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## LESSONS FOR EU FROM THE GREEK TRAGEDY

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The Greek financial crisis has been the greatest economic tragedy in Europe World War II. Fortunately, it has abated, allowing us to draw learn from this disaster, which instructs us how the European Union ought to develop.

According to Eurostat, the cumulative decline in Greek gross domestic production from 2008-13 was no less than 30 percent. GDP contracted marginally in 2015 and 2016 as well, so Greece recorded eight years of shrinking output.

Other statistics are similarly depressing. At the end of 2017, unemployment was 22 percent, while the public debt was 180 percent of GDP.

When the Greek crisis hit in the spring of 2010, predominantly American economists led by Paul Krugman claimed that the European Union insisted on too much "austerity."

As Krugman put it in 2012: "Greece will basically go down in history as the victim of other people's hubris," blaming Brussels and Berlin.

The statistics, however, tell us that Greece indulged in extreme profligacy until 2016, persistently having a budget deficit far above the EU's so-called 'Maastricht ceiling' of 3 percent of GDP.

Starting with a shocking deficit of 15.1 percent of GDP in 2009, Greece still had a deficit of 13.2 percent of GDP in 2013. Every year from 2008-15, Greece had one of the largest budget deficits in the European Union. The purported austerity was nothing but disinformation.

Nor was tax collection the main problem. Every year, Greece had far higher public expenditures than the EU average.

Only in 2016, it managed to cut them to 50 percent of GDP, when the EU average was 46 percent of GDP. Each year since it joined the EU in 1980, Greece has received a few percent of GDP as grants from the EU.

The eurozone countries have poured a huge amount of funding on Greece, about  billion, almost exactly twice the GDP of Greece in 2016 of €174 billion.

No reasonable person can complain that Greece did not receive sufficient assistance from other members of the EU's single currency bloc.

No other country has obtained such generous support, but in no way did it stimulate economic

growth.

Sensibly, the eastern Europeans ask why they should finance the relatively more wealthy Greece at the expense of their own well-disciplined taxpayers.

The other complaint, also championed by the hapless Krugman in multiple articles, was that the euro would collapse if the eurozone did not adopt the US system of large fiscal transfers.

Needless to say, Greece has kept the euro, not least because of a strong popular support for the euro in Greece; it did not devalue; and Krugman has forgotten this topic.

The discussion about what the EU should do for Greece and the possible need for Greece to break out of the euro to devalue has been little but a harmful distraction, hindering a discussion of Greece's real problem, which is what the Greek government should do for its population.

### **National duty**

Fiscal responsibility is the duty of a national government.

The EU stability and growth pact was designed to hinder sinners from harming their more virtuous fellow euro members. It lapsed when the three big member countries - France, Germany, and Italy - decided to jeopardise it for their own political convenience in 2003 and 2005.

In 2008, all the three Baltic governments found themselves with collapsing output because of the global financial crisis.

Unlike the Greek government, they opted for quick fiscal adjustments, and all three returned to growth after two years because their fiscal cure forced them to carry out substantial structural reforms.

Unlike the Baltics, Greece was flooded with EU funds, so its government was not compelled to pursue badly needed structural reforms, and Greece has remained one of the four most corrupt countries in Europe according to Transparency International.

Little surprise that it has failed to grow.

The Greek financial crisis offers many important lessons. First, that the euro has survived contrary to many predictions.

In the last century, the world saw three multi-national currency unions collapse, the Austro-Hungarian Empire, Yugoslavia, and the Soviet Union. In each case, the collapse was caused by profligate nations. Brussels and Frankfurt have stood the test, not giving in to populists.

### **Greek precedent**

In 2012, Greece wrote off some  billion of its public debt held by private parties, but Greece was not forced out of the eurozone contrary to the assumptions of many.

That set an important precedent. It showed that a euro country can default on its public debt

without catastrophe. This strengthened the euro.

The argument has repeatedly been made that the EU needs a finance minister, larger fiscal transfers, and eurobonds, mostly by Italians but more recently by French president Emmanuel Macron.

This idea seems ill construed. Usually, a proposal is based on a need rather than on a desire for a new institution. Most of the time, the explanation is that certain people desire new EU subsidies for their countries, which is not a very convincing argument.

The EU and the eurozone need to develop institutionally, but such developments should be based on actual needs.

The most obvious financial need is the development of a fully-fledged banking union, which benefits from pan-European deposit insurance. EU bailouts of banks are a more intricate matter that could be accepted only under strict conditionality.

### **Fiscal transfers**

Many have called for larger European fiscal transfers, but they tend to turn quiet when they are asked about the purpose of these moneys. Numerous issues may be considered, but most of them enjoy little public support, and then they should not be undertaken.

We need to internalise the big lessons from the Greek financial tragedy.

Financial policy remains the national responsibility within the framework of the stability and growth pact. The EU bailout of the Greek government was more generous than helpful.

The slow fiscal adjustment in Greece averted necessary structural reforms. The Greek crisis has proven that a government default is possible within the eurozone. Most of all, the crisis has shown the tenacity of both the EU and the euro.

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