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# "A Greek Tragedy?"

**T. K. JAYARAMAN**

The euro is in trouble.
The single currency of the 16-nation eurozone recorded the steepest fall in early February.

All because of one country: Greece.

It is alleged that Greece has all along suppressed its debt figures.

In fact, a more serious allegation was that Greece fudged its statistics right from the days when it was trying to join the elite club, the eurozone.

It is like a student falsifying his marks transcript to join an institution of higher learning.

When the true colours finally come to light, the victim would not be Greece. It would be the eurozone.

That would be a great tragedy.

A Greek tragedy is defined as a drama in which the main character is brought to ruin as a consequence of a tragic flaw, moral weakness, or inability to cope with unfavourable circumstances.

## Eurozone to rescue

It has to stand up and protect the member country.

Why?

There are great stakes involved: the grand old dream of the visionaries of the last century, Jean Omer Marie Gabriel Monnet and Robert Schuman. Their dream was all about creation of a single economic space with full freedom for capital and labour mobility towards attracting investment and generating jobs, incomes and wealth.

The process was through monetary discipline imposed by a common central bank, with a common currency to reduce transaction costs.

That dream cannot be allowed to go wrong!

The euro was to become the world's another reserve currency, aimed at ending the monopoly of the American dollar. As Germany, the powerhouse of Eurozone was on full steam, the world was looking to the euro as an alternative to gold for saving and investment, in times of inflation and domestic uncertainties.

When the single currency was born on January 1, 1999, with 11 countries (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain), as members of a currency union, Greece was left out but eager to join.

Britain, as a member of 27-nation European Union, preferred to stay out. So, too Norway and Sweden. There, are criteria to fulfill. The minimum qualifications for the exclusive club are:

- Inflation: No more than 1.5 percentage points higher than the average of the three best performing (lowest inflation) member states of the EU.
- Annual budget deficit: ratio of the annual budget deficit to gross domestic product must not exceed 3% ; and
- Debt**:** ratio of government debt to GDP must not exceed 60%.

Greece was admitted to the club in 2001, followed by Slovenia in 2007, Cyprus and Malta in 2008 and Slovakia in 2009.

**A license to "fiscal" kill!**

Joining the euro in 2001, Greece took it as free license for access to international markets. The Greek government borrowed externally to go on a spending spree during last 10 years. No doubt, the Greek economy boomed. Public sector expanded and wages doubled. Corruption set in with the expanding civil service. Widespread tax evasion was the end result.

As the global financial downturn hit USA and then Europe, Greece was taken by surprise to know it was ill-prepared to cope.

It has come to light that Greece's budget deficit is 12.7% of GDP, more than four times higher than eurozone rules. Its debt is 300 billion euros ($419 billion) and 125% of GDP.

Knowing well that the future of the whole eurozone is at risk, on February 15 the Finance Ministers of Eurozone gave an ultimatum to Greece to reduce the budget deficit to 8.7%, by effecting major cuts in public spending and by new revenue-increasing measures.

It was a condition to bail-out.

European nations are angry that Greece kept the true size of its deficit hidden through complex financial transactions.

Besides the worries about how Greece would balance its books and avoid defaulting on its external debt and whether IMF would rescue the eurozone, the greatest worry is the euro itself.

Expulsion of Greece?

The European Central Bank President Jean-Claude evaded it:

"I don't comment on absurd speculation,"

**Lessons for Pacific Island Countries**

In 2003, an Australian Senate Committee made a recommendation that Pacific island countries (PICS) should eventually adopt Australian dollar as common currency. Its goal was to bring about monetary discipline as Solomon Islands and others were indulging in monetization of budget deficits by printing money.

But, it is clear now: Although the Eurozone was able to control money and formulate and implement common monetary policies, it could not enforce fiscal discipline, as member governments are outside the control of a common central bank.

So, the lesson is: PICs, before entering into currency union with Australia (an ambitious goal under PACER) or forming a bloc amongst themselves (under PICTA), should set their houses in order and maintain fiscal discipline.

Greece dreamed to be a member of an elite club. Poor fiscal discipline has landed both Greece and the eurozone in a soup!

Remember the British comedian Tommy Cooper's one liner:

"Last night I dreamed I ate a ten-pound marshmallow, and when I woke up the pillow was gone."

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***Dr. T.K. Jayaraman teaches economics at USP. Views expressed are the author's own and do not reflect those of USP.***