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Who Cares if Greece Leaves the Eurozone

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This is not a rhetorical question. I'm going to tell you which countries—of all the other nations in the Eurozone—hope that Greece stays, and which hope Greece will exit peacefully (but swiftly). But first we have to understand what the Eurozone (EZ) is, and how it differs from the European Union (EU).

THE EUROPEAN UNION

The European Union is a confederation of mostly European nations that have banded together somewhat like the United States' thirteen original colonies did. As most of you (hopefully) know, a "state" is a sovereign nation, as the thirteen colonies were. It is not a political subdivision of a nation (as a county is to a state). But unfortunately over the years in America, even though each U.S. state was sovereign and had its own Constitution, our Federal government has worked assiduously to strip the states of the rights guaranteed them by the U.S. Constitution. Today our states are little more than counties. The key mistake the thirteen states made was to give control of the currency to the Federal government. Once that happened, it was only a matter of time until states' rights and sovereignty were nothing more than fond memories.

Here is a short history of the European Union (EU). As WWII was unwinding, Winston Churchill realized that Europe would need some major rebuilding. He invited representatives of selected European nations to a meeting in London to discuss what he envisioned as "The United States of Europe." (Germany was not invited.) Then there were a number of precursors to the current EU—mostly trade cooperation unions and treaties that obliged the parties to work together in ways that would benefit the whole group. The European Coal and Steel Community, founded in 1951, and the European Economic Community (1958) were the first two official precursor organizations. Finally, in 1993 The Maastricht Treaty formally established the European Union.

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I don’t have time to go into this in detail here, but the majority of the people in the nations that joined the European Union were opposed to it. They fell into three categories:

1) Nations where the citizens were not allowed to vote on joining; the politicians made the decision.
2) Nations where there was a referendum and joining was voted down; but the politicians ignored the vote and joined anyway.
3) Nations where there was a referendum and the results were questionable; much like the elections in Illinois where the votes of dead people decided the contests.

The main takeaway here is that the ultimate goal of all these efforts was not to facilitate trade and lower tariffs (as the people were misled to believe). It was to form a unified government in which all member states would give control of their people and governments over to a strong central government, as we have done in the United States.

THE EUROZONE

By contrast, the Eurozone is currently composed of nineteen of the twenty-eight member states of the European Union. These nations gave up their own currencies and exchanged them for Euros, a currency that was originally equal to the U.S. dollar. Initially, the Euro rose against the dollar due to the excitement about the new currency. More recently, the two currencies have been up and down against one another.

When the Euro was rolled out, there were four nations that were members of the EU that did not convert to Euros. Today, there are nine EU nations that don’t use the Euro. Seven of those states are obligated to give up their currency and convert to the Euro once their national finances reach certain benchmarks. Two nations (the smart ones) successfully negotiated the right to retain their own currencies. These were The United Kingdom and Denmark.

WILL GREECE LEAVE?

As I have watched the television news coverage of the Greek crisis recently, I have been amazed at the financial and political illiteracy exhibited by the blow-dried talking heads who somehow manage to stay employed as financial commentators. I would expect such ignorance from ABC, CBS, NBC, and CNN regular news commentators. But I have seen similar levels of incompetence among the financial journalists on those stations as well as on the channels devoted strictly to financial and business news (such as Bloomberg and CNBC). The main problem is that they don’t understand what I have just described. They seem to think that if Greece drops the Euro (or is forced out of the Eurozone against its will), it will no longer be a member of the European Union.

Of course, Greece could choose to leave both the EU and the EZ, but that is unlikely to the extreme. And there is no reason why it should. Europe had been propping Greece up financially and bailing her out for decades. Why should Greece divorce itself from this huge safety net? The TV commentators (and frankly, most citizens of the world) don’t realize that 30% of the EU nations have not adopted the Euro.

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THE MOST IMPORTANT PRINCIPLE

One vital principle in this discussion is that when a sovereign nation (state) gives up control of its currency, it gives up its sovereignty. Most people believe that politics and economics are boring, but separate. The fact is that the two are inextricably intertwined, and are of great interest if you care about your family and the quality of your life. The fact is that government cannot function if it does not control the economy. Central banks (such as our Federal Reserve System) control the money supply and the interest rates. Using those tools they can determine who gets mortgages and who has jobs. They can even determine whether a Congress or Parliament can go to war, simply by raising interest rates.

ENTER THE EURO

So, for the grand experiment of a united Socialist Europe to succeed, a unified currency was necessary. And a single currency has been the goal of the visionaries of the EU from the beginning, regardless of their protestations to the contrary.

The Euro has had a rocky history for obvious reasons. Currencies are normally the province of nations. The EU is not a nation—yet. It has the trappings of a nation—a Parliament, a Central bank, a Supreme Court, and others, including the ability to regulate trade. But there have been varying degrees of cooperation between the member nations and the Union. The EU has the least control over the affairs of those nations who have not yet given up their currencies. Once they do, the EU will have more ability to punish truculent nations by manipulating their economies.

The other problem is that, unlike the United States, the states of Europe are a lot more dissimilar than they are similar. In the early years of the U.S., we had immigrants from many other nations. But the great majority spoke English, and we had the benefit of common enemies to bind us together. Plus, we were all the new kids on the block. We hadn't had time to figure out reasons to hate one another.

By contrast, Europe has many nations with many languages, cultures, and histories. And much of those histories involved long-term, deep-seated hatred of one another. Using the analogy of the thousands of years of antipathy between Arabs and Jews would not be a stretch. For just one example, England and France have made a national sport of hating and killing each other for hundreds of years. Now, because their leaders have decided to drag them into a Union that the majority of their citizens opposed, they are supposed to make nice and forget all the times each nation had slaughtered the other's ancestors.

WHY THE EURO CANNOT SURVIVE LONG-TERM

First, the average lifespan of any fiat currency (one backed by nothing of real value, such as the Euro and the U.S. dollar) has been thirty-seven years. The only reason the dollar has beaten the odds is that in 1944 it became the World Reserve Currency. By the way, "fiat" is a Latin word meaning, "a governmental decree." So, quite literally, a fiat currency is one that appears to have value—for no other reason than that the government says it does!

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But the European Union (and, by extension, the Eurozone and the currency itself) has plenty of other problems. First, there are widely varying political views among the nations that form the EU. It goes far beyond Democrat or Republican, Liberal or Conservative. There are hundreds of political parties in Europe, including Green, Socialist, Communist, Christian, Reformist, Conservative, Leftist, and many, many more. The EU has recognized thirteen coalitions of parties (each of which represents an average of several dozen splinter parties). There are even parties in some European nations dedicated to breaking off from their own countries. The Basque separatists of Spain and France come to mind. How excited do you think they are about their countries being part of the EU when they don't even want to be a part of their countries?

Then there are the economic disparities between the member nations. Obviously France and Germany had the strongest economies when the Euro was rolled out, and therefore ostensibly the most to lose. After all, their strong currencies would be watered down by the weaker currencies of the nations with more debt. I believe that they were willing to take that financial hit in the short-term because of long-term benefits. Colonialism had gone out of style by that time, so France and Germany, as the strongest members of the EZ, were able to engage in what I call "economic colonialism." They made a lot of money from the poorer nations in one-sided trade deals due to their size and clout.

Of course, there were poor nations that benefitted—at least temporarily—from joining the Euro. Chief among these was Greece, the subject of this article. Greece was the last of the original Eurozone members to join, in 2002. This was because it took them so long to demonstrate that they met the financial requirements of membership, including a deficit of 3% or less of their GDP. In fact, there is credible evidence that they never did meet the requirements; that in fact a major U.S. investment banking firm spent several years "cooking the books" of Greece to make it appear it was more financially sound than was the case. The firm did this by contriving exotic derivatives that looked good on the surface, but were in fact just smoke and mirrors.

In any case, the Greek currency, the Drachma, was in trouble, so the Greek politicians breathed a huge sigh of relief (that reportedly was heard in New York) when Greece was admitted to the Eurozone. If they had known the outcome, they might not have been so happy. Joining the Euro gave credibility to Greek sovereign debt (which few had been interested in buying before) and allowed them to amass the huge debt that plagues them today.

THE PIGS OF EUROPE

Five years ago I taught an international Webinar that asked the question: "Will the PIGS of Europe Crash the Euro?" (A link to the video is available below in "Internet Resources.) The PIGS (as they were known in the financial press) were Portugal, Ireland, Greece, and Spain, all countries in the Eurozone that had huge, unmanageable debt. Some called them PIIGS, with the second "I" referring to Italy.

Today, Greece has the worst debt to GDP numbers of any European country: 177.1. This means that for 1 million Euros in production Greece has each year, it owes 1.77 million Euros. The other PIIGS are not as bad, but they're still pretty terrible: Portugal 130.2; Ireland 109.7; Italy 132.1; and Spain 97.7. By the way, the U.S., at 101.5 is better off than only one of the PIIGS.

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WHICH EUROZONE COUNTRIES WANT GREECE TO STAY?

Only six nations have expressed a strong desire for Greece to remain in the Euro: Luxembourg, Malta, Portugal, Spain, Austria, and Ireland. Note that three of these supporters are fellow members of the PIIGS with huge debt, who presumably don't want to be the next to be booted out. And even some of Greece's supporters were rather tepid in their backing. For instance, the Prime Minister of Malta said, "Greece should be kept in the Eurozone—but not at any cost."

The nine countries that are ready to say "Auf weidersehen" ("Bye, bye" in German) to Greece are Germany, Estonia, Finland, Slovakia, Netherlands, Slovenia, Latvia, Belgium, and Lithuania. Some of them are very angry. The Chancellor of Germany has said, "The most important currency has vanished with Greece—and that is trust." The Prime Minster of Slovaki stated, "If Slovakia managed to carry out reforms, then Greece has to be able to do it, too; there is no room for mercy from our side."

Quotes from the leaders of Europe on both sides can be found in the link below, "The countries happy to see Greece leave the Eurozone." Four of the nineteen Eurozone nations have not expressed strong opinions (at least not publicly). Of the fifteen who have, 40% support Greece staying in the Euro, and the rest wouldn't shed any tears if it left. Of course, many of these public statements have to be taken with a grain of salt, since the tough talk could just be negotiating postures.

For its part, Greece says that the world community forgave Germany half of its war debts. And during its occupation of Greece for three years, Germany systematically stripped the country of all its industrial equipment and shipped it to Germany to help with its war efforts. This created great economic hardship in Greece. Germany has yet to repay Greece for this. Also, in 1942, the Greek Central Bank was forced by the occupying Nazi regime to "loan" 476 million Marks at 0% interest to Nazi Germany. In 1960 Germany finally repaid Greece 115 million Marks. In the recent talks, Greece has demanded full repayment of this debt. But the German Chancellor replied that the matter was "closed."

THE BOTTOM LINE

Thirty years ago, Greece had a decent economy. Then it elected a Socialist government. For all but three of the thirty years since then the Socialists have had free rein. They have essentially destroyed the Greek economy. I understand that the people don't want to endure the required austerity measures that are the conditions for a bailout. But many of the same people who are demonstrating in the streets (and who voted overwhelmingly last Sunday to reject loans tied to austerity measures) have benefitted from the free-spending Socialist programs. (By the way, the Socialist Prime Minister strongly encouraged Greek citizens to reject Europe's help—and the strings that were attached.)

"The only dream of nearly every Greek has been to get a state job," says Greek journalist Nikos Dimou. "Because they knew that it was not only a job for life, but involved little work." Over a million Greeks work for the government at jobs from which they cannot be fired. Most are required to spend so little time at work that they have another full-time side job. Millions more work indirectly for the government. In this country of 11 million, estimates are that up to half of employed Greeks work directly for the government or for companies that supply goods or services to the government. This is obviously not sustainable.

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Most of the austerity measures are directed at public sector employees. Retirement ages and pensions are a huge problem. The average Greek government employee retires at fifty with a generous pension. Some retire at a government-mandated age of forty-five. Recently, the government attempted to get some state employees to work forty hours instead of thirty; this was answered by riots. And the Greek finance minister told a London newspaper that he was "clueless" about how many government employees Greece has.

Government interference in the private sector has cost billions, as well. Employers are required to give employees extra "hazard" pay for doing such dangerous jobs as:

1) Receptionist (germs on telephones)
2) Hairdresser (working with hair dye and curling solutions
3) Bank teller (handling dirty money)

Greece's biggest fiscal problem: The government has mandated that everyone (and by that I mean everyone) can retire at age fifty-seven with a full pension. Whether you worked for the government, were self-employed, or worked in the private sector, you get full retirement with medical benefits. With such a cushy retirement waiting for them, Greeks have stopped having babies. Their fertility rate is among the lowest in the world. Why go to the trouble of having and raising kids when you don't need them to take care of you in your golden years? The government will take care of you!

The problem with this is that there are fewer and fewer new taxpayers growing up in Greece. So where will the money come from for these pensions? Europe and the IMF won't keep doing bailouts. Something has to give.

THE SOLUTION

I have been working on this article for several days. The good news is that during that time the heads of the European nations have come up with a solution. Sort of. It calls for three years of bailouts. During this time Greece must institute austerity measures. Payments are tied to performance, which is a good thing. And it's a good thing that an agreement has been reached that will keep Greece in the Euro. Sort of.

The bad news is that the Greek Parliament must agree to the deal. I notice that there will be no referendum this time that would give the people another opportunity to squash the deal. The big boys are going to handle this one. So it will probably pass.

The worse news is that the parliaments of the other European nations also have to approve the deal. A lot of people in those countries don't like the deal; they're tired of bailing other people out. But they will probably agree to it, because they see the possible breakup of the Eurozone (which could lead to a breakup of the EU itself) as a greater danger than the stress this will cause their own economies.

But the hard fact is that—like with any other deal of this type—it isn't done until it's done. A lot can change before the deal is approved—if it is, indeed, approved.

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What would happen if this deal fell apart and Greece either voluntarily left the Eurozone or was forced out? No country has ever been forced out, even though several should be by the Eurozone's rules. For instance, Greece's deficit to GDP ratio is over 12%. This is four times the maximum to enter the Eurozone. On this basis alone, Greece should have been ejected from the Euro years ago.

There's a saying that if a bank loans a man $100 it owns him. If the bank loans him a billion dollars, he owns the bank. "I'm having a little problem in my business. Can you loan me an extra $100 million? I'd hate to go out of business and not be able to pay you back the billion dollars." And so it goes.

I know this has been a long article. Thanks for sticking with me. This is a problem that has been decades in the making, and it deserved more than a quick few paragraphs that hit the high points. Particularly since, even if Greece gets its finances straightened out, there are still the rest of those pesky PIIGS waiting in the wings for their bailouts. This is Socialism at its finest.

Margaret Thatcher said it best: "The problem with Socialism is that you eventually run out of other people's money."

INTERNET RESOURCES:

Greek Profligacy, Pensions and Perks Cost the Nation Dearly
http://www.theguardian.com/business/2010/may/07/greek-debt-crisis-jobs

Country List of Government Debt to GDP
http://www.tradingeconomics.com/country-list/government-debt-to-gdp

The Countries happy to see Greece leave the Eurozone
http://www.telegraph.co.uk/finance/economics/11734681/The-countries-happy-to-see-Greece-leave-the-eurozone.html

VIDEO: "Will the PIGS of Europe Crash the Euro?" by Dr. Tom Barrett
http://christianfinancialconcepts.inotifyinc.com/article.php?id=4379

Leftist Media in Greece Makes Sure Citizens Don't Know What is Really Happening
http://shankhnaad.net/world/economy/item/298-greeks-have-run-out-of-other-people-s-money

Greek Hairdressers Retire at 50 with Full Benefits
http://www.businessinsider.com/in-greece-you-can-retire-at-50-with-full-benefits-2010-3

Table of Political Parties in Europe
https://en.wikipedia.org/wiki/Table_of_political_parties_in_Europe_by_pancontinental_organisation

Dr. Tom Barrett is the Founder and Publisher of www.ConservativeTruth.org. He has written thousands of articles that have been republished in national newspapers and on hundreds of websites, and is a frequent guest on radio and television shows. His unique viewpoint on social, moral and political issues from a Biblical worldview have resulted in invitations to speak at churches, conferences, Money Shows, colleges, and on TV (including the 700 Club). Tom is also an expert speaker and writer on the subject of Biblical Finance, and is the Founder of www.ChristianFinancialConcepts.com.

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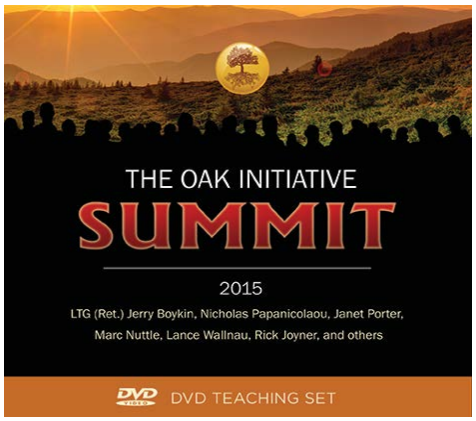

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11 & 12	Feb 27 PM	'Standing Up in Truth and Wisdom'	U.S. Rep. Louie Gohmert, Rick Joyner
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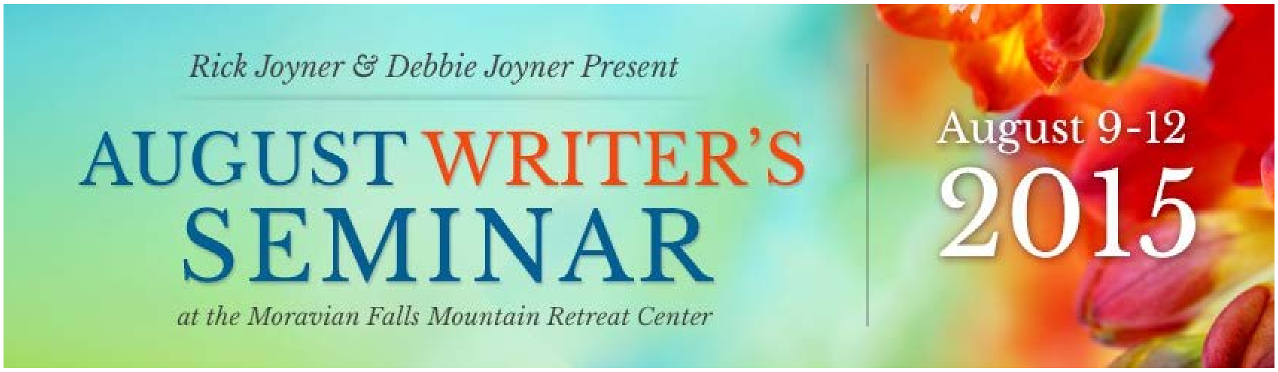

http://www.morningstarministries.org/other-events/august-writers-seminar

http://www.morningstarministries.org/other-events/great-commission-conference

http://www.morningstarministries.org/events/morningstar-conferences/wild-love-worship-conference

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