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Five Reasons Not to Support a Bailout of Greece

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This weekend, the Eurozone members and the International Monetary Fund (IMF) proposed a €110 billion ($140 billion) rescue package for the struggling Greek economy. In exchange for imposing tough austerity measures—including a three-year public sector pay freeze, an increase in taxes, and a liberalization of labor laws—Eurozone countries will provide €80 billion in emergency loans over the next three years for Greece, and the IMF will provide the rest.

Three people have already died following increasingly violent demonstrations in Athens, protesting the package of austerity measures to be voted on by the Greek government this Friday. German Chancellor Angela Merkel is also facing a public backlash, having agreed to provide the largest European contribution to the Greek bailout—some €22.4 billion ($29 billion).

With a budget deficit of 13.6 percent, a debt-to-GDP ratio of 120 percent, over 10 percent unemployment, and one of Europe's weakest and most corrupt economies, the Greek economy is certainly in crisis. A bailout, however, is not the answer to this Greek tragedy. Here are five reasons why.

Reason #1: A Bailout Will Not Work. In order for a bailout to be successful, Athens needs to align the national wage structure with its productivity. That means implementing structural reforms, including root-and-branch reform of its labor market, tax system, higher education, and pensions system. They will have to be as far reaching as the reforms implemented by the 1980s Thatcher Government in the U.K. and the Lange Government in New Zealand in 1984.

However, in an economy dominated by the trade unions, it remains uncertain whether Prime Minister Georgios Papandreou's government can effectively implement such reforms, which aim to cut the budget deficit by over 10 percentage points by 2012. Previous Greek governments have pledged reform but consistently failed to garner the public or political support necessary to see them through.

Reason #2: A Bailout Is Illegal Under EU Treaty Law. Article 125.1 of the Treaty on the Functioning of the European Union expressly forbids one member state bailing out another. It states:

> The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project.[1]

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Lord Lamont, Secretary of the Treasury when Britain ill-fatedly joined the European Exchange Rate Mechanism in 1990, pointed out that the Maastricht Treaty specifically ruled out such bailouts so that responsible members of the Eurozone would not have to subsidize irresponsible ones.[2] Four German professors, including Wilhelm Noelling, the former governor of the Bundesbank, are preparing to challenge the rescue package in Germany's constitutional court once it has passed through Parliament.[3]

Reason #3: A Bailout Is Unpopular. It is not difficult to see why Germans and other Eurozone publics are opposed to bailing out the profligate Greek government. Having introduced a constitutional requirement to balance its budget, the German government is now asking the public to forego tax cuts in favor of its less responsible Mediterranean neighbor. A poll by British think tank Open Europe in June 2009 found that 70 percent of German voters were opposed to bailing out other Eurozone countries in financial trouble.[4]

Greece is already one of the European Union's largest recipients of subsidies in the form of structural funds. In the eyes of many German taxpayers, who also underwrite the largest net contribution to the European Union, it is undemocratic to transfer vast swathes of their money to a government they cannot vote out of office.

Reason #4: A Bailout Will Not Stop the Contagion. The Greek crisis strikes at the very heart of the elite-driven post–World War II vision of a continental superstate. Greece is in a financial death spiral brought on by years of irresponsible deficit spending—spending the EU did nothing to halt.

Yet now that crisis has struck, according to German Chancellor Merkel, "nothing less than the future of Europe, and with that the future of Germany in Europe, is at stake." Under the circumstances, if it were a truly unique, isolated case one could understand the efforts Merkel and other European leaders are making to save Greece. Unfortunately, Greece is not unique but only the first to go into meltdown.

Many other nations in the EU are in frighteningly similar circumstances with their sclerotic labor markets and bloated public finances. The Mediterranean contagion is already underway, with Portugal, Italy, and Spain in its sights. Credit markets lulled to sleep for years by soothing official statements are now wide awake and are having none of it, becoming increasingly intolerant of any country with suspect finances. Worse, sensing serious exposed weaknesses, speculative wolves are gathering for the kill, driving down the Euro and driving up borrowing costs of the weak. Putting out the fires in Greece cannot stop the contagion when there is fuel to burn elsewhere.

Reason #5: U.S. Taxpayers Should Not Prop Up Profligate European Spending. Whatever decisions are made in Berlin, Paris, and Brussels, they should not be underwritten by Washington. Yet that apparently is what the Obama Administration intends.

As noted above, the IMF has committed funds as part of the Greek bailout. While terribly embarrassing to Europe, this plus up is an insult to the American taxpayer. The IMF, of course, is tapping funds provided by its own member governments to participate in the bailout. As it happens, the Obama Administration convinced Congress to give the IMF an extra $100 billion in play money last year.

It was bad enough when the federal government bailed out AIG, and then Fannie Mae and Freddie Mac, and then many of the mega banks, and then GM and Chrysler. At least these firms

1. Treaty on the Functioning of the European Union, Article 125.1, p. 99, at *http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:115:0047:0199:EN:PDF* (May 5, 2010).
2. Politics.co.uk, "Lamont Brands Greek Bailout Illegal as EU Signs up To Help," February 11, 2010, at *http://www.politics.co.uk/news/foreign-policy/lamont-brands-greek-bailout-illegal-as-eu-signs-up-to-help-$1359512.htm* (May 5, 2010).
3. *The Wall Street Journal*, "German Group To File Lawsuit Against German Aid to Greece Friday," May 5, 2010, at *http://online.wsj.com/article/BT-CO-20100505-710163.html?mod=WSJ_latestheadlines* (May 5, 2010).
4. Open Europe, Germany Agrees in Principle to Help Bail-Out Greece; Finance Minister Admits There Is 'No Alternative,'" February 10, 2010, at *http://www.openeurope.org.uk/media-centre/summary.aspx?id=1034* (May 5, 2010).

had the modest merit of being U.S. companies employing U.S. workers. Even if U.S. government finances were in pristine shape, U.S. taxpayer dollars should not be used to bail out a perennially dysfunctional state. But as spending-driven trillion dollar budget deficits and a presidential debt commission starkly evidence, the U.S. is seriously risking its own Greek-style sovereign debt crisis. Fortunately, the U.S. does not need an IMF bailout; it needs only a President willing to acknowledge that he has led the country on a Grecian spending binge it cannot afford.

Closing Time at Club Med. No sooner had news of Greece's bailout been announced that rumors began that Spain may be seeking up to €280 billion in aid.[5] Spotting an electoral opportunity, the leader of Germany's main opposition party, Frank-Walter Steinmeier, has so far refused to pledge parliamentary support for the bailout package. He is correct that this is unlikely to be the last transfer of taxpayers' money from Germany to Club Med.

It is also extremely unlikely that Greece has the political capacity to take forward the reforms to which it has committed in exchange for the rescue package. The sooner the Eurozone faces up to the financial costs of the single European currency, the better.

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5. Reuters, "Report Spain Wants 280 Bln Aid Is Madness: PM," May 5, 2010, at *http://www.reuters.com/article/idUSTRE6433K620100504* (May 5, 2010).