

## **Constitutional Framework, Economic Structure and the Viability of the State**

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There is no doubt that the economic dimension of a solution to the Cyprus problem will be of vital importance for the viability of the state. Thus, economic factors, in the broadest meaning of the term, should be seriously taken into account in the examination of any solution model. The expected economic aid package from the EU is acknowledged but it is more important that there should be internal dynamics for reconstruction and further development. And likewise, the return of territory is significant, but the proposed Anan plan should be assessed comprehensively; in other words, we should not lose sight of the forest for the tree. Within this framework it should be noted that ignoring fundamental rules for the smooth functioning of the economy will have serious consequences. At first sight it seems that the Anan plan does not take economic factors into serious consideration.

The constitutional framework of a state decisively affects the economic structure and consequently economic performance. Economic structure includes, among other things, the decision-making mechanisms and processes, the relations between the private and public sectors, the legal framework that regulates economic activity, the taxation system, public expenditure, the relations between employers and trade unions, the tripartite

cooperation on labor matters (employers – trade unions – the state) and so on.

It is equally important to make sure that there are no distortions in the economy. Thus, among other things, government expenditure as a percentage of GDP is a significant indicator that inevitably and undoubtedly affects economic structure and performance. For 2002 the above mentioned indicator in the government-controlled area of the Republic of Cyprus is approaching 40%. In case the Anan plan and the three- state structures that he proposes are implemented, government spending will rise sharply. As stated above, if we fail, for any reason, to take into account basic rules for the smooth functioning of an economy there will be unpleasant surprises; for example, if we allow the public expenditure/GDP indicator to approach, let alone exceed, 50% it will be an ill-omened beginning for the new state with gloomy prospects. Such a development will dynamite the Cyprus economy with unforeseen consequences. The ill feeling and discontent that will result from the implementation of an unacceptable political system burdened with serious economic problems will constitute a highly explosive mixture.

Justifiably, one wonders whether it is wise to ignore the tremendous costs of running three state structures as well as the consequent problems, including cases of deadlock that would most likely arise owing to inflexible decision-making mechanisms. We should also be concerned about the prospects of success in bringing about convergence in the standard of living of the two communities without

the unimpeded functioning of market forces. With fundamental distortions in the functioning of the free market system (i.e. no implementation of the three basic freedoms) the whole attempt for convergence will parallel the story of Sisyphus' punishment.

Finally, it must also be noted that Cyprus's course of acceding to the Eurozone will also be affected adversely. If the country's economic performance is allowed to be derailed because of the problems stated above (and they are not the only ones) then the value of the Cyprus pound will fall and, moreover, there will be great delay in joining the Eurozone. In conclusion, it must be stressed that a flexible economic structure will have a positive affect on the economy, whereas an inflexible distorted structure will have a negative effect on the economy. Examples of inflexibility and distortion in economic systems have been the USSR and Chechoslovakia; both of these systems collapsed from within.