EUROPE

The sick man of Europe

FROM OUR BRUSSELS CORRESPONDENT

The European Community's frustration with Greece has been festering for a long time. Now the rot in the relationship has become too deep to ignore

NO ARTICLE in the Treaty of Rome allows the European Community to expel a member. With Greece's relations with its partners at an all-time low, there are some who lament that absence.

Greece was lucky to join in 1981. Five years earlier the European Commission had delivered its opinion on Greek membership: the commission was more hostile than favourable. Fearing that Greece could drag the EC into the complicated politics of the eastern Mediterranean, the commission argued that Greece should sort out its problems with Turkey before it joined. It also pointed out that the Greek tax system missed many Greeks and that there were no meaningful statistics.

Constantine Karamanlis, the Greek prime minister, reacted furiously. He pleaded with friends such as Hans-Dietrich Genscher, the German foreign minister, and Valéry Giscard d'Estaing, the French president, to overturn the commission's opinion. That task required unanimity in the Council of Ministers. Britain was reluctant to follow the Franco-German lead but in the end accepted that EC membership would shore up Greek democracy. Amid speeches on Greece being the birthplace of western values and the home of Pericles, ministers agreed to open entry talks.

Mr Karamanlis signed the treaty of accession in 1979. Ten years later Mr Giscard d'Estaing, a keen Hellenophile, confided to friends that letting in Greece had been a mistake.

He was exaggerating. EC membership has indeed underpinned Greek democracy. But Greece has not made the most of its economic chances. Its GDP per person fell from 52% of the EC average in 1983-85 to 48% in 1988-90, according to unpublished commission figures. Ever-larger sums of EC aid—7 billion ecus ($9 billion) in 1989-93—have failed to halt the slippage.

The commission deserves some of the blame. In the 1980s it refrained from criticising Greece. In February 1991, when the EC agreed to a loan of 2.2 billion ecus, it did impose stiff terms. Greece promised to cut central-government borrowing from 17% of GDP to 1.5% and to shrink public-sector employment by 10% over three years. Greece's relaxed view of these terms has belatedly prompted the commission to heed the advice of an Athenian senator in Shakespeare's "Timon of Athens": "Nothing emboldens sin so much as mercy."

On March 26th the commission sent a merciless report to the EC's monetary committee. Noting that Greek figures show the government deficit falling to 14% of GDP in 1991, the report argues that the capitalisation of interest payments—which stores up problems for the future—means that the real deficit has not shrunk. Government debt now totals 135-140% of GDP. The number of civil servants rose by 4.4% last year. The report says that only spending cuts of 300 billion drachmas ($1.5 billion) this year and 500 billion drachmas in 1993 can stop the public-finance rot. But remedial action is unlikely: Constantine Mitsotakis's conservative government has a parliamentary majority of two.

Mr Mitsotakis's foreign-policy problems look even harder to solve. The collapse of Balkan communism has been a disaster for Greece. No longer does Greece appear as a democratic oasis in a totalitarian desert. The changes in Bulgaria, Albania and ex-Yugoslavia make Greece look more like any other Balkan country. Now that its neighbours are holding free elections, the rest of the EC is becoming less tolerant of Greece's rows with them.

This became apparent last week at a meeting of EC foreign ministers at Guimaraes in Portugal. Mr Mitsotakis (who now combines the job of foreign minister with that of prime minister) once again vetoed recognition of Macedonia, insisting that it should choose another name. Like most of his countrymen, Mr Mitsotakis argues that if the place is called Macedonia it could have designs on the parts of Greece that bear the same name. Greek public opinion allowed him scant room for manoeuvre.

Mr Mitsotakis showed no more flexibility on Turkey. France and Britain argue that Turkey's influential role in Central Asia requires the Community to strengthen its ties with the Turks. But Mr Mitsotakis continued to block aid to Turkey worth 600m ecus and Mediterranean programmes worth 2.2 billion ecus.

Greek inflexibility on both Turkey and Macedonia maddened ministers from other EC countries. So did Mr Mitsotakis's recent visit to Belgrade, which seemed to bestow some sort of recognition on the new Serb-sponsored Yugoslavia which the EC wants to shun. One minister described Greece's stance on Macedonia as "rubbish". Another said afterwards: "We cannot have another meeting like this, or the wounds

Greece takes a roasting

will be too deep to heal."

The discussions in Portugal left the Greeks looking lonely. Only Mr Genscher offered a slither of support for Mr Mitsotakis, arguing on Macedonia that the EC should not push a member on an issue of supreme national interest, and on Turkey that the Cyprus problem should be solved first. But Mr Mitsotakis cannot hold out against the rest for much longer. His two best Euro-friends, Mr Genscher and Giulio Andreotti, the Italian prime minister, are about to retire. All he can hope for on Macedonia is that the other 11 will recognise a state which is not called exactly that.

Even that kind of compromise could bring down the Greek government. But Mr Mitsotakis is 73 and near the end of his career. He might consider that like Timon, a nobleman who lost all through profligacy, he is well-placed to deliver home truths to the Athenians.

Bosnia & Hercegovina

Blood and tears

FROM A SPECIAL CORRESPONDENT IN HRANCA AND SARAJEVO

THE trouble with shelling Sarajevo, the capital of newly recognised Bosnia, is that it is difficult to be discreet about it. Every time the fighting gets heavy, some European Community or United Nations official wades in, orders the fighters to stop and threatens them with unspecified reprisals.

No outsiders came when the village of Hranca, 80 kilometres (50 miles) north-east of Sarajevo, was destroyed. On May 3rd masked Serb irregulars spent their Sunday afternoon burning its homes. According to terrified Muslim inhabitants, the gunmen used petrol and grenades to set their houses on fire. At least four villagers died, including a seven-year-old girl. "Why? Why? You ask why?" shouted one woman to a questioner. "Because they are clearing this area of Muslims, that's why."

Cows lay rigid where they had burned in their stalls. Women begged for help. Most of their menfolk had fled. Up to ten were tied up and taken away. "The Serb police said they knew nothing when I went to look for my 16-year-old son," said one woman. A Yugoslav military helicopter buzzed overhead. Life went on as usual in the neighbouring Serb village.

In Bosnia a streak of evil rarely seen even during the worst of the war in Croatia is emerging. Random snipers and hired guns murder with impunity on the streets of Sarajevo, while irregulars indulge in "ethnic cleaning" in mixed areas. While Hranca was being put to the torch, Bosnia's Muslim president, Alija Izetbegovic, was being held prisoner by the ex-Yugoslav army. A deal was made. The president would be exchanged for the lifting of a Bosnian siege of an army barracks. Through deceit or simple

On the borderline

FROM OUR KIEV CORRESPONDENT

SHEGINI

Frontier crossings reveal a lot about change in Europe. We begin an occasional series on borders with a snapshot from Poland-Ukraine

AT SHEGINI, the main crossing between Poland and Ukraine, a virtual one-way system is in operation. Poles, with $2 visas purchased at newsagents or travel bureaus, cross freely. But Ukrainians, barred by their own government from crossing in private cars or on motorcycles, stand pressed against the gate, trying to persuade border guards to allow them through with creative tales of woe.

"I must attend my sister's funeral in Przemysl [a Polish city whose rooftops, just 15 kilometres (ten miles) away, are faintly visible from the border]," pleads one enterprising young man. "It was your mother who died last week," the border guard responds, "yours must be a truly unfortunate family." The guard points to the man's four brightly coloured sacks, which barely manage to contain a cornucopia of meats and vegetables, as the real purpose of his attempted trip to Poland.

Until last autumn, when the Ukrainian government restricted travel by Ukrainian tourists to trains and tour buses, a huge volume of trade was done over this border. In 1991 nearly 2m people ferried food, televisions, radios and petrol to Poland and brought back Polish clothes (glamorous by dowdy Ukrainian standards) and consumer goods. This was about 40 times the amount of traffic in 1988, when communists still ruled on both sides of the border. The human wave, like the mass migration of East Germans that broke down the Berlin Wall in 1989, was a palpable sign of the new order in the region. Freedom was not without its cost: a ravaged and littered forest bears witness to the queues that stretched for 15 kilometres with an average waiting time of several days.

This squalor and destruction were the pretext for closing the border to the cars of Ukrainian tourists; the underlying motive is a deep-seated suspicion of free trade. Other trade barriers include a ridiculous 300-rouble limit ($3, or, as one border guard puts it, enough to buy tea and a biscuit) on presents that Ukrainians may bring to Poland and a list of 55 banned goods (from washing machines to soap) that may not be taken across. Worse still, Ukrainian border officials say the average wait for a visa to Poland is six months.

Ukraine's fortress mentality is the cost of controlled prices. Free trade would mean Poles profiting from subsidised Ukrainian foods, consumer goods and petrol. Despite growing tensions with Russia, Ukraine's energy-supplier, petrol sells at the ludicrous price of ten roubles a litre—less than ten cents.

Poland's aggressively pro-trade stance makes a mockery of Ukrainian protectionism. While Ukrainians stand forlornly at the gate, their Polish cousins regularly nip across the border to buy inexpensive groceries and fill their petrol tanks ("so cheap it's like pumping water from a well," one motorist comments appreciatively).

Enterprising Poles are even turning a profit on Ukraine's corrupt ex-communist manager-class, still not threatened by radical economic reforms. Poles buy metal from factory directors (who later complain to the government of crippling shortages of raw materials), then smuggle it across the border. Ukrainian customs

officers sniff out some of the contraband—witness the pile of confiscated copper wire at the border—but the rest is peddled to Polish wholesalers who have conveniently set up shop just a kilometre from the border.

On the Ukrainian side there are only two fragile signs of change. One is the customs officers, who have traded the Gestapo techniques of the old regime for a courtly gentility—kissing ladies' wrists before searching their bags—and a slightly apologetic air. The second is the border café. Renovated by its new, private owners, the place is buzzing.

confusion the deal fell through. President Izetbegovic was released, but a convoy evacuating soldiers was attacked. Burning with rage, the Sarajevo army chief ordered his big guns to open up again.

By midweek Colm Doyle, the representative of Lord Carrington, the chairman of the EC's peace conference for Yugoslavia, had arranged what passes for a ceasefire. Marrack Goulding, a UN under-secretary-general and an architect of the UN plan for Croatia, came to town to talk about a possible peace force for Bosnia. Sceptics say that ceasefires will not hold and that Mr Goulding is wasting his time. But they said these things when he came to Croatia too. The risk is that a UN peacekeeping role in Bosnia may help Serbs to consolidate large areas for themselves. The risk of no peacekeepers is many more blazing Hrancas.

As delegates to a special session of the Conference on Security and Co-operation in Europe gathered in Helsinki to discuss Bosnia, the presidency of rump Yugoslavia—Serbia and Montenegro—said that in two weeks it was cutting its links with the federal soldiers in Bosnia and that citizens of Serbia or Montenegro serving there should return home. The army claims that 80% of its 70,000 or so soldiers in Bosnia are Bosnians and that the majority of those are Bosnian Serbs. Many people think that the number of Bosnians in the army is less. All the same, the government in Belgrade is distancing itself from these men, in the hope of avoiding tougher outside sanctions.

The army in Bosnia can cast its lot with Bosnian Serb politicians and lose any legitimacy (and guaranteed pay, pensions and homes) in an unrecognised Bosnian Serb republic, or move to save the situation before it is too late. General Milan Aksentijevic, an embittered believer in the old Yugoslavia, predicts that Bosnia will now break apart. His aide, a Bosnian Serb colonel who must stay behind when the general leaves Sarajevo, says quietly: "It won't happen. We have been together for 1,000 years and we cannot be divided."

Germany

Before the fall?

FROM OUR BONN CORRESPONDENT

Something rotten in the state of Germany

UNLESS most evidence deceives, Germany's government is heading for a split. Hardly 18 months after easy victory in united Germany's first election, Helmut Kohl's centre-right coalition is running out of steam, ideas, personnel and luck.

Pundits in Bonn point to two parallels within the past 20 years. In the first, the Social Democratic chancellor, Willy Brandt, resigned in May 1974, only 18 months after his party's best general-election win ever. Ostensibly, Mr Brandt left over a spy affair, but he was already badly weakened by coalition squabbles and a lost battle against striking public-service workers.

Mr Kohl is tougher. But since his Wunderkohl achievements over unity in 1990 he has seemed more like old Blunderkohl again. His Christian Democrats have lost ground in a string of regional elections, his government has made little headway on urgent problems like immigration and it has gone on underestimating the costs of unity. His plan for a sweeping cabinet reshuffle towards the end of the year has been forestalled by the recent resignations, over which Mr Kohl had next to no control, of the defence, foreign and health ministers.

Now, like Mr Brandt, Mr Kohl looks like losing a tussle with public-service workers, striking since April 27th for a wage rise above the 4.8% the government said was all it could afford. As airports closed, trains were cancelled and rubbish piled up in the streets, the government was finding by midweek that it could afford a bit more after all.

A still closer parallel is with the collapse of the centre-left coalition under Helmut Schmidt in 1982. Then, as now, the government partners began to detest one another after years of increasingly tricky compromise. At least Mr Schmidt had to hold together "only" his Social Democrats and the Free Democrats (liberals)—who eventually fled to Mr Kohl. Mr Kohl has had to cope for a decade with an alliance of Christian Democrats, liberals and the strongly conservative Bavarian Christian Social Union.

That is all the more difficult after the resignation announcement on April 27th of Hans-Dietrich Genscher, the Free Democratic foreign minister. Few take at face value Mr Genscher's bland explanation that he is going on May 17th, exactly 18 years after taking up the job, because "change does democracy good". Instead it looks as though Mr Genscher (who used to chant of coalition doubters that "nothing bothers rats more than when the ship fails to sink") is himself bailing out of a paralysed government because his reputation would suffer if he stayed.

By catching his colleagues unawares, Mr Genscher has made coalition friction still worse. He told Mr Kohl in January that he aimed to step down—but not when. Count Otto Lambsdorff, the chairman of the Free Democrats, learned only four days before Mr Genscher went public. Theo Waigel, the finance minister and boss of the Christian Social Union, was in Washington when the news came. Was this just an accident of timing or a deliberate bid to exclude his party from talks on a mini cabinet reshuffle?

The result was a flurry of intrigue and back-stabbing among the Free Democrats before Klaus Kinkel, the justice minister, was named Mr Genscher's successor by his party. The Bavarians are furious with Mr Kohl for, as they complain, allowing the disposal of a top cabinet post without giving them a say. In fact Mr Kohl has looked not so much like plotter as spectator. Thanks to a coalition agreement after the last election, he was virtually bound to hand the foreign ministry to a Free Democrat. He has even had to accept Jürgen Möllemann, the pushy liberal economics minister, as vice-chancellor in Mr Genscher's stead. Mr Kohl thinks little of Mr Möllemann and Mr Waigel thinks even less of him.

In less testing times this nastiness might blow over. Now it is more likely to fester. The Christian Social Union in particular is not just angry but rattled. It has already suffered two blows to its influence in recent years: first through the death of its ebullient leader, Franz Josef Strauss (whose boots Mr Waigel cannot fill); and second through

This row over targets has been foolish, because it has diverted attention from more promising approaches to climate change. For most governments, targets are easy to set; easy to abandon, too. Until quite recently, some British officials believed that setting a target for 2005 meant the country could go back to business-as-usual in 2006. Most of the OECD countries that claim to have targets in practice snuggle under the blanket of regional targets set by the EC and the European Free Trade Area. And some governments have subsequently had second thoughts: Norway, one of the first to set a target, is now qualifying its commitment. For the United States, with its ponderous legal system and litigious green lobbying groups, the implications of setting a target are different. The Bush administration and its successors might well find themselves bound by the courts to stick to the letter of their agreement, whatever the costs (or benefits) turned out to be.

Targets are the easy bit

In fact, America's carbon-dioxide emissions may well be no higher at the end of the century than they are today. They have hardly risen in the past ten years—and from now on will be affected by the tough provisions of the 1990 Clean Air Act, which will raise the costs of burning all fossil fuels, and especially coal. The effect will be to encourage a shift from coal to less carbon-rich fuels, and thus to restrain the country's output of the global-warming gas. Together with other measures that the United States has set in train in the past 14 months, the effect should be to reduce carbon-dioxide output by 2000 by 7-11%, compared with what might otherwise have happened.

So recent experience points to a simple moral. Setting a target is easy. What matters is delivering it. As the European Commission is discovering (see page 85), that is far harder. EC members have been much more willing to agree to an overall target than to decide how to share it out. The proposed carbon tax has been subject to some of the most ferocious lobbying ever seen in Brussels. It has already been turned into a carbon-cum-energy tax, to avoid appearing to favour nuclear power, the greens' least-favourite alternative to fossil fuels. And it has acquired exemptions for energy-intensive industries—precisely the ones that most need incentives to economise on fossil fuels.

Targets may be a way of prodding governments into thinking seriously about global warming, but they are ultimately the wrong approach. They take no account of the variations in the costs to different countries of pursuing the same goal. Much more fruitful would be a commitment to take certain measures, starting with those most likely to enhance, rather than restrain, economic growth. In America's case, such measures might well include increases in energy taxation, which would reduce not only carbon-dioxide emissions but the budget and trade deficits and therefore interest rates as well. Indeed one of the strongest arguments for a firm American commitment to a global-warming treaty is the pressure it would put on politicians to devise a more sensible energy policy.

While the industrial countries have been skirmishing over targetry, too little has been done to make progress in the most important area of all: energy policy in developing countries. Calculations by the OECD show that if its 24 rich members stabilise carbon-dioxide emissions at 1990 levels by 2000, that would hold the global total some 11% below what it would otherwise be by the middle of the next century. This saving, though, will be swamped by the increase in emissions from developing countries. China's alone will be greater than those of the entire OECD by 2050. But removing the subsidies which now depress energy prices, especially in third-world countries, would not only mean that world output of carbon dioxide was one-fifth lower than it would otherwise be by 2050. It would actually make the world richer, too. Now that really is a target worth aiming at.

The Bosnian bog

Peace is still a long way off

IF IT was right to attack Iraq in order to get Saddam Hussein's army out of Kuwait, why are Europe's under-employed soldiers not rushing to help Bosnia? Its president, Alija Izetbegovic, has asked for foreign military support in removing the army of what was once Yugoslavia from his newly independent country. The army is shelling Bosnia's capital, Sarajevo, just as it pounded Dubrovnik and destroyed Vukovar in the Croatian phase of Yugoslavia's war. It gives armoured cover for local Serb fighters as they grab Bosnian villages, driving out Muslims and Croats—a majority of the population.

Foreign occupation. Armed aggression against civilians. Seizure of territory by force. The argument in principle for taking sides against the ex-federal army looks strong. More than Bosnia is at stake. New statelets across the ex-Soviet Union are watching to see how the outside world will react. A well-aimed air strike or a decisive show of outside force would soon see off an army that in almost a year of fighting has always turned back when faced by serious resistance.

Or would it? The Bosnian situation is unfortunately not so simple. Control of the army is breaking down. Decisions seem to be more and more in the hands of local commanders. Slobodan Milosevic, the president of Serbia, who unleashed the army against Slovenia and Croatia last year, now claims he is powerless to stop it fighting in Bosnia. That may be less than the truth. Yet part of the difficulty in Bosnia undeniably lies in the confusion of its semi-independent commanders.

Under UN colours

Even were there a single army to confront, another consideration would give pause: the fragile ceasefire in neighbouring Croatia, where the United Nations has at last begun to deploy peacekeeping troops. If peace is to return to the lands of the southern Slavs, it will come only in stages, as it has so far: first to Slovenia, then to Croatia, and before long, it must be hoped, to Bosnia. Foreign intervention in Bosnia risks reversing that sequence and reigniting the war next door.

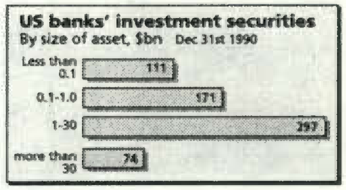
Peace will also come to Bosnia only in small steps. Mr Milosevic has said he will do what he can to get non-Bosnian soldiers out of Bosnia. The Serbs in Belgrade want outside recognition for rump Yugoslavia—Serbia and Montenegro. That could be an inducement to Mr Milosevic to keep his word. But many of the army's soldiers in Bosnia are Bosnian Serbs. Rather than giving the army a deadline for withdrawal, as some seem to want, the UN and the European Community would do better to encourage local army commanders who will co-operate to withdraw to barracks in Bosnia, away from the fighting. The EC-sponsored peace effort under Lord Carrington will presumably go on with its search for a political settlement between the Muslims, Croats and Serbs. In the meantime the UN should be lining up support and money for a Bosnian peacekeeping force ready to go in as soon as the fighting dies down.

As with almost everything else about Yugoslavia's war, this is a string of second and third bests. Blame for the Bosnian calamity is being splashed about among outsiders: Germany for pushing its partners to recognise Croatia and Slovenia without asking itself how an independent Bosnia could survive; Britain and France for not leaning hard enough on the Serbs at the outset; the Americans for clinging too long to the idea that a federal Yugoslavia could be saved. At root, though, the Yugoslavs themselves are to blame for the fighting.

Regardless of who starts civil wars, outsiders often have a legitimate stake in ending them. This is an idea that is taking hold, but there is still a mismatch between means and authority. The EC, which has taken diplomatic responsibility for bringing peace to Yugoslavia, does not act as one in military matters. The UN, which is the only body that could act with world authority, is the least endowed with arms and money.

In the end the one organisation strong enough to intervene decisively in Bosnia is NATO. But though its members, especially the Europeans, have an interest in ending this war, that interest is not great enough to unleash a Balkan successor to Desert Storm. The Americans, who speak loudest in NATO, would neither man nor back an intervention force. Peacekeeping is one thing, when there is a peace to keep. Punishing every aggressor is something else—and the world is not yet ready to go to war to do that, even in the Balkans.

Uncook the books



America's Federal Reserve is wrong to oppose truth in bank-accounting

HOW much is a bank worth? In theory, the answer is simple: subtract liabilities (debts) from assets, and add something to reflect the bank's worth as a going concern. In practice, things are more complicated. American regulators and banks are arguing bitterly over how to measure the value of those assets and liabilities (see page 98). The Federal Reserve Board and other bank regulators defend the present rules; banks value their holdings of securities at what they cost, not at what they would fetch today. The Securities and Exchange Commission (SEC) wants banks and other companies to disclose their holdings of debt and equities at current market values. For the sake of investors, who finance banks, and of taxpayers, who sometimes bail them out, rule-makers should heed the SEC.

Towards the non-fiction balance sheet

The existing rules invite banks to fudge. Banks can collect profits on securities that have risen in value, but need not declare losses on those that have slumped. Such "gains trading" can make a money-losing bank look profitable and a bust one look solvent: dangerous fictions, both. America's banking law requires regulators to shut down insolvent banks before they drain the deposit-insurance fund. Under current accounting practices, an insolvent bank can stay in business by ignoring investment losses. If markets recover, the bank will dodge bankruptcy; if not, taxpayers will pay the price.

The Financial Accounting Standards Board (FASB), which writes accounting rules for American companies, is mulling over proposals that would begin to set matters straight. In 1994 big companies (including banks) will be obliged to disclose the "fair value" of most financial assets and liabilities. The FASB also wants companies to show in their balance sheets the market value of their investments in securities.

The FASB's proposals have sailed into volleys of criticism. Some argue that banks already "mark to market" the securities they actively trade; they use historic-cost accounting only for their investment portfolios—securities they intend to hold until maturity. Actually, banks often trade what they claim are longer-term holdings.

Another objection to the FASB's proposal is that the markets themselves are fickle judges of an investment's value. If banks pay them too much heed, it is said, the economy will suffer. For instance, market-value accounting may raise the cost of capital by discouraging banks from investing in longer-term (mainly government) securities; and regulators fear they may have to shut banks that are insolvent on paper but perfectly capable of meeting their obligations. Neither point is persuasive. It is true that market-value accounting may make banks more reluctant to buy long-term securities—but if that happens merely because they are being obliged to account for those assets accurately, then so be it. As for sound banks made insolvent by paper losses, the regulators would be free, if they chose, to leave them open for business; there is no reason to ignore the losses.

Despairing of victory, some critics are trying delay. They urge the FASB to wait until the markets have digested the coming "fair-value" disclosures. And, they say, the FASB should allow companies to mark to market "related liabilities" and swaps used to hedge their exposure to changes in interest rates. That would make the rules fuller, but far harder to implement.

Devising good accounts for banks will take years. Once rule-makers adopt market accounting for securities, they will need to tackle loans—still the bulk of banks' balance sheets. Market-value accounting for loans is now impossible, since most have no market; but banks are starting to trade loans that were formerly illiquid. When markets learn to judge the value of loans for themselves, banks should abandon the fiction of historic-cost accounting altogether. They can make a useful start now, by recognising the truth about their investments.