Euro currency union showing strains

Greek financial crisis exposes weakness and worry in monetary union; can Europe adapt?

By Matt Moore and Arthur Max, Associated Press Writers, On Friday February 12, 2010, 5:11 pm EST

FRANKFURT (AP) -- Can the frugal and the profligate cohabit the euro zone?

With Greece overdrawn and no one eager to foot the bill, Europe's messy debt crisis has exposed a fundamental weakness among the 16 countries that share the euro: different and often diametrically opposed approaches to spending don't make for a happy union.

By telling Greece they stand shoulder-to-shoulder as it struggles to rein in a runaway deficit and impose severe austerity measures, but offering little more than moral support, the European Union's biggest hitters -- Germany and France -- only slowed the market contagion afflicting Greece, and did not cure it.

As a result, analysts, politicians and observers contend, that may brake momentum for countries like Latvia adopting the beleaguered euro. More broadly, it could force Europe, already in a winter of growing discontent, to reconsider how much of a union it really wishes to be.

Its spending rules -- limiting deficits to 3 percent of economic output -- have turned out to be more an honor system than a fiscal anchor. Can they be toughened to stop funny business like that in Greece, which faked budget numbers for years?

Who pays if someone defaults? If countries that obey the rules pay for those that don't, won't more countries misbehave, knowing someone will protect them from the consequences of their behavior?

If the answers mean moving authority from national capitals to the EU executive in Brussels, will people go along with that?

In Greece, the flashpoint for the debate, Stavros Lygeros, a columnist for the Kathimerini daily newspaper, wrote Friday that the financial crisis brought "not only the collapse of our model of kleptocracy, but also the EU's innate failings."

Lygeros wrote that while a union of states presupposes solidarity, "a monetary union without fiscal union, that is without political union, is a contradiction in terms."

Five years ago referendums in the Netherlands and France overwhelmingly rejected a proposed EU constitution that the public saw as further expanding the EU's authority over its members. That deep reluctance to surrender sovereign power is one factor that has kept Britain, for instance, from abandoning the pound and joining the 16-nation euro zone.

For opponents of the euro, Greece, and the lack of cohesion among the EU is a case of "I told you so."

"Greece is a living example of why you should never give up control of your own currency," said Matthew Elliott, chief executive of the British Taxpayers' Alliance. "The British economy and public finances are in a bad enough state as it is, without dishing out yet more of our money to solve the EU's self-inflicted problems."

Rolf Englund, a Swedish economist who campaigned vigorously against the euro in a 2003 referendum whether to adopt it there, said the current crisis underscored why Swedes resoundingly decided to keep the krona.

"It will crack sooner or later, because it's impossible to have a common currency for such a big, and diverse area," he said. "There's no real EU solution for Greece. They're helpless now, and they have no instruments to fend it off."

For newer EU members who have committed to eventually join the monetary union, feelings are split.

Morten Hansen, an economist at the Stockholm School of Economics in Riga, Latvia, says the debacle could give citizens there pause.

"Should they go into a zone where there are countries not following the rules and then have to bail them out?" he asked.

Yet the leadership in Latvia, whose economy the last two years has undergone the sharpest decline in the EU, remains resolved to adopting the common currency. "The Greek crisis has not dented Latvia's determination to adopt the euro in 2014," Prime Minister Valdis Dombrovskis told The Associated Press, adding that he regards the euro zone as "the key to economic stabilization and growth and to improving Latvia's competitiveness."

But what happens if Greece's woes spread and the bigger economies on shaky ground -- Italy, Spain, Portugal and Ireland -- encounter similar problems?

"Greece in itself is not a big thing," said Sveder van Wijnbergen, of the Free University of Amsterdam, who says Athens' budget shortfall of euro54 billion ($75 billion) is small change by European standards. "I'm worried about what sort of message we give to other governments."

While the euro zone is unlikely to fall apart, a failure to stand together and protect one of its members would be a striking failure for the EU.

That, the Financial Times opined in its lead editorial Friday, cannot be permitted to happen.

"Euro members must start to build an explicit framework to govern their fiscal interdependence," the paper said. "This crisis is a result of failed policies -- but it presents an opportunity for setting them right."

Still, the hastily convened EU summit Thursday did not get beyond a vague statement of support for Greece.

The leaders pledged to "take determined and coordinated action, if needed, to safeguard financial stability in the euro area as a whole," but they left out any detail about what they might do to prevent Greece from defaulting on its massive debt.

Greece is the test case that the euro was always going to face, said Sergio Romano, a leading Italian political analyst.

"This crisis is an occasion for strengthening the European monetary union, for closing the gaps that existed from the very beginning. It had to come, and it finally came," he told The Associated Press. "And if we make the right decision we can proceed from here to strengthen the monetary union. It has been what we have expected all the time."

At a time of financial hardship, most Europeans are worried about their own problems, and don't like the idea of their tax money going to help Greece.

"I'm going bankrupt due to this recession, so I really don't care about Greece," said Michele Fenizia, 55, who runs a takeaway kosher pizza place in Rome. "I don't think we should focus on helping Greeks, we should mainly think of ourselves."

"If they take money out of France's state cash box, I'm afraid people won't accept it and will revolt," said Parisian travel agent Brigitte Briard.

But it's not just the size of Greece's deficit that has angered its European partners, but also the fact that previous Greek governments cooked the books to hide the losses.

"It is not very reassuring that Greece has cheated not just once," but several times, said Vladimir Gligorov, a researcher at the Vienna Institute for International Economic Studies.

"This is not something that makes people happy with Greece."

Arthur Max reported from Amsterdam.

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