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Europeans are blaming financial transactions arranged by Wall Street for bringing Greece to the brink of needing a bailout. But a close look at the country's finances over the nearly 10 years since it adopted the euro shows not only that Greece was the principal author of its debt problems, but also that fellow European governments repeatedly turned a blind eye to its flouting of rules.

Though the European Commission and the U.S. Federal Reserve are examining a controversial 2001 swap arranged with Goldman Sachs Group Inc., Greece's own budget moves, in clear breach of European Union rules, dwarfed the effect of such deals.

Predicaments of the sort Greece is facing—years of overspending, leaving bond investors worried the country can't pay back its debts—weren't supposed to happen in the euro zone. Early on, countries made a pact aimed at preventing a free-spending state from undermining the common currency. The pact required countries adopting the euro to limit annual budget deficits to 3% of gross domestic product, and total government debt to 60% of GDP.

But an examination of budget reports to the EU shows Greece hasn't met the deficit rule in any year except 2006. It has never been within 30 percentage points of the debt ceiling.

Growing Apart

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governments must past on their 10-year bonds.

Greece has revised its deficit figures, always upward, every year since 1997—often considerably. Several times, the final figure was quadruple what was first reported. Late last year, the Greek government set in motion its current crisis by increasing its 2009 budget-deficit estimate, initially 3.7% of GDP, to nearly 13% of GDP.

Those revisions far exceed the impact of controversial derivative transactions Greece used to help mask the size of its debt and deficit numbers. The 2001 currency-swap deal arranged by Goldman trimmed Greece's deficit by about a 10th of a percentage point of GDP for that year. By comparison, Greece failed to book €1.6 billion ($2.2 billion) of military expenses in 2001—10 times what was saved with the swap, according to Eurostat, the EU's statistics authority.

The Greek problem has shown that EU financial institutions don't have enough teeth or expertise to rein in renegade member states, said Jean-Pierre Jouyet, chairman of France's stock-market watchdog and former chief of staff to a president of the European Commission, Jacques Delors. "We need new tools to manage these disequilibriums, because a pact without sanctions is not enough," said Mr. Jouyet.

Constantine Papadopoulos, secretary-general for international economic affairs at the Greek foreign ministry, said Greece entered the euro zone legitimately. "The notion that Greece 'cheated' to get into the euro zone is one of those notions that has stuck in people's minds in Europe and, being the well-crafted piece of propaganda that it is, is extremely difficult to reverse," he said.

Mr. Papadopoulos, a member of the now-ruling Socialist party, said most of the revisions took place because an incoming New Democracy government in 2004 retrospectively revised the way it dealt with military spending. That, he said, had an impact on the recorded budget deficit for the past years of the Socialist government. But Eurostat deemed those revisions necessary, since Greece had "widely underestimated" its military spending.

The Aegean country wasn't alone in breaking the euro zone's rules: A majority of other euro-zone members also failed to meet the debt and deficit requirements at least once over several years, the reports show.

The euro's launch, with 11 founding members in 1999 and Greece joining 18 months later,

amounted to a deliberate political gesture by European leaders: Membership in the fledgling currency should be as broad as possible. Italy and Belgium were allowed in with the first group despite well exceeding the debt threshold—a decision that spurred some controversy.

Bringing in Greece, the ancient "cradle of democracy," was symbolically important. In any case, by the late 1990s Greece was being billed as a great economic turnaround story and few eyebrows were raised.

Greece's current crisis—which has weakened the euro and sown concerns about the debt levels of some other European countries—shows Europe's political ambitions for a broad euro are clashing with economic realities. It also suggests Greece's economic success was partly a mirage created by misreported economic statistics.

This is a consequence of a weakness that economists and historians say was built into the common currency at birth: the lack of a coordinated fiscal policy to go with monetary union. From the beginning, the euro has been replete with unresolved tensions, says David Marsh, author of "The Euro," a 2009 book chronicling the birth of the currency. The currency union was seen by some politicians as a way to pull the EU toward political union; others, mainly in Germany, emphasized the need for fiscal and monetary rectitude.

Once a country is in the currency, little can be done to a wayward member because the euro's architects built in no real means of enforcement.

That's in part because of a compromise made in a 1996 European summit in Dublin that placed the decision whether to levy fines on errant governments with other EU governments. That was a victory for Jacques Chirac, then French president, over German Chancellor Helmut Kohl, who wanted the fines to be automatic. Since then no country has been fined.

Willem Buiter, chief economist at Citigroup and a former member of the Monetary Policy Committee of the Bank of England, described the 1996 agreement aimed at enforcing the debt and deficit rules as "a paper tiger."

"It is ineffective, because for a while it created the illusion that there were sticks and carrots capable of changing the fiscal behavior of the member states, when in reality there were neither," he wrote in a new research report.

The lax attitude to fiscal rules began early. Eager to get the euro in place in the late 1990s, EU leaders decided 1997 would be the key year. If everyone could meet the targets for that year, the currency could be launched.

The 60% debt goal was simply out of reach—Belgium, for instance, had debt equaling 131% of GDP in 1995. The countries agreed excess debt was acceptable, so long as it appeared to be shrinking. (The euro zone as a whole has never met the 60% debt limit.)

Instead, Europe tried to stand firm on the annual deficits. That triggered a busy year of one-off boosts to government coffers. Countries sold mobile-phone spectrum licenses. France got a payment of more than €5 billion for assuming future pension obligations from the soon-to-be-privatized France Télécom . Germany tried, but failed, to revalue its gold reserves.

Buoyed by these maneuvers—and helped by the tech boom—11 of the 12 countries made the 3% goal for 1997. With much fanfare, the euro was born as the clock ticked from 1998 to 1999, though notes and coins didn't begin circulating for another three years.

With much less fanfare, countries later revised their numbers: Of the original 11 entrants that qualified on the basis of their 1997 data, three—Spain, France and Portugal—later revised their 1997 deficit figures to above 3%. France's budget revision, to 3.3%, wasn't made until 2007.

Greece didn't make the first wave. Its 4.0% deficit in 1997 missed by too much. Even then, technocrats doubted Greek statistics. But in late 1999, eager to keep the euro zone on track, the EU overlooked those concerns. The figures for 1998 appeared better, and European governments agreed that Greece had met the fiscal goals.

They cited a cut in its deficit to 2.5% of GDP in 1998 and a projection of 1.9% for 1999, and saluted Greece for reducing its debt. "The deficit was below the Treaty reference value in 1998

and is expected to remain so in 1999 and decline further in the medium term," the governments proclaimed in December 1999.

None of that turned out to be true. In March 2000, Eurostat said a new accounting standard pushed Greece's 1998 deficit up to 3.2%. Later, in a 2004 report, Eurostat added nearly €2 billion to the original 1998 deficit—largely because Greece had wrongly deemed subsidies to state entities as equity purchases, a device Portugal would later use. In the end, the 1998 figure stood at 4.3%, well above the euro-zone entry criterion.

It got worse. Eurostat found that Greece barely recorded any expenditure on military equipment for years, routinely overestimated tax collections, didn't record hospital costs in the state health system and counted EU subsidies to private entities in Greece as government revenue.

In the face of an economic downturn, others joined the Greeks. France and Germany breached the deficit limit in 2002, 2003 and 2004, setting the example that even the bloc's economic powerhouses didn't have to play by the rules. In 2003, the Netherlands and Italy did too. "When Germany and France got into difficulty, there was not a strong reaction from the European Union," says Jean-Luc Dehaene, a former Belgian prime minister. Finance ministers decided on the response, and "they tend to make a political decision," he says.

Of the 12 early members of the euro, all but Belgium, Luxembourg and Finland have overrun the budget rule at least once. Finally, under political pressure, the norms were softened in 2005 to allow the deficit limit to be breached in an economic downturn.

That was after the tragicomic tale of Greece's 2003 deficit. In March 2004, Greece reported that its 2003 deficit had been €2.6 billion, or 1.7% of GDP. Eurostat put in a footnote calling the figure "provisional," but it was still well below the euro-zone average of 2.7%.

Any Greek celebration was short-lived. Two months later, under pressure from Eurostat, Greece put out new figures. The 2003 deficit was now 3.2%, thanks in part to overestimated tax receipts and EU subsidies. Four months after that, it was up to 4.6%: Greece had failed to include some military expenses, overestimated a social-security surplus, and low-balled its interest expenses. Another revision in March 2005 kicked it up to 5.2%. Later that year, it became 5.7%. What had been reported 18 months earlier as an €2.6 billion deficit was now €8.8 billion.

In short, says Vassilis Monastiriotis of the London School of Economics, Greece "failed to internalize the logic of the euro zone—which is fiscal discipline."

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