

Grexit: A European Solidarity Solution.

In the Greek drama one thing is certain: according to the criteria of optimum currency areas (OCA) theory (the validity of which has been amply vindicated by the recent evolution of the past few years in the eurozone) Greece cannot be part of the same currency area as Germany. And since the euro has been managed as a "DM bis", Greece cannot anymore be part of the eurozone. It never should have been admitted in the first place, a reality readily acknowledged, with a perfect logical inconsistency, by those who at the same time assure us that it is out of the question that Greece could return to monetary independence.

In reality, insofar as it is totally impossible for the Greek economy to morph into a sort of clone of the German economy, even by investing a huge amount of time and effort, there is no other way for Greece to resume a path to prosperity than by an exit from the Eurozone as soon as possible, while defaulting partially or completely on its debts in euros that the French and German bankers and the ECB detain.

A new drachma that would be devalued in the first weeks by some 30 to 50% from an initial parity definition relative to the euro and the dollar would instantaneously restore the tourist and oil industries international competitiveness. But of course such a move would raise the question of the sanctions external financial markets would apply to the defaulting borrower. That is the crux of the problem and it is the reason that prevents Greece from defaulting its way back to prosperity. This is also what prevents today the Greek government to choose the exit from the euro, for fear of inextricable financial difficulties in the near future.

It also appears that the Greek public opinion wants to keep with the euro, probably as a token of its close affiliation with the smallest inner circle of the European Union, so great is the Greek distrust of its Turkish neighbor. But it is equally clear that it is not and will not be possible in the future to simultaneously satisfy the legitimate aspirations of the Greek people to regain prosperity and its aspiration to keep the euro as its national currency. The Tsipras government thus tries to demonstrate to the voters that the northern Europe creditors, and especially German ones, allied to the IMF in the Troika, intend, by refusing to grant new payment and credit facilities, to force the country to leave the euro, against his will. The Greek government thus hopes to renege on its commitment to stay within the eurozone without suffering the political penalty that disaffected voters could impose on Syriza.

For its part, the Merkel government, the leader of the creditors and therefore a strict adherent to financial orthodoxy, which is not illegitimate, knows that his constituents want to avoid at any cost a commitment towards a federal Europe that would imply permanent transfers to southern European countries, in the same way that northern Italy subsidizes on a permanent basis the Mezzogiorno, or west German Länder the eastern ones. Indeed, these transfers can be understood as palliative care but they do not effectively treat the underlying problem of inequality in economic development. It follows that, rationally, both the Tsipras government and the Merkel government have in fact to recognize that a Grexit is unavoidable. But both are trying to shift all the responsibility of the rupture to the other party, for electoral reasons: Mr. Tsipras because he promised his constituents to remain in the euro and Ms. Merkel because she promised her own electors not to grant any more aid to a Greece described as "parasitic".

The euro is the bone of contention that, instead of promoting an "ever closer union" among the member countries of the area, gradually leads to a breakup of the European Union, a trend that was perfectly understood and predicted by the American economist Martin Feldstein as early as 1992.

Can one imagine a solution that would allow both antagonistic governments to implement jointly their only common and realistic policy while substituting a real European solidarity to the destructive current confrontation within the EU? This is in my opinion a matter of positive incentives. Economic analysis and rationality leave no doubt about what the outcome will be: the Grexit must prevail. To get it by agreement between the two protagonists rather than by the use of a showdown in which each side is trying to shift to the other all the responsibility for reaching this necessary conclusion, Germany has to make the Greek exit both honorable and nontoxic for the southern economy. First it has to make clear that it is impossible to save the Greek economy from complete destruction without restoring an independent currency tailored to their specific needs, economic as well as political. But it should make this exit solution even more attractive by providing financial assistance **not** in the case in which Greece chooses to stay in the straitjacket of the euro, but on the contrary only in case of an exit. It should be a sort of a new Marshall plan, concerted with other European countries, supplying Greece renewed funding after partial default for a limited time only. The plan should be established in liaison with the ECB that would act in the same direction.

Such an aid is justified by the fact that all the Eurozone countries that accepted the entry of Greece in the euro should share some responsibility for that major mistake and pay for it.

For its part the Greek government should, in these circumstances, speak the language of truth to his constituents, and explain clearly that the return to growth is possible and will be supported by the other European, but at the cost of exit of the euro. Such an exit would not mean leaving the European Union, on the contrary. But the positive results of such an exit coupled with a substantial devaluation and a partial erasure of its debt in euros, and of a once and for all new aid from other Europeans should lead to positive results in terms of growth in a few months, certainly enough to win most of the Hellenic voters to accept the new policy and overall situation.

Instead of escalating towards an acute crisis in a confrontation of two governments that in fact basically agree on the only possible solution, a constructive agreement of European solidarity would satisfy both the legitimate aspirations of the German people and the Greek one.

But this requires a little more realism and high mindedness in Athens, Berlin and Frankfurt.