Year	Currant Area in stremma[4]
1920	827.208
1921	739.265
1922	708.329
1923	666.882
1924	851.115
1925	761.284
1926	680.175
1927	641.868
1928	656.624
1929	590.063
1930	685.628
1931	691.956
1932	700.097
1933	735.539

Data processing by: General Statistical Service of Greece, 1931, p. 146.

(Istanbul), the Belgian franc and the Spanish peseta were found. From the series of data recorded, it can be observed that the minimal and insignificant local differences do not swell, even during the period of significant changes in exchange rates such as August 1923[5]. The dominance of the national over the local market of Patras in this period is unquestionable. The few data found on the market of Thessaloniki and Smyrna for 1921 and 1922 gave us the picture that the trade was conducted exclusively in English pounds. There seems to be a difference concerning the official prices of the banks in Athens and some correspondence with the prices that appear in the free market of Athens. The issue of local currency markets is completely unexplored to date and this current report can only be seen as a first approach.

The series of quantitative data depicts the selling prices in the port of Patras

in current drachmas. The recording of the selling price of currants in current drachmas hides the real fluctuation of the prices of the product. The drachma, during the specific period was a currency with great fluctuations. Nevertheless, even in drachmas, a decrease in the price of the product appears for a few years, such as in 1925, 1926 and 1930. The monetary changes in Greece during this period were shocking. As an example, the law on the division of the banknote, which caused a significant upheaval in the markets, because of the stock exchange, which ceased its operations until April 24, 1922, is mentioned. National issues have caused a variety of upheavals, both with their sharpest fiscal implications and their impact on exchange rates. (Newspaper Skrip of Athens, 25 Avril 1922) Due to the budgetary difficulties after the destruction of Asia Minor and despite the downward trend in prices since 1923, a new tax was imposed on currant, in favour of the Agricultural Field Guard. (Newspaper "Tilegrafos" of Patras, September 21, 1923) A recently unknown factor is their effect on the cost of currant collection. Currants were a labour-intensive product and a newspaper in Patras reported that there was an increase in wages for the harvest, due to the removal of Bulgarian war prisoners who worked at "reasonable" prices. (Newspaper Tilegrafos of Patras, 26 July 1920) Another unknown parameter of the impact on the exchange rates was the news of the devaluation of the exchange rate, due to the abundant supply of the refugees of Turkish pounds. (Newspaper Tilegrafos of Patras, 21 September 1922) As it can be observed, in Table 2 and Diagrams 1 & 2, the decrease in the price of agricultural products compared to 1928 is notable in 1929, and continues to increase in 1930 and 1931. The fall in prices of agricultural products both in Greece and in Europe during the crisis has already been identified.

To approach the real decline in producers' incomes we need to look at fluctuations in a much more stable currency. Its examination against the British pound, not only for reasons of stability, but also because Great Britain was one of the main export destinations of the product, was chosen. Two main examination points were chosen. According to Table 3, the price of currant in relation to the price of British pound is detected, when it is at its minimum exchange rate compared to drachma for the current year. Secondly, the price of currant when the price of British pound is at its maximum compared to drachma is detected.

The price of currants was determined in kiloliters of Venetian liters. The Venetian liter was a special unit of weight used in currant trade, which is equal to 477.05 grams. (Bitsani, Newspaper Eleftheria of Kalamata, 25 October 2015) It is observed that the price of the product was on a downward trend. When the pound was at its lowest level for the year, the price of currant in

1920 was 25.3 pounds per Venetian kiloliter. Gradually, the price decreased to 5.9 pounds per Venetian kiloliter in 1930. In 1930 the price of pound was descending in international money markets and despite that the price of currant was remarkably low. During the years 1931, 1932 and 1933 there was a slight recovery, which however cannot help the product to return to the original level, which was at the beginning of the decade. The partial recovery of prices in 1932 was due to the reduced production, since the winter of 1931-32, the frost caused extensive damages. (Zaka, Magazin of Athens Ergasia, 1 Avril 1934) The impression of a strong downward trend exists, even when the price of the pound was at the highest price for each year. In fact, the increase in the exchange rate leads producers to get a lower price in British pounds. In this case, the minimum was approached much earlier in 1923. The evaluation of the price of currants in dollars was also examined with the purpose of enriching the data. Table 3 reflects the downward trend in product prices, where currant prices are presented in dollars. The falling trend in the price of currant in dollars was obvious throughout the period 1920-1934. The lowest prices appeared after 1925 and during the economic crisis.

Therefore, a reduction in the income of producers occurs, which in some years exceeded the loss of more than three- quarters of their income. In 1930 the French government implemented protective measures and banned the import of foreign wines, provided that they were destined for mixing with French wines. This decision resulted in the reduction of Greek wine export in France and hence the reduction of currant quantities, which have been absorbed by the Greek wineries. (V. Simonidi, 1931 pp. 56-57) The reduction in the income of the currant producers is also confirmed by the recorded local memory. (Bitsani, Newspaper Eleftheria of Kalamata, 25 October 2015) The prices of the product led the currant producers gradually to the inability to pay taxes, the inability to cover basic needs and resulted in hunger. The newspapers of Patras and other areas of Peloponnese hosted an enormous number of articles regarding the currant issue. During the economic crisis, the phenomenon of the reduction of income is stronger. A significant decrease in the prices of exports worsened the over-indebtedness of agricultural households. The disturbed international environment and the increasing protectionism resulted in international trade to shrink. The new conditions escalated the need for the government's intervention. (Fragiadis, 2007, pp. 138-140) The problematic situation led to annual conferences that were followed by protests. From 1927 a series of dynamic protests took place which continued sharply until the imposition of the dictatorship in 1936. (Seferiades, 1999, pp. 277-323. Bitsani, Newspaper Eleftheria of Kalamata 25 October 2015) It is noteworthy, that at a conference held in

Athens, in July 1930 regarding the subject of currants and despite the active participation of powerful political and economic figures, repeated episodes occurred. The intense confrontations focused on ACO, to the withholding of a part of production by the public and to the international competition of similar products. (Newspaper Neologos of Patras, 4 July 1930) At the center of the demands of the currant producers was tax relief. The unfavourable economic events were enhanced by the influx of refugees in the country, but also the change in the immigrant policy of USA, at the beginning of the decade of 1920. Until then, immigration was a significant way out to the human surpluses of agricultural areas and contributed to the solution of the problem of underemployment. (Fragiadis, 2006, 153-174) By estimating income changes in pounds and dollars the opportunity to assess in real-life conditions the social tensions that have arisen around agricultural income is given.

Table 2: Value of agricultural products per aree in current drachmas

Agricultural product in Greece	1928	1929	Difference of 1929 compared to 1928	1930	Difference of 1930 compared to 1928
Wheat	542	505	-7%	462	-15%
Barley	356	334	-6%	198	-44%
Maize	391	294	-25%	237	-39%
Oats	333	324	-3%	186	-44%
Rye	378	326	-14%	237	-37%
Legumes	641	495	-23%	404	-37%
Vegetable garden products	223	128	-43%	157	-30%
Industrial and aromatic products	3119	2483	-20%	2308	-26%
Feed products	145	150	4%	89	-38%
Currant	807	690	-14%	507	-37%

Data processing by: A. Antoniou, "Exchange rates and local prices. Index of two local newspapers", TransMonEA project, Head of Research K. Bregianni, Academy of Athens / HFRI. URL: Public Finances (academyofathens.gr)

Table 3: Price of currant in relation to price of sterling

Year	Minimum price sterling	Maximum price sterling	Price of currant in drachmas	Price of currant in sterling (minimum)
1920	30,8	43	780	25,3
1921	51	99,7	1000	19,6
1922	96,5	394	1730	17,9
1923	176	452,5	2725	15,5
1924	211	288,5	2950	14,0
1925	248	363,75	2475	10,0
1926	342	447,5	2220	6,5
1927	365	376,5	2930	8,0
1928	367,75	375	4300	11,7
1929	375	375	3600	9,6
1930	375	375	2200	5,9
1931	375	375	2470	6,6
1932	270	641	3445	12,8
1933	550	611	6175	11,2

Data processing by: A. Antoniou, "Exchange rates and local prices. Index of two local newspapers", TransMonEA project, Head of Research K. Bregianni, Academy of Athens / HFRI. URL: Public Finances (academyofathens.gr)

Table 4: Price of currant relative to the us dollar and drachmas

Year	Minimum price of dollar	Maximum price of dollar	Price of currant in drachmas	Price of currant in dollars (minimum)
1920	7,7	13,75	780	101,3
1921	12,9	25,06	1000	77,5
1922	21,61	31,89	1730	80,1
1923	32	66	2725	85,2
1924	46	68	2950	64,1
1925	54,4	78,8	2475	45,5
1926	66,85	92	2220	33,2
1927	74,25	79,55	2930	39,5
1928	75,4	77,3	4300	57,0
1929	77	77,25	3600	46,8
1930	77	77	2200	28,6
1931	77	77,8	2470	32,1
1932	77,8	191	3445	44,3
1933	105,5	186	6175	58,5

Data processing by: A. Antoniou, "Exchange rates and local prices. Index of two local newspapers", TransMonEA project, Head of Research K. Bregianni, Academy of Athens / HFRI. URL: Public Finances (academyofathens.gr)

Figure 1: Currant Price Evolution and Exhange Rates in Pounds 1920-1933
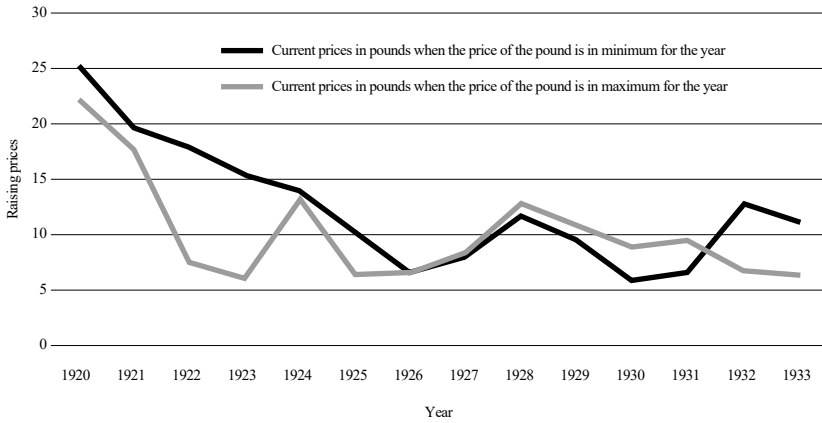
Figure 2: Currant Price Evolution and Exchange Rates in USD 1920-33
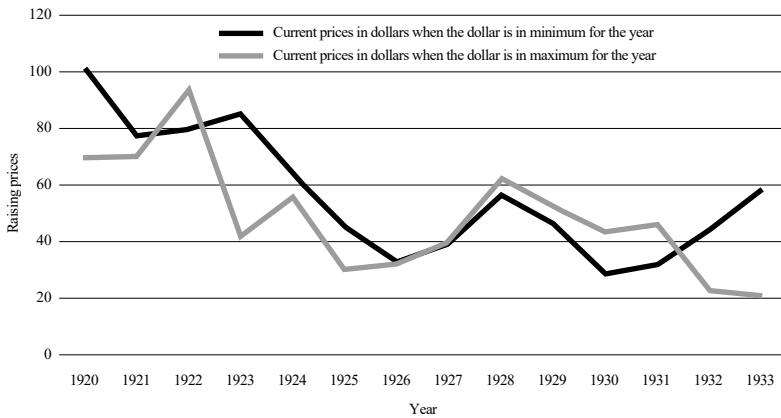
Did the reductions in the price of currants accompanied by a reduction in the cost of living? On the contrary, according to Table 5 and as a base the year of 1914, the cost of living of Greeks during the period 1914-1933 showed a strong upward trend. It skyrocketed significantly in 1918, where it was more than doubled compared to 1917, while in 1922 when the increase reached 60% and in 1923 the increase approached 86% and nearly doubled in 1918.

Table 5: Price index of cost of living (state)

Year	General Price Index
1914	100
1915	119
1916	159
1917	156
1918	366
1919	323
1920	351
1921	398
1922	636
1923	1.181
1924	1.235
1925	1.414
1926	1.633
1927	1.790
1928	1.868
1929	1.923
1930	1.682
1931	1.671
1932	1.773
1933	1.904

Data processing by: General Statistical Service of Greece, 1932 : 226. General Statistical Service of Greece, 1937, p 246.

Figure 3: Comparative Evolution of Cost of Living and Currant Prices
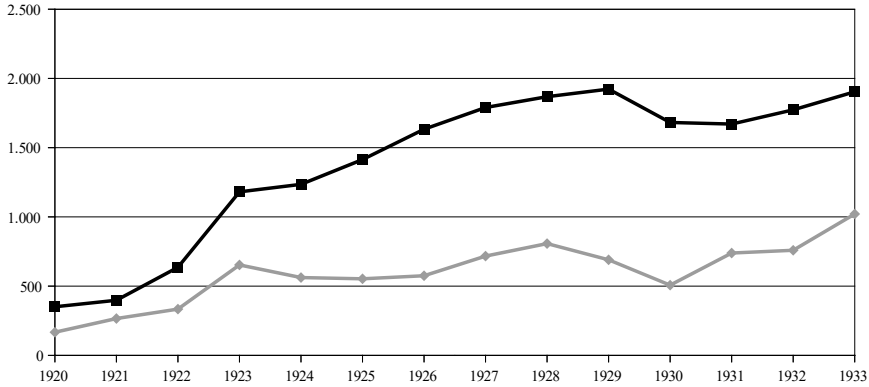
Comparison of the evolution of the cost of living (top line) and the price of the raisin produced (bottom line)

Table 6: Progress of quantity of production and price of currant

Year	Area in stremma	Production total	Kg per stremma
1920	827.208	1.372.991	166
1921	739.265	1.298.233	176
1922	708.329	2.016.214	285
1923	666.882	1.508.778	226
1924	851.115	1.853.545	218
1925	761.284	1.777.765	234
1926	680.175	1.742.619	256
1927	641.868	1.698.818	265
1928	656.624	1.706.902	260
1929	583.008	1.392.712	239
1930	683.303	1.705.591	250
1931	687.857	1.008.004	147
1932	699.900	1.891.739	270
1933	734.543	1.671.651	228

Data processing by: General Statistical Service of Greece, 1931: 146-149. General Statistical Service of Greece, 1937 pp. 117-121.

According to the data of Table 6, during the period 1920-1933, the production per acre (stremma) ranged from 147 to 285 kg. In the years 1920, 1921, 1922 and 1931 the production per acre (stremma) was at low levels. In the remaining years of the period 1920-1933, the production exceeded 200 kg per acre (stremma). Its value ranged from 167 to 1021 current drachmas per acre (stremma). As can be seen from the data in Tables 5 and 6, and especially in Diagram 3 the increase in cost of living is greater than the increase in the quantities of currants produced in the same period. Consequently, the amount of production per acre (stremma) that has been increased since 1923 does not cover the cost of living, the decline in producers' incomes and the fall in the price of the product.

3. Concluding Remarks

In summary, Greece's international trade relationships were intricate and multi-faceted, shaped by a multitude of international and national political and economic factors. These factors were intertwined with Greece's economic standing on the global stage and the prevailing political issues of the specific time period. Our analysis based on data that we collated revealed a significant decline in the income of currant producers from 1920 to 1933, attributed to both national challenges and the overarching economic crisis. Importantly, the falling currant prices commenced well before the acute phase of the crisis. This decline was particularly pronounced when expressed in pounds sterling and dollars, as depicted in Figures 1 and 2. Concurrently, the cost of living was on the rise, contributing to a growing climate of conflict. By examining the case of falling currant prices, it becomes evident that farmers faced a substantial and pressing issue. The study highlights the magnitude and seriousness of the problem, shedding light on the challenges experienced by those in the agricultural sector.

Notes

1. The research was implemented under the direction of Catherine Bregianni Research Director, Academy of Athens / Modern Greek History Research Centre and supported by the Hellenic Institution of Research and Innovation (ΕΛ.ΙΔ.Ε.Κ.) in the context of the action "1st Proclamation of research ΕΛ.ΙΔ.Ε.Κ. for the enhancement of faculty and research members and the supply of research equipment of great value".

2. It seems to be about workers, who had as main occupation the packaging of currant. General Statistical Service of Greece, 1940: 144-339.

3. For a broader discussion of the impact of the crisis on the agricultural economy of Greece with commentary and the historical literature you can see the article of L: Tsoulfidis in https://www.researchgate.net/publication/277758470_Apo_ten_Oikonomike_Anthese_sten_Krise_tou_1930.

4. Stremma is equal to a thousand square meters.

5. A. Antoniou, "Exchange rates and local prices. Index of two local newspapers", TransMonEA project, Head of Research K. Bregianni, Academy of Athens / HFRI. URL: Public Finances (academyofathens.gr)

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DETERMINANTS OF CURRENT ACCOUNT IMBALANCES IN THE EUROZONE: A PANEL DATA ANALYSIS

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Abstract

This paper investigates the effect of the long-term economic, structural, and financial factors that create imbalances and vulnerability in the current account balance using Panel Data Analysis and an attempt is made to empirically identify the determinants that influence the long-term evolution of the individual current account balances of the Euro (€) Area Member-States. The empirical analysis focuses on a representative sample of selected Euro (€) North and Euro (€) South Member-States of the Eurozone over the period 1987-2021 and aims at highlighting the main macroeconomic, structural, and financial characteristics that have a decisive influence on the current account balance over time.

JEL Classification: C33, E20, E60, F45, J30

Key words: Eurozone, Macroeconomic Imbalances, Current Account Balance, Competitiveness, Panel Data Analysis

1. Introduction

The growing widening of macroeconomic imbalances in the Eurozone Member-States is reflected by a combination of deficits and surpluses in the individual current account balances, reflecting, on the one hand, differences in the level of Competitiveness and, on the other hand, affecting the level of Production (GDP) and the level of Employment. A typical example is the persistent long-term current account deficits in the Euro (€) South Member-States, which contrast with the rising surpluses in the Euro (€) North Member-States (see Figure 5). They stem mainly from the high Trade Balance deficit, reflecting not only cyclical factors but also structural weaknesses in the productive base. Their persistent widening suggests that current account deficits are caused by a combination of structural determinants and imbalances and are not related to cyclical factors (Tamourantzis, 2023). Hence, the macroeconomic risks posed in the euro area environment, due to the non-smooth correction of persistent

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asymmetries in individual current account balances, make the empirical analysis of the determinants of their influence particularly important and crucial for the effectiveness of both economic policy formulation and implementation and macro-prudential surveillance in the Euro (€) Area.

This paper considers a strongly balanced panel of annual data for eight Member-States of the Eurozone over the period 1987 - 2021 and investigates the effect of the long-term economic, structural, and financial factors that create imbalances and vulnerability in the current account balance using Panel Data Analysis and an attempt is made to empirically identify the determinants that influence the long-term evolution of the individual current account balances of the euro area Member-States. The empirical analysis focuses on a representative sample of selected Euro (€) North and Euro (€) South Member-States of the Eurozone over the period 1987-2021 and aims at highlighting the main macroeconomic, structural, and financial characteristics that have a decisive influence on the current account balance over time. The structure of the paper is as follows: Section 2 outlines the investigation of the determinants influencing the current account balance in the context of the literature review. In Section 3, the methodological approach of the empirical analysis is presented. In Section 4, the analysis of the explanatory variables of the empirical model is displayed. In Section 5, contains the results of the panel unit root tests, the results of the panel cointegration tests and regression results and the estimation and treatment of the results of the empirical analysis is reported. Finally, in Section 6, the concluding remarks are presented.

2. Literature Review

The analysis of this paper is based on the longitudinal approach of the current account balance which is the result of the influence of Macroeconomic, Structural and Financial factors that affect the difference between Saving and Investment (Sachs, 1981, Buiter, 1981, Obstfeld-Rogoff, 1995). Therefore, the current account balance is the result of consumption and investment decisions which are forward-looking and taken in the context of expectations regarding the future evolution of macroeconomic variables (Gandolfo, 2001). Regarding the long-term normalization of Consumption, the aim of the research is to identify the determinants of Saving and Investment behavior, examining variables related to the level of Economic Growth, Macroeconomic Policies and Credit Conditions within the individual Member-States, aiming to ensure the sustainability of current account positions. Similar works have been carried out by Debelle-Faruqee, 1996, Chinn-Prasad, 2003, Gruber-Kamin, 2007, Afonso-Rault, 2008, Schmitz-Von Hagen, 2009.

Consequently, the present empirical study extends to the examination of the change in fundamental economic factors that are related to current account positions, due to the participation of individual Member-States in the Eurozone. Undoubtedly, a Monetary Union can contribute to the formation of current account imbalances of the Member-States through two main important channels: (a) The first channel, refers to the Economic Disturbances (Demand-Supply) affecting individual Member-States and resulting in the creation of current account imbalances, due to nominal exchange rate rigidities, with a direct impact of slowing down the pace of adjustment to the Economic Disturbances. (b) The second channel is related to the increasing Financial Integration and the increase in Capital Mobility, where subsequently, it directs to the increase in Credit Expansion resulting in the creation of long-term imbalances in the individual current account balances.

Admittedly, the deepening of financial liberalization has had the direct consequence of increasing credit expansion in the private sector, creating a high dependence on the trends and volatility of foreign investors (in terms of capital mobility) and having a significant impact on Member-States relying on external financing. Subsequently, both the relaxation of borrowing constraints and lower borrowing costs (interest rates) for households have resulted in higher Consumption and lower Private Savings, which is confirmed by similar empirical works (Jappelli-Pagano, 1989, Englund, 1990, Melitz, 1990, Lehmussaari, 1990, Osugi, 1990, Bayoumi, 1993, Ostry-Levi, 1995). This causes a non-smooth adjustment of imbalances, with important implications for the economy. The reduction in interest rates because of the participation of Member-States in the Eurozone (Fagan & Gaspar, 2005, 2007, Gross, 2012) is a key factor in the growing credit expansion and is inextricably linked to the process of economic integration in the Eurozone, through expectations of stabilizing inflation, the integration of financial markets and the reduction of the risk premium.

Participation in the Eurozone has also fostered expectations of high future per capita income, directing households to increase borrowing, aiming to normalize their consumption over time to the new higher levels. In the Euro (€) South, this process has been accompanied by the accumulation of external deficits due to rising imports. The increase in Consumption as a result of expectations of lower interest rates and higher future incomes, also pushed up labour costs, but without being accompanied by the expected increase in labour productivity. Nevertheless, wages continued to rise at rates above those in the Euro (€) North of the Eurozone due to the presence of rigidities, undermining Competitiveness. As a result, the Competitiveness deficit negatively affects

the ability of economies to export higher value-added goods and services and stems from several weaknesses at the Microeconomic and Macroeconomic level (Blanchard-Giavazzi, 2002, Blanchard, 2006).

The starting point of empirical research are the National Accounts where we know that the current account balance (CA) is expressed as follows:

$$CA = S - I \Leftrightarrow CA = (S_P - I_P) + (S_G - I_G) \tag{2.1}$$

CA: Current Account Balance, S: Saving, I: Investment, S_P: Private Saving, S_G: Public Saving, I_P: Private (Sector) Investment, I_P: Public Investment

When S > I, current account balance is in surplus, while when S < I, current account balance is in deficit. The distinction between Private and Public Sector savings decisions serves to understand the influence of Macroeconomic conditions. According to equation 2.1, the current account balance equals the difference between domestic saving and domestic investment and is further decomposed into the difference between Private Saving minus (−) Private Sector Investment ($S_P - I_P$) and the General Government Fiscal Balance ($S_G - I_G$). When there is a current account deficit, it reflects that the expenditure of a nation-state or a Member-State of a Monetary Union exceeds its income, while the opposite effect is recorded in the case of a surplus (Feenstra-Taylor, 2012). The current account is considered important because it reflects the size and direction of international borrowing. Through borrowing, a nation-state or a Member-State of a Monetary Union consumes more product relative to that which it produces (Krougman-Obstfeld, 2000).

Figure 1 shows the Fiscal Deficit of the Euro (€) Area Member-States under the Euro (€) North-South grouping for the period 1987-2021, while Figure 2 reflects the Public (General Government) Debt.

Figure 1: Fiscal Deficit, Euro (€) North-South, 1987-2021 (In selected Eurozone Member-States) (Percent (%) of GDP)
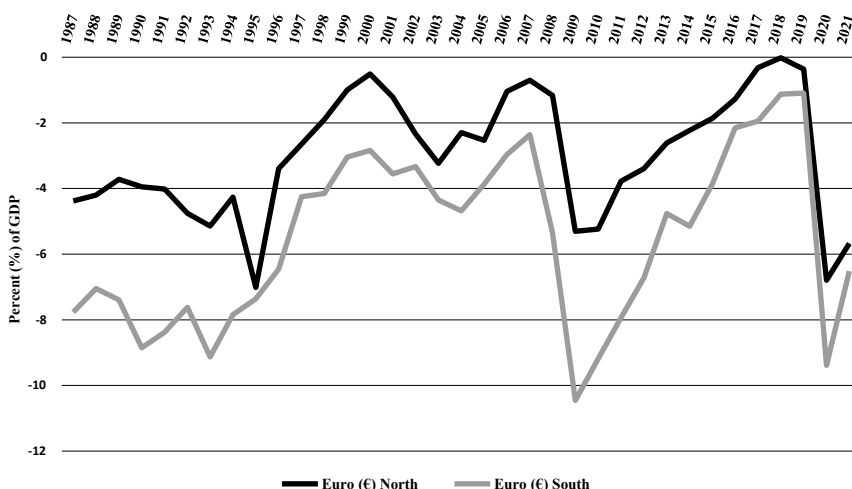
Source: IMF, April 2022

Figure 2: Public (General Government) Debt, Euro (€) North-South, 1987-2021 (In selected Eurozone Member-States) (Percent (%) of GDP)
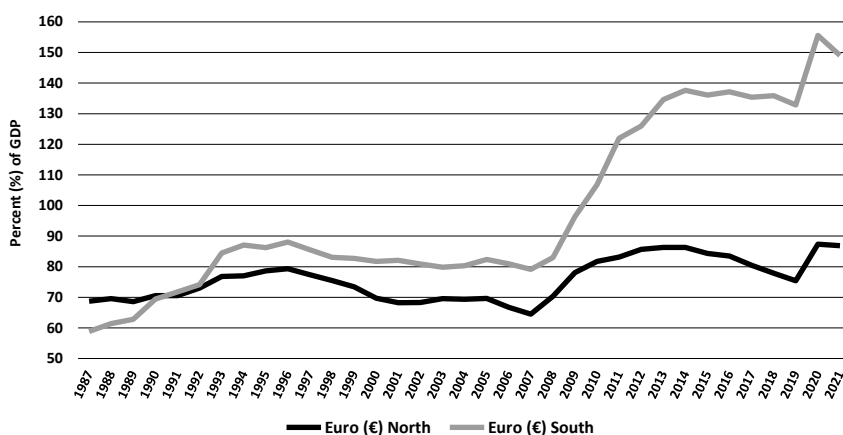
Source: IMF, April 2022

Undoubtedly, a long period of current account deficits creates vulnerability and is particularly feared, as it can turn into a public (general government) debt crisis when an exogenous event alters conditions in international markets. The creation of a strong economic position for a nation-state or a Member-State of a Monetary Union is mainly reflected by the increased competitiveness of its products, which stems from the creation of a stable and at the same time flexible production base, so that they can operate effectively in the international economic environment. Therefore it can be seen that exist a close relationship between the competitiveness of an economy and public and private deficit, which is also consistent with current account deficits.

3. Methodological Approach of Empirical Analysis

This paper considers a strongly balanced panel of annual data for eight Member-States of the Eurozone over the period 1987 - 2021 and investigates the effect of the long-term economic, structural, and financial factors that create imbalances and vulnerability in the current account balance using Panel Data Analysis. The empirical analysis focuses on a representative sample of selected Euro (€) Area Member-States over the period 1987-2021. The purpose of this empirical examination is twofold. On the one hand, by attempting an empirical identification of the determinants influencing the current account balance, the extent to which the economic policies adopted at the Euro (€) Area level contribute to the formation of persistent imbalances in individual current account balances is also examined, as the Member-States under consideration are characterized by increased heterogeneity and diversity among themselves, making the process of economic adjustment in times of asymmetric economic shocks slow down. On the other hand, the extent to which financial integration through credit expansion and increased capital flows (which facilitates access to external financing for Member States in a Monetary Union) contributes to the creation of persistent deficits in the current account balances of Eurozone Member-States is examined.

The starting point of the empirical investigation is a representative sample of Northern and Southern Eurozone Member-States covering a period of 35 years from 1987-2021, aiming empirically to highlight the most important Macroeconomic, Structural and Financial characteristics that have had an impact on the individual current account balances over a long period, by using the cointegration analysis. It is shown that it is feasible to construct a stable equilibrium model of the current account balance by including in the long-run specification of the model the Private Sector Debt as a percentage of GDP,

as an approximate variable of credit expansion in the Private Sector in the context of Financial Market Liberalization. Based on the empirical results, the research addresses the issue of the sustainability of the current account balance, both for the period after the adoption of the single currency (€) and for the periods of severe economic and non-economic (yet with direct economic impact) shocks: (a) 1987-1992[1], (b) 2007-2012[2] και (c) 2019-2021[3]. A further innovation of the study is the linking of economic policy measures to restore sustainability with the current account balance model that is developed. Also, a further contribution of the research is the use of various econometric tests for long-run analysis in order to explain behavioral changes in periods of significant structural change. The above case, applies mainly to the Euro (€) South Member-States, where during the time period under consideration the process of financial market liberalization was completed, radical economic policy changes occurred, changing the macroeconomic conditions of the Member-States and bringing about, following the financial crisis (2007-2008), the exclusion from the Financial Markets and their inclusion in the newly created support mechanism consisting of the European Union, the International Monetary Fund and the European Central Bank (EU-IMF-ECB). The present study was designed to contribute to the empirical literature by identifying explanatory factors of current account imbalances through a fairly representative sample of Northern and Southern Euro (€) Area Member-States, while also contributing to the interpretation of the widening of imbalances for the entire period under review. In more detail, the design and methodology chosen to conduct the empirical research is described below. In order to capture and outline as fully as possible the determinants influencing the current account balance in a Monetary Union, for the present empirical analysis the selection of the eight member states was carried out by examining a combination of the following criteria: (a) It was necessary to select Member-States that existed since the initial process of economic integration and before the "Maastricht Treaty" (1992), starting from the "Single European Act" (1986) and the transition to the "Single European Market" (1992), aiming to investigate the processes of convergence through economic integration. (b) Member-States were required to be involved from the outset in the whole process of transition to the single currency (from the "The Deutsche Mark Zone" (1987-1992), to the transitional stages of the "Maastricht Treaty" (1992) and to the creation of the Eurozone) and (c) Member-States were selected which expressed uniform characteristics among themselves, but at the same time, presenting heterogeneity and diversity in the grouping of Northern and Southern Member-States, both in economic terms, as well as in cultural, political, social, demographic,

etc. terms, which is reflected by the theoretical framework of the Models of Capitalism to which they belong.

The selection criteria were defined in such a way as to approximate as closely as possible a representative sample of Member-States, aiming at realistic estimates of the factors influencing the current account balance in a Monetary Union environment. Particularly, aiming at grouping the Northern and Southern Member-States following and evaluating the examination of the above criteria, the selected Member-States are formed as follows: For the Euro (€) North grouping, Belgium, France, Germany and the Netherlands have been selected[4] while for the grouping of the Euro (€) South, Greece, Italy[5], Portugal and Spain[6]. Regarding the period under consideration, the period from 1987-2021 was chosen, aiming to identify the determinants affecting the current account balance within the regime of Monetary Unions (1987-1992 and 1999-2021) and the transition to a Monetary Union (1993-1998)[7] in order to draw useful conclusions.

After the identification and formulation of the research problem, the selection of variables and the design of the research process followed. Conducting an initial preview, as illustrated in Figures 3-6, an initial conclusion is drawn that the asymmetries within the grouping of Member-States (Euro (€) North - South), which existed during the period of transition to the single currency (€), were significantly widened after the creation of the Eurozone in the sample of selected Member-States.

Figure 3: Average Current Account Balance, Euro (€) North-South, 1987-2021 (In selected Eurozone Member-States) (Percent (%) of GDP)
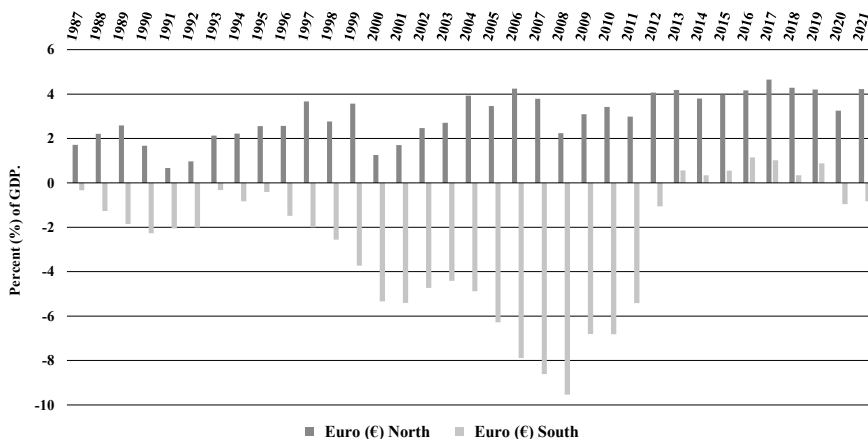
Source: IMF, April 2022

Figure 4: Current Account Balance, Euro (€) North-South, 1987-2021 (In selected Eurozone Member-States) (Percent (%) of GDP)
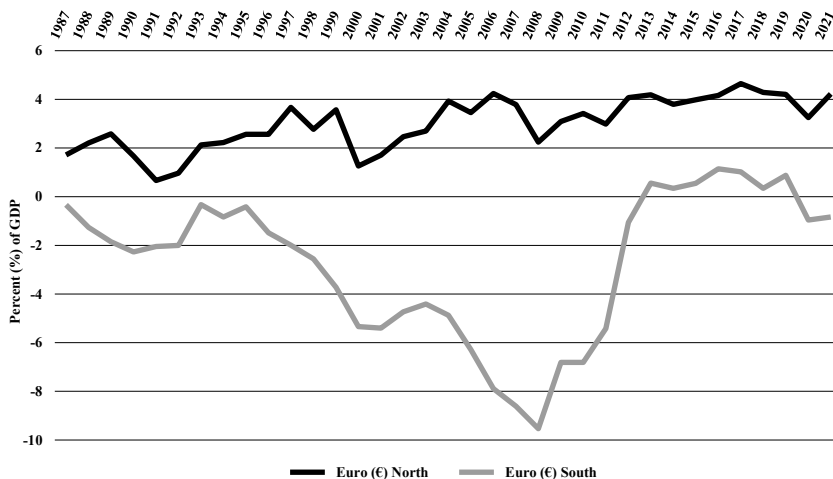
Source: IMF, April 2022

Figure 5: Average Current Account Balance, Euro (€) North-South, 1987-2021 (In selected Eurozone Member-States) (Percent (%) of GDP)
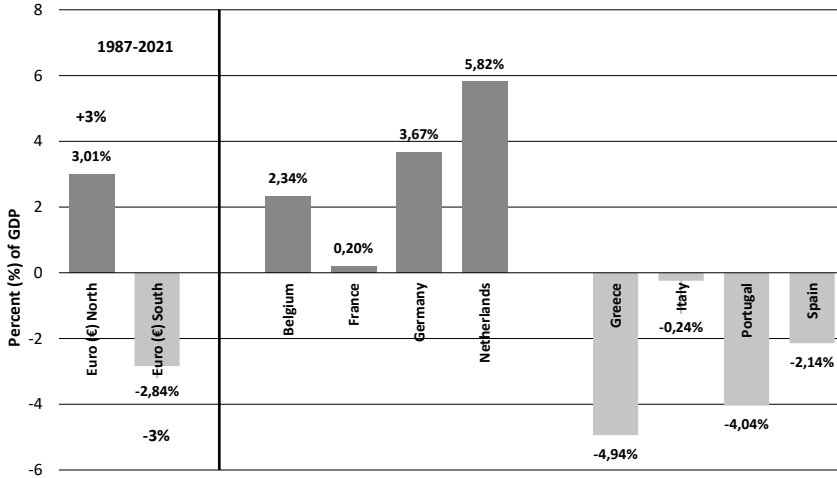
Source: IMF, April 2022

Figure 6: Current Account Balance by period, Euro (€) North-South, 1987-2021 (in selected Eurozone Member-States) (Percent (%) of GDP)
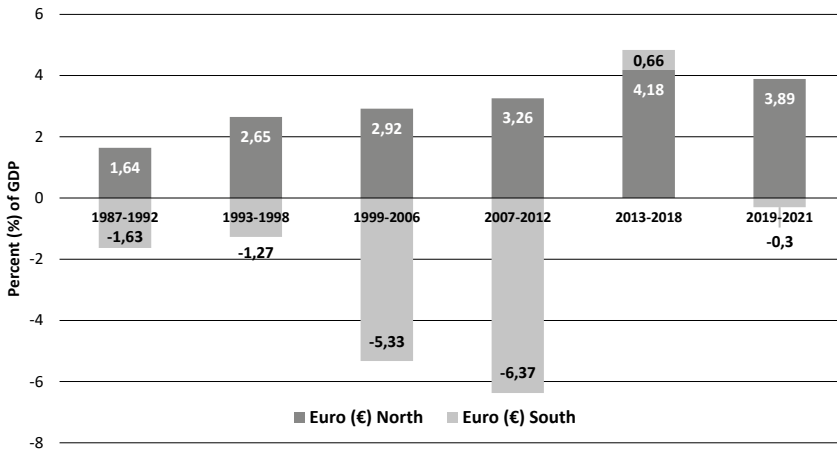
Source: IMF, April 2022

The empirical analysis using the econometric techniques with Panel Data approach was carried out using both Time series and cross-sectional data (Panel Data Analysis), utilized on annual statistical data for the period 1987-2021 obtained from four different statistical databases. In particular, the databases of the IMF, the World Bank, Eurostat and the Organization for Economic Co-operation and Development (OECD)[8]. By applying appropriate econometric techniques, the existence of a long-run relationship between the current account balance and certain fundamental determinants is examined. It is clear that cross-sectional time series data to analyze issues can shed light on important aspects of economic policy (Wooldridge, 2006). The justification for using Panel Data Analysis, lies in the fact that the combination of cross-sectional time series data gives the models more information, estimations are unbiased and consistent, the possibility of controlling the heterogeneity of the individual stratified units and endogeneity, they study dynamic phenomena, i.e. phenomena that change over time periods, provide more accurate estimates and there is also greater efficiency in the variables. In addition, a key advantage of Panel Data Analysis is that it is more effective in detecting the effects of fluctuations in variables and increasing the sample size, both of which are better suited to examining the dynamics of variables and are useful in investigating complex behavioral patterns. A Panel Data Analysis set differs in important ways from an independently clustered stratification. It consists of independently obtained observations, where they are a central aspect of the analysis for cross-sectional data (Baltagi, 1995, Hsiao, 2003, Baltagi, 2013).

4. Analysis of Interpretive Variables and Formatted Data

The explanatory variables selected in the empirical analysis are the following: (1) the Output gap (GAP), (2) the Gross National Saving (GNS), (3) the Exports of goods and services (EX), (4) the Nominal unit labour cost (NOM), (5) the Private sector debt (PRIVATE_DEBT) and (6) the (ln) Gross domestic product per capita (lnPERCAP)[9] and as mentioned above, the annual statistical data were obtained from the IMF, World Bank, Eurostat and OECD databases (Table 1).

Table 1: Variables, Abbreviation and Source of Panel Data Analysis

Abbreviation	Variable	Source
CA	Current account balance (% of GDP)	International Monetary Fund
GAP	Output gap (% of potential GDP)	International Monetary Fund
GNS	Gross national savings (% of GDP)	International Monetary Fund
EX	Exports of goods and services (% of GDP)	World Bank
NOM	Nominal unit labour costs	Eurostat
PRIVATE_DEBT	Private sector debt (% of GDP)	OECD
lnPERCAP	(ln) Gross domestic product per capita, current prices	International Monetary Fund

By examining the selection explanatory variables and conducting an initial preview of the Euro (€) North-South macroeconomic imbalances (in the selection Member-States) through formatted data, we observe the following:

The Output Gap expresses the best composite indicator of the Aggregate Supply (AS) of an economy and indicates the direction of Economic Policy (Fiscal-Monetary), reflecting the distance of Real GDP from the Product that can potentially be produced in an economy using fully all its productive potentials (Productive Factors) (Long-Run Macroeconomic Equilibrium level). In terms of economic fluctuations, the Output Gap expresses the magnitude of the cyclical deviation of GDP, from its long-term trend. If the Output Gap has a positive (+) sign, it means that Real GDP is higher than Potential GDP, the Economy is growing, Unemployment has fallen and is under Inflationary pressures and Price Stability (Inflation) is at risk. The exact opposite results occur in the case of a negative (−) sign of the Productive Void, as the entire Productive Factors (Capital - Labour) of the Economy are not fully utilized (McAleese, 2005, Burda-Wyplosz, 2008, Mankiw, 2019). Figure 7 shows the imbalances of the output gap in the examined Member-States, in the context of the Euro (€) North-South grouping, for the period 1987-2021.

Figure 7: Output Gap, Euro (€) North-South, 1987-2021 (In selected Eurozone Member-States) (Percent (%) of GDP)
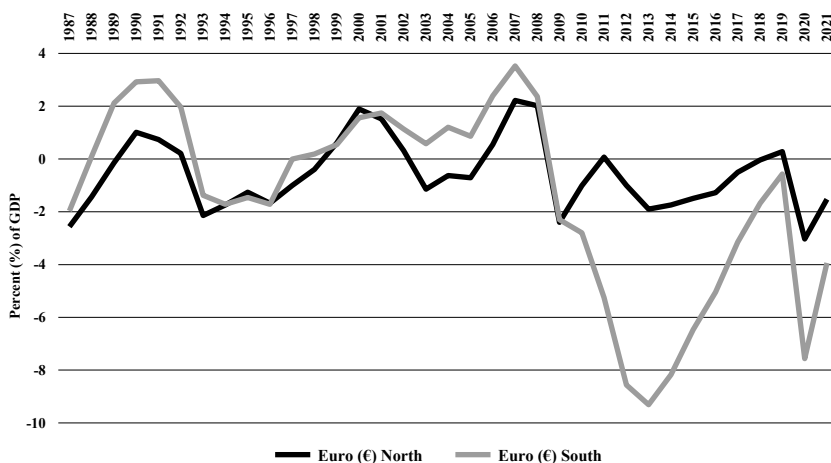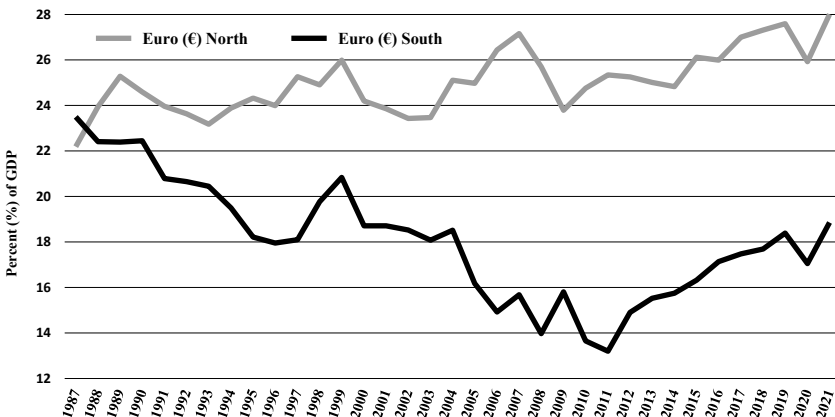

Source: IMF, April 2022

The relationship between Private Savings, Current Account Balance and Fiscal Policy is related to the reaction (Keynesian or Ricardian (Ricardian equivalence)) of the consumers (Debelle-Faruquee, 1996, Briotti, 2005, Bussiere et. al., 2005). Undoubtedly, the direction of fiscal policy has a very important influence on the evolution of the current account balance. According to the Keynesian model, the twin deficits hypothesis is used, which implies that the larger Fiscal Deficit (or the lower Fiscal Surplus) (reduction in Public Savings), increases disposable income, consequently, it increases Consumption more than Private Savings, causing the current account deficit (or reduction in current account surplus) to increase and therefore, further reducing National Savings. However, in the case where consumers react in a Ricardian way, the situations are different. When consumers perceive that an unsustainable Fiscal situation exists, they expect the formulation and implementation of a Restrictive Fiscal Policy in the future, either by reducing public spending or, more importantly, by increasing taxes. In this particular case, the higher Fiscal deficit (or the lower Fiscal surplus), (reduction of Public Savings) directs to the reduction of Consumption in the present and the increase of Private Savings,

in order for individuals to manage on the one hand, to allocate sums of money to pay future taxes and on the other hand, to maintain their long-term rate of Consumption in a future economic environment of less disposable income due to, as mentioned, a future Restrictive Fiscal Policy. Consequently, the current account deficit is declining.

Following the above, gross national saving was chosen as the determinant variable in the econometric model. National Saving is a significant Macro-economic indicator and includes the sum of public and private savings in the economy, with the main component being private savings, which incorporates the sum of household savings. A high level of savings constitutes a greater capacity to make investments, therefore, from Solow's model there is a higher capital stock which leads to a higher level of Product (GDP), as opposed to a low level of savings, where the opposite is true. Therefore, the long-run conse-quences of a decline in the savings rate equate to a lower capital stock and lower income (GDP). Hence, persistent long-run current account deficits are mostly accompanied by long-run fiscal deficits and lower output (GDP), reflecting the decline in the savings rate (Taylor-Weerapana, 2011, Mankiw, 2019). Figure 8 shows the imbalances in the level of Savings in the examined Member-States, in the context of the Euro (€) North-South grouping, for the period 1987-2021.

Figure 8: Gross National Saving, Euro (€) North-South, 1987-2021 (In selected Eurozone Member-States) (Percent (%) of GDP)


Source: IMF, April 2022

In the international literature, it is outlined that an increase in Exports of goods and services causes Economic Growth, efficient allocation of resources and promotion of the comparative advantages of nation-states or Member-States of a Monetary Union, while enhancing the extroversion of economies. (Heller-Porter, 1978, Feder, 1982, Balassa, 1978, 1985, Marin, 1992, Thornton, 1997, Awokuse, 2003, Konya, 2006, Balaguer-Cantavella-Jorda, 2004). Therefore, an increase in exports, consequently, equals an increase in the productivity of an economy with a direct result of Economic Growth. In order to export growth become permanent, it is necessary to focus on improving the factors that make up structural competitiveness and the quality of the productive base. Figure 9 shows the imbalances in the level of Exports of goods and services in the examined Member-States, in the context of the Euro (€) North-South grouping, for the period 1987-2021.

Figure 9: Exports of goods and services, Euro (€) North-South, 1987-2021 (In selected Eurozone Member-States) (Percent (%) of GDP)
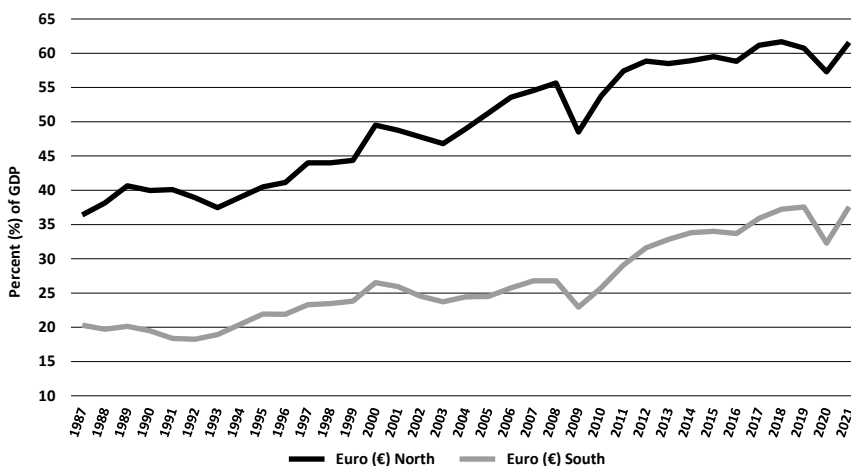
Source: World Bank

The Unit Labour Cost is the ratio of total labour costs (wages, social insurance, compensation, pension plans, etc.) to labour productivity (Felipe-Kumar,

2011). It is considered the characteristic variable of the Cost Competitiveness or Price Competitiveness index because it expresses a measurable comprehensive and concise way of assessing the ability of an economy to produce high value products at low labour costs, and as a result, it is chosen as an important determinant of the current account balance. Consequently, when all other determinants remain constant, the more the Unit Labour Cost increases, the more the cost Competitiveness decreases and vice versa. Price Competitiveness depends on the cost of production and in particular in the Eurozone, Member-States with lower Unit Labour Costs become more competitive. Figure 10 shows the imbalances in the level of Nominal Unit Labour Costs between the Euro (€) South member states and Germany for the period 1987-2021.

Figure 10: Nominal Unit Labour Cost, in Euro (€) South (selected Member-States) and Germany 1987-2021 (2015 = 100)
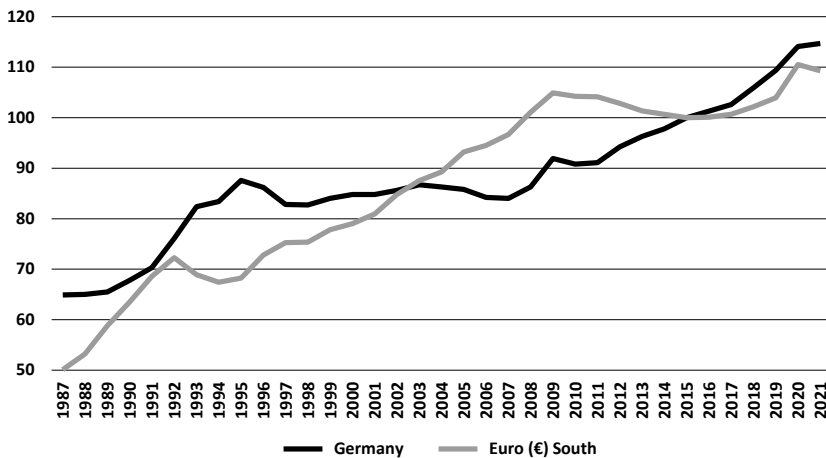
Source: Eurostat

As mentioned above, a very important determinant of the current account balance, which affects the reduction of savings, is the liberalization of the financial markets, with the subsequent increase in domestic credit to the private sector. As a consequence the restrictions on lending faced by households are relaxed, credit institutions (banks etc.) lend with greater degrees of

freedom, borrowing costs are low, with a consequent reduction in Savings and an increase in Consumption. Deregulation and the absence of supervision of banking processes has given incentives to credit institutions to increase credit to an excessive degree, creating high debts which have burdened private budgets. Consequently, the increase in credit to the private sector is expected to have a negative impact on private savings. In the empirical analysis model, Private Sector Debt as a percentage of GDP was chosen as the determinant variable of the increase in domestic credit to the private sector. Figure 11 shows the imbalances in the level of Credit Expansion in the Private Sector in the selected Member-States, in the context of the Euro (€) North-South grouping, for the period 1987-2021, while Figure 12 reflects the growth of Private Debt in the Euro (€) South (Greece, Italy, Spain, Portugal), for the period 1995-2021.

Figure 11: Credit Expansion in Private Sector, Euro (€) North-South, 1987-2021 (In selected Eurozone Member-States) (Percent (%) of GDP)
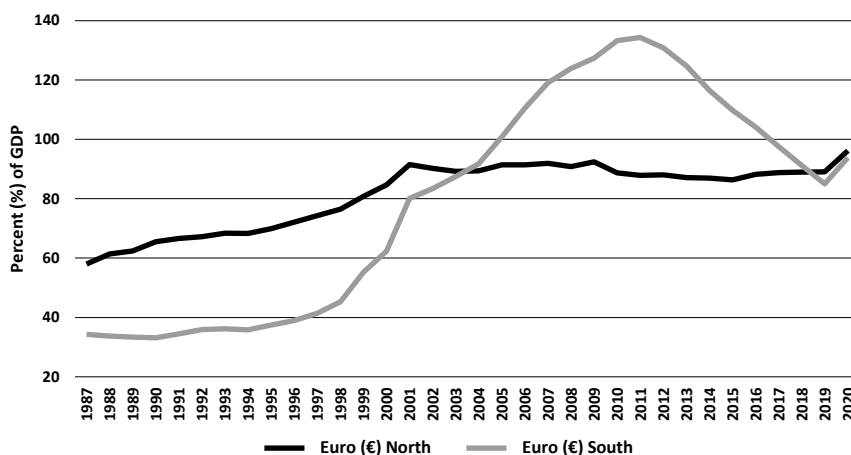
Source: World Bank

Figure 12: Private Debt, in Euro (€) South, 1995-2021 (Greece, Italy, Portugal, Spain) (Percent (%) of GDP)
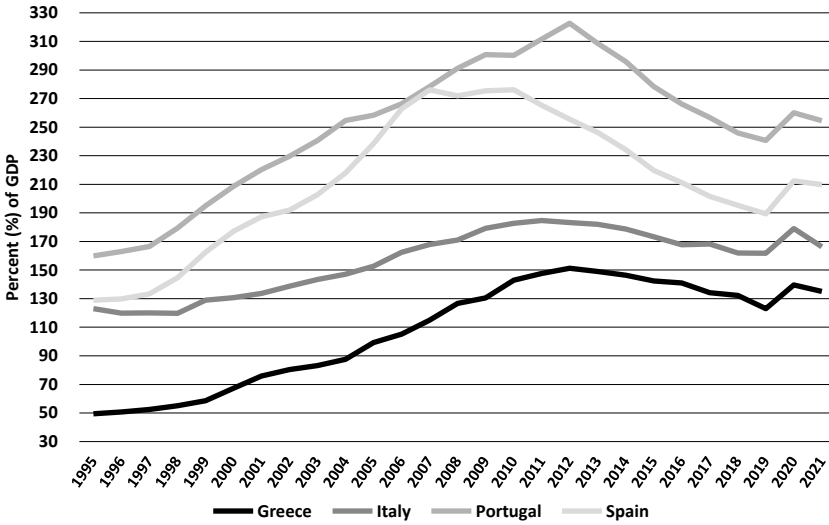
Source: World Bank

Real GDP per capita is an important factor in the interpretation of the current account balance, as there is a fairly high correlation between the longitudinal approach of the current account balance and Economic Growth, which is determined by the income of the economy (Debelle-Faruqee, 1996, Faruqee-Debelle 1998, Freund, 2000, Chinn-Prasad 2003, Mankiw, 2019). Similarly, income is dependent on the fluctuations between current consumption and Savings minus (-) Investment, which correspond to future Consumption. Therefore, the choices of households and firms (Real Economy), in terms of increasing welfare on the one hand and maximizing profits on the other, are linked by the relationship between Consumption and Savings. Admittedly, in the open economies of the Euro (€) South, the low level of domestic income (GDP) implies a correspondingly low level of Savings, as the levels of Consumption are higher relative to existing income. Therefore, the necessity for increased borrowing from abroad, either for investment or consumption, is created, leading to a subsequent increase in current account deficits. To facilitate the empirical analysis, because the other explanatory variables of the model

are expressed in percentages of GDP, while real GDP per capita is measured in thousands of Euros, it was chosen to convert it into lnPERCAP, in order to the interpretation includes a percentage change. Figure 13 shows the imbalances in the level of GDP per capita in the selected Member-States in the context of the Euro (€) North-South grouping, for the period 1987-2021.

**Figure 13: Average GDP per capita, Euro (€) North-South, 1987-2021
(In selected Member-States) (Thousands of Euro (€))**

■ Euro (€) North ■ Euro (€) South

50.000	
45.000	
40.000	
35.000	16.805,45
30.000	
25.000	
20.000	
15.000	29.042,87
10.000	
5.000	
0	

1987-2021
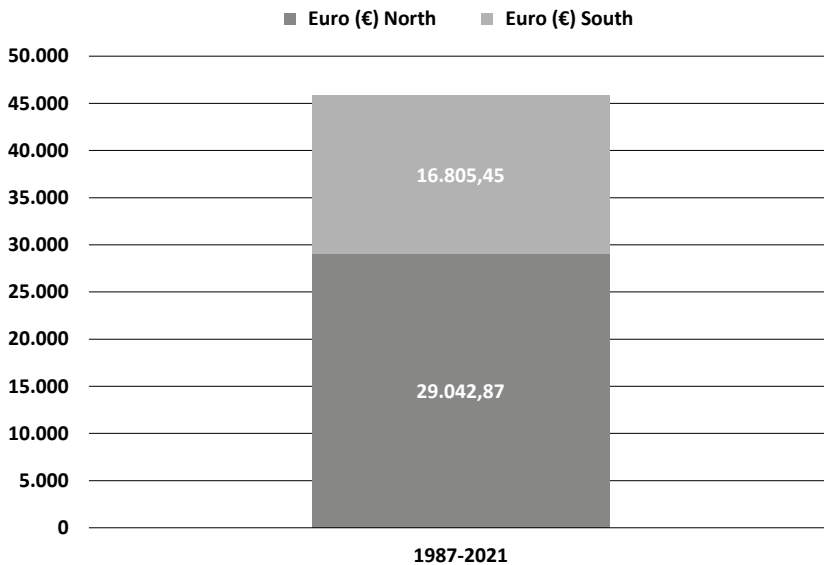
Source: IMF, April 2022

In conclusion, completing the literature review, the methodological approach of the econometric analysis and the analysis of the explanatory variables used in the empirical research, the study concluded the identification of factors influencing the current account balance through the following equation:

$$CA = f \text{ (FAP, GNS, EX, NOM, PRIVATE\_DEBT, ln PERCAP)} \quad (4.1)$$

5. Panel Data Analysis: Evaluation and Processing of Results

In this paper, empirical research is conducted using econometric techniques with Panel Data approach. More specifically, it examines the long-run relationship between the current account balance and the determinants of influence ((a) Output gap (GAP), (b) Gross National Saving (GNS), (c) Exports of goods and services (EX), (d) Nominal Unit Labor Cost (NOM), (e) Private Sector Debt (PRIVATE_DEBT), and (f) GDP per capita (lnPERCAP)), for the time period 1987-2021 in the eight selected Eurozone Member-States (Belgium, France, Germany, Netherlands –(Euro (€) North), Greece, Italy, Portugal, Spain– (Euro (€) South)), reaching useful conclusions.

In the technical field, the application of Panel Data elements, Regression analysis, Hausman's test, Lagrange multiplier (LM) tests for random effects, Panel unit root tests (Levin-Lin-Chu, Harris-Tzavalis, Im-Pesaran-Shin and Hadri) and Panel cointegration tests (Kao, Pedroni, Westerlund) are carried out using the Econometric software STATA.

Before we start estimating the long-run relationship, we check the degree of integration of the variables by performing tests for stationarity, levels and first differences. As part of the tests in the first-generation unit root category, for the existence of a unit root, the assumption that for each set of cross-sectional and Time series data (Panel Data) there is a common unit root is tested. In particular, the homogeneity hypothesis is tested by the tests of Levin-Lin-Chu, (2002), Harris-Tzavalis, (1999) and Hadri, (2000), while the heterogeneity hypothesis is tested by the test of Im-Pesaran-Shin, (2003). In all the above tests with the exception of Hadri's test, the null hypothesis implies that the time series contains a unit root, i.e., it is not stationary. In Hadri's test, the null hypothesis implies the opposite. These four tests are from the most important unit root tests in panel data. The results of the Panel unit root tests, at the levels and first differences in all variables in the econometric model are displayed in Table 2.

Table 2: Panel Unit Root Test (Levels - First Difference) (Levin-Lin-Chu, Harris-Tzavalis, Im-Pesaran-Shin, Hadri)

Variables	Levin-Lin-Chu	Harris-Tzavalis	Im-Pesaran-Shin	Hadri
Levels				
CA	-0,29	0,88	0,12	20,82***
GAP	-4,13***	0,81***	-4,68***	27,72***
GNS	-1,46	0,77***	-1,53	31,38***
EX	-0,61	0,96	2,42	55,03***
PRIVATE_DEBT	-2,34***	0,91	-0,32	44,80***
NOM	-2,65***	0,96	0,76	55,66***
lnPERCAP	-7,50***	0,92	-5,16***	52,57***
Variables	Levin-Lin-Chu	Harris-Tzavalis	Im-Pesaran-Shin	Hadri
First Difference				
CA	-6,15***	0,06***	-7,16***	-0,27
GAP	-8,21***	0,06***	-9,34***	-1,47
GNS	-6,24***	-0,13***	-8,07***	-0,94
EX	-8,89***	-0,13***	-10,05***	-1,70
PRIVATE_DEBT	-3,97***	-0,04***	-6,20***	1,99***
NOM	-6,05***	0,27***	-6,52***	2,04***
lnPERCAP	-2,73***	0,56***	-3,99***	28,93***

*** denotes significance at the 1% level

Overall, both for testing the hypothesis of homogeneity (Levin-Lin-Chu, Harris-Tzavalis and Hadri tests) and for testing the hypothesis of heterogeneity (Im-Pesaran-Shin test), levels and first differences were estimated on all variables in the model.

The Levin Lin Chu test does not reject the null hypothesis of a unit root in all variables in the levels test with the exception of the Output gap (GAP),

Private Sector Debt (PRIVATE_DEBT), Nominal Unit Labor Cost (NOM) and ln GDP per capita (lnPERCAP). However, the null hypothesis of a unit root in the set of variables is rejected in the first differences test.

The Harris-Tzavalis test does not reject the null hypothesis of a unit root in all variables in the levels test with the exception for the Output Gap (GAP) and Gross National Savings (GNS). However, the null hypothesis of the existence of a unit root in all variables is rejected in the first differences test.

Similarly, in Hadri's test, the stagnation hypothesis is rejected when examining first differences in all variables with the exception for Private Sector Debt (PRIVATE_DEBT), Nominal Unit Labour Cost (NOM) and ln GDP per capita (lnPERCAP).

The Im-Pesaran-Shin test does not reject the null hypothesis of a unit root in all variables in the levels test, with the exception for the production gap (GAP) and ln GDP per capita (lnPERCAP). However, it also rejects the null hypothesis of a unit root in all variables in the first differences test.

Consequently, from the combined results of all tests, the null hypothesis of the existence of a unit root in the first differences is rejected, with the results that all-time series become stationary, i.e. I(1) processes.

Next, cointegration tests with panel data were used, aiming to test the hypothesis that there is a long-run relationship between the examination variables. Kao (1999), Pedroni (1999, 2004) and Westerlund (2007), developed several tests in order to examine the existence of cointegration in multivariate models. The proposed statistics, test the null hypothesis of no cointegration, against the alternative hypothesis of cointegration. Kao (1999) proposes two different tests in order to examine the existence of a cointegrating vector in panel data. In particular, the first test is based on the Dickey-Fuller test, while the second test is based on the Augmented Dickey-Fuller test. Pedroni (1999, 2004) developed tests aimed at verifying noncollinearity in a dynamic panel data sample considering the heterogeneity of the individual nation-states or Monetary Union Member-States under consideration. The tests allow for heterogeneity in the cointegration vectors and the dynamics of the error process between the stratified units is estimated in the context of tests based on the stationarity of the residuals. In contrast to the cointegration tests on Panel data proposed by Kao and Pedroni, Westerlund (2007) developed a Panel cointegration test where he also considers the dependence that may exist between the stratified units of the Panel subsample. It tests for the existence of a cointegrating vector in Panel data, following the application of the error-correction model, giving robust results even in small samples. Advantages of the Westerlund test are that heterogeneity can be found on the one hand, in the long-term relationship of the cointegration and, on the other hand, in

the short-term dynamic (Persyn-Westerlund, 2008). It can also be used in layered data dependencies and in addition, it uses Bootstrap distribution, allowing multiple iterations of cointegrated checks. Below, in Tables 3, 4 and 5, are reported the results of the Kao, Pedroni and Westerlund panel cointegration tests.

Table 3: Panel Cointegration Test (Kao)

Kao - Panel Cointegration Test	Statistic
Modified Dickey-Fuller t	-2,5856***
Dickey-Fuller t	-2,3143***
Augmented Dickey-Fuller t	-1,1221
Unadjusted modified Dickey-Fuller t	-3,9608***
Unadjusted Dickey-Fuller t	-2,8242***

*** denotes significance at the 1% level

Table 4: Panel Cointegration Test (Pedroni)

Pedroni - Panel Cointegration Test	Statistic
Modified Phillips-Perron t	1,3273
Phillips-Perron t	-1,3454
Augmented Dickey-Fuller t	-1,1622

Table 5: Panel Cointegration Test (Westerlund)

Westerlund - Panel Cointegration Test	Statistic
Variance Ratio	-1,3138

According to the results in Table 3, four out of five Kao's tests reject the null hypothesis of non-cointegration, thus, there is a cointegration relationship among the variables in the model. In contrast, according to the results in Table 4, all three of Pedroni's tests (using the Phillips-Perron and Augmented

Dickey-Fuller tests) for the entire sample and for individual groups do not reject the null hypothesis of non-cointegration. Similarly, regarding the results in Table 5 from Westerlund's test, the null hypothesis of non-cointegration is not rejected. Therefore, the estimation statistics support the existence of cointegration between the variables of the selected Euro (€) Area Member-States.

Following the above results, regarding the existence of a unit root and cointegration between the variables of the econometric model, the methodology of empirical analysis was followed the appropriateness of using in the Regression, the fixed effects model (Fixed effects) or the random effects model (Random effects). More specifically, when there are different effects between the estimation units, which vary over time, there are two subcategories of linear panel models. The first refers to the linear fixed effects model, which is used in those cases where the individual effects a_i are not cross-sectional fixed, i.e., a_i differs between the interlayer units, however, it does not change in the long term. The second refers to the linear model of random effects, which is used in those cases where the individual effects are a random variable (Greene, 2012).

In order to avoid erroneous estimates in the empirical analysis, it was deemed appropriate to use Hausman's (1978) statistical test, where the coefficient estimates between the linear fixed effects and random effects models are compared. According to the results of Hausman's statistical test, the random effects approach was found to be more appropriate for econometric analysis, as the statistical significance obtained from the test is greater than 5%.

Since Hausman's test revealed that the linear model of random effects is the most appropriate for the empirical analysis, the next step in the process is to further test whether the random effects model should indeed be used in the regression or, otherwise, the common effects model. In order to avoid erroneous estimates, it was considered appropriate to use Lagrange multiplier (LM) tests, which assume that the a_i (unobserved individual effects), the e_{it} (unobserved time effects) and the u_{it} (temperamental error), are allocated independently. The most popular test for the random effects model is the Breusch-Pagan (1980) test, which created three Lagrange multiplier (LM) statistics, LM_{ai}, LM_{ei} and LM_{ui}. Consequently, by performing the Lagrange multipliers (LM) test, it was judged that the random effects model is the most appropriate for the empirical analysis, as the statistical significance is less than 5%.

Therefore, using the random effects model, equation (4.1) has the following form:

$$Y_{it} = a_0 + bX_{it} + u_{it} \qquad (u_{it} = a_i + e_{it})$$

The X_{it} describes the vector of explanatory variables used in the estimation

of the regression and the u_{it} constitutes a complex error (temperament error) which consists of two random components, the a_i (unobserved individual effects) and the e_{it} (unobserved time effects).

The rationale behind the linear random effects model assumes that the variation between economic units is random and uncorrelated with the forecast or with the independent variables included in the model. An advantage of the model is that time-invariant variables can be included in the model. The random effects model assumes that the error term is uncorrelated with the forecast, which allows time-invariant variables to play an explanatory role.

Table 6 below contains the regression results of the estimation of the Long-term current account balance model with the Random effects model for the period 1987-2021 in the eight selected Eurozone Member-States.

Table 6: Estimation of the Long-term Current Account Balance Model Euro (€) North-South, 1987-2021, (In selected Member-States)

Dependent Variable	CA
Independent Variables	**1987-2021**
GAP	-0,519*** (-0,045)
GNS	0,591*** (0,052)
EX	0,149*** (0,025)
NOM	-0,063*** (-0,022)
PRIVATE_DEBT	-0,020*** (-0,004)
lnPERCAP	2,716*** (0,908)
Random Effects	
Number of obs.	280
Number of Member-States	8
R - squared	0,73
Prob (F - statistic)	0,0000

*** denotes significance at the 1% level

According to the regression results of the estimation of the Long-run current account balance model, it is concluded that there is statistically significance

in all variables at the 1% level of significance, which indicates a significant effect of the independent variables of the model on the current account balance. In addition, the very high value (0.73) of the coefficient of determination (R-squared) describes that the independent variables adequately explain the dependent variable. Also, all the estimated coefficients of the explanatory variables have the correct sign. The results can be summarized as follows.

Regarding the Output Gap, its negative sign and statistical significance suggests that the increase in the surplus (or the decrease in the deficit) of the current account balance reduces the gap between Potential and Actual production, employing more factors of production and therefore increasing GDP.

The estimated coefficient of the Gross National Saving variable is positive and statistically significant, indicating that an increase in the current account surplus (or decrease in the deficit) is accompanied by an increase in savings.

Regarding the effect of the export of goods and services variable, we observe that the estimated coefficient is positive and statistically significant, indicating that the rise in extroversion and the transformation of the production model to internationally tradable goods and services leads to an increase in the current account surplus (or decrease in the deficit).

The statistical significance and the negative sign of the coefficient of the variable Nominal Unit Labour Cost reflects that a possible appreciation of the variable (mainly at levels above the productivity of an economy) negatively affects the current account balance, not only because of a deterioration in International Competitiveness and a decline in exports (cost/price competitiveness), but also through a reduction in savings, due to an increase in purchasing power in terms of imported goods and a rise in the value of accumulated financial assets. Therefore, the increase in the surplus (or the decrease in the deficit) of the current account balance is accompanied by the decrease in the Nominal Unit Labour Cost or, otherwise, the increase in the Nominal Unit Labour Cost should not exceed the increase in the productivity of the economy.

Continuing the treatment of the results, the very significant negative impact of the increase in credit on the current account balance, as displayed by the private sector debt variable, suggests that, that the easing of restrictions on private sector borrowing following the liberalization of the Financial Markets led to a rise in Consumption, a fall in Savings and, as a result, a significant deterioration in the Current Account Balance during the period under review, mainly in the Euro (€) South.

Finally, the estimated coefficient of the GDP per capita variable is positive and statistically significant, describing that an increase in the current account surplus (or a decrease in the deficit) is accompanied by an increase in GDP per

capita. Thus, real economic convergence is expected to result in lower current account balance deficits in the future.

The empirical results of the research conclude that all the above independent variables used in the econometric model are very important determinants of the current account balance. Also, during the period under consideration (1987-2021), the current account balance of the Euro (€) South Member-States followed an unsustainable path, with persistently increasing deficits, while the continuous rise in the current account surpluses of the Euro (€) North Member-States, also reveals the imperfect architecture of the Monetary Union and its structural weaknesses, as no appropriate mechanisms for correcting macroeconomic imbalances have been built.

6. Concluding Remarks

In this investigation it is found that the current account balance is affected by factors such as Competitiveness, Fiscal Outcome, Real Convergence and Macroeconomic Uncertainty. In addition, particular attention should be paid to the role of financial liberalization, an important factor in widening current account imbalances, especially after the adoption of the common currency (€) in the Eurozone, where private sector debt has been studied as an approximate variable of credit expansion. It is a variable which creates a stable relationship between the current account balance and its determinants. The easing of credit constraints and low financing costs led to an increase in borrowing by households and private entities, with an increase in Consumption, a decrease in private savings and a deterioration in the current account balance. Easy access to borrowing due to the easing of credit constraints led households in the Euro (€) South to adjust consumption and investment (mainly in housing) with an increase in borrowing and a decrease in private saving. Evidence shows that all the mentioned above determinants are major issues in discussions on current account balance.

The current account deficit, mainly in the Euro (€) South, widened significantly after the creation of the Eurozone (1999), showing signs of unsustainability. In contrast, the large current account surpluses of the Euro (€) North Member-States are mainly explained by the evolution of exports, where they are the result of export competition. The effect of the greater degree of financial integration between the Member-States of a Monetary Union has had a significant impact on the current account balance, as the increase in capital inflows, resulting mainly from the process of Real Convergence and the growing degree of financial deepening, describes the influence to a large extent of the unsustainable path of the current account of the Euro (€) South Member-States.

It is obvious that the Current Account Balance, the Fiscal Balance and the Unit Labour Cost are the "*three sides of the same coin*" (Eichengreen, 2010). The deepening of the economic crisis in the Eurozone (2010-2014) reflects the result of the macroeconomic imbalances of the above elements, due to the structural differences of the individual Member-States in the levels of competitiveness and export orientation (Atoyan R. - Manning J. - Rahman J., 2012, Tamourantzis, 2023).

Notes

1. Phase II of the European Monetary System (EMS) - "The Deutsche Mark Zone"

2. Time-period of the Financial Crisis (2007-2008) and time-periods of economic adjustment of Euro (€) Area Member-States (2010-2012)

3. Time-period of the Pandemic COVID-19

4. They joined the European Union with the "Treaty establishing the European Coal and Steel Community" in 1951.

5. Italy joined the European Union with the "Treaty establishing the European Coal and Steel Community" in 1951.

6. They joined the European Union in the "Mediterranean Round" of enlargement, Greece (1981), Portugal (1986), Spain (1986).

7. In the time-period 1987-1992, there was an early stage of Monetary Union, the "The Deutsche Mark Zone" and it is included in the EMS Phase II. The time-period 1993-1998 is the transition period to the Eurozone and from 1999-2021 is the Eurozone period.

8. See below the analysis in Section 4.

9. The independent variable of GDP per capita is expressed in thousands of Euros (€). Therefore, in order to obtain a percentage change, ln of GDP per capita was chosen.

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