

## **E**ditorial

In the last issue of our Newsletter, we published three papers as part of the proceedings of the meeting of the EADI Working Group held in Malta at the Foundation for International Studies between the 3rd and 4th November 1989, with the theme "Development and Environment in the Mediterranean". The discussions evolved on two main streams, namely "Environmental Concerns" and "Economic Strategies". The papers published in the last issue dealt with the first aspects. In this issue, as preannounced, we are publishing the papers which focus upon the economic aspects of environmental problems in the Mediterranean.

I am pleased to communicate that the previous issue was very well received by our readers. It is therefore my pleasure to present the second group of papers to complete the proceedings of the seminar mentioned above.

This newsletter features the studies by Professor Oscar Garavallo (Italy), Dr. L. Istvanffy (Hungary) and Professor Maria Negreponi-Delivanis (Greece).

Professor Garavallo describes the Mediterranean environment as an international public good, to be safeguarded in a manner quite similar to that applicable for a national public good. As is well known, a public good cannot be profitably commercialized, due mainly to the existence of free riders, and choices regarding its supply are generally left in the hands of the public authorities. The author stresses that safeguarding the Mediterranean requires sophisticated economic, technical and administrative instruments.

Professor Garavallo's paper describes what is known as the "Polluter-Pays Principle" and considers this principle as a suitable basis for a Mediterranean environmental policy. One reason for this is that it is an efficiency principle in that it ensures that the polluter (a firm or an individual or a household) will seek out the least cost method in terms of pollution. The implementation of this principle would involve direct controls to reduce evasion as much as possible.

The second paper, by Dr. Lorinc Istvanffy, deals with a Macroeconomic framework for "Quasi-Market Economies" (QMEs). These economies are in the process of transformation from command economies to market economies. The author describes the similarities and the differences in Mediterranean QMEs, stating that two common characteristics are the lack of experience of how the market operates and the gross imbalances in different markets within these economies.

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Dr. Istvanffy suggests a framework for an economic policy for QMEs, emphasising the important objectives of attaining a steady and stable growth in GNP, an acceptable balance between consumption and investment, an exchange rate which promotes a healthy balance of payments, and the control of inflationary pressures.

The paper is very thought provoking, and deals with a topical problem faced by a number of QMEs in the Mediterranean region. In such countries, the bureaucratic traditions and the lack of appropriate institutions work against the QMEs ability to avail themselves of the rapid increase in demand by the European Community.

As is well known, the underground economy is alive and kicking in many Mediterranean countries. Professor Maria Negrepointi-Delivanis writes on the underground economy in Greece, which has its own peculiarities, and its analysis therefore requires an understanding of the economic realities in Greece. The author presents an interesting model for estimating the factors influencing the growth of underground economic activity.

The method used in the paper to measure underground economic activity is somewhat unorthodox, since it relies on a production function parameter which is not actually measured for Greece, but is assumed and "imported" from the rest of the world. The results of the model indicate that government activity, in particular taxation, is one of the most important factors affecting underground economic activity. Although the results have to be interpreted with caution, the exercise is interesting and the paper adds to the literature on a topic which is being given more and more importance as time goes by.

An interesting aspect of the paper is the discussion as to whether or not it is desirable to eliminate the underground economy. One reason put forward in its defence is that such activity may be difficult to replace, since what is profitable as untaxed underground activity may not remain so when taxed. In such circumstances, the elimination of underground economic activity might lead to a fall in the total, as distinguished from the formal, GDP.

It is hoped that these studies will serve to further the discussion on such vital issues in the Mediterranean, and to open up new avenues of cooperation among researchers in the Social Sciences.

*Carmel Tabone O.P.*