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Greece does not mark the end of the euro debacle, merely the beginning

I remember being regarded as eccentric for doubting the euro project. Now it has proved a monumental error of judgement, analysis and leadership

By William Hague

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I well remember the furrowed brow of President Chirac, sitting amidst the splendid gilt furnishings of the Elysee Palace, as I explained to him in May 1998 why I thought the euro would not work as Europe's leaders intended. The charm of his welcome had evaporated as I set out not only why joining the euro would be very bad for Britain, but also far from a good idea for some of the countries desperate to sign up to it.

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After I gave my speech that night at my alma mater, the European Business School at Fontainebleau, Chirac and many others were appalled. I said that joining the euro would exacerbate recession in some countries, and that some would find themselves "trapped in a burning building with no exits" – a phrase that brought me a fair amount of controversy and abuse.


Jacques Chirac, the French president

I was regarded around the EU as a rather eccentric figure, almost pitiable in being unable to see where the great sweep of history and prosperity was heading. One former senior colleague in Britain said I had become "more extreme even than Mrs Thatcher", as if this was an unimaginable horror. Idealistic heads in Brussels were shaken in sorrow that the dreaded Eurosceptics were not only growing in the Conservative Party but had now taken it over, with me having become, astonishingly, its leader.

There is no doubt that I was wrong about quite a few things when I was leading my party. But I hope the eurozone leaders meeting today will remember that those of us who criticised the euro at its creation were correct in our forecasts. Otherwise they risk adding to the monumental errors of judgment, analysis and leadership made by their predecessors in 1998.

Those who poured scorn on some of us who predicted "wage cuts, tax hikes, and the creation of vicious unemployment blackspots" – all now experienced in abundance by the people of Greece – should at least now make the effort to understand why these predictions were true.

Economics has few laws, which is why economic forecasts are so maddeningly unreliable. If it has one law, it is this: that if you fix together some things which naturally vary, such as interest rates and exchange rates, other things, such as unemployment and wages, will vary more instead. And in a single currency zone, which has exactly this effect, you can only get round these problems by paying big subsidies to poorly performing areas, and expecting workers to move in large numbers to better performing ones.

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This is what happens in the United States, or indeed within the United Kingdom. In general it works. In the eurozone it does not work, because either Greeks have to cure their poor economic performance or Germans have to pay them big subsidies forever, and neither are willing or able to do so. This, in a sentence, is the problem of the eurozone, and continued denial of it will only make that problem worse.

There are three important truths for eurozone leaders to recognise today as they are forced to choose between the credibility of their currency and the permanence of European unity.
The first is that this crisis is not the fault of the Greek people. It is easy to think the opposite when they have a government so utterly ham-fisted and unreliable in its dealings with its partners, and a demagogic and now departed finance minister who regards as "terrorism" the simple act of lending money and expecting it back one day.

They have rejected reasonable terms from their creditors, defending retirement benefits paid earlier than most in northern Europe, and protecting lower VAT rates for tourist areas of which our own Welsh hills and Yorkshire dales, to name two close to my heart, can only dream. But Greeks have experienced the loss of one quarter of their entire national income, following an unsustainable inflation of spending and debt which eurozone membership facilitated.

The responsibility for this crisis lies with their own former leaders and those around the EU who gave them euro membership when they were not remotely suited to it, a triumph of political desire over dispassionate economic analysis for which ordinary people are now paying the price.

It is no good now expecting Greeks to sit quietly in a burnt out room of the burning building I described 17 years ago. This brings us to the second truth: that this is not a short term crisis, but a permanent one, in which any temporary accommodation will soon be overtaken by events.

Greeks are being expected to do business and compete with the rest of the world at the same exchange rate and with the same interest rates as Germany, which would require their manufacturing, their education and their enterprise culture to be at least similar to those of Germany. In their lifetimes they are not going to be able to do that. This is not because there is something wrong with them; it is because they live in a different economic environment from Germany, and one that is not suited to being in the same currency.

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In such circumstances, it is better to be able to leave sooner, with some generous support, than leave later with even greater resentment and failure.

The third and final truth will be the hardest one of all for those responsible for the euro to accept: that this is not just about one country. It is in Greece that the fundamental tensions created by a single currency have first broken through, because Greece is a particularly indebted and less competitive country. But the same tensions will ultimately surface in other nations facing a less immediate crisis but a similar prognosis.

Across southern Europe, governments such as those in Italy and Spain are making brave efforts to enact long overdue reforms. They might not achieve enough, however, for their people to prosper when required to compete equally with their northern neighbours. There is a clear risk that the economic performance of the south will diverge from, not converge with, the north. Unless this is averted in the coming years, it will bring problems to Europe for which Greece has only been a minor rehearsal.

In future decades, in the very business school where I spoke in 1998, I believe students will sit down to study the folly of extending a single currency too far. Sad though it will be to see it, their textbook is likely to say that the Greek debacle of 2015 was not the end of the euro crisis, but its real beginning.