Europe's abnormal times

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The best solution to Greece and to the Eurozone is a negociated and orderly withdrawal of the country from the Euro.

Could the call of a referendum made by the Greek Prime minister, Georges Papandreou, be successful? We will never know, because the Greek Prime Minister confirmed his weakness and retreated quickly before the violent reaction of the Eurozone leaders. What would "be successful" mean in this case? It would mean to find a decent solution for such a serious crisis. The fifty percent discount on the public debt that was decided last week was an improvement, but it does not solve the major problem, which is the imbalance of Greece's current account, that is, the implicit overvaluation of the Greek Euro.

European leaders also offered a "solution" to this problem. It is the austerity plan, the measures to cut expenses, whose result is to provoke unemployment and to reduce wages and prices, and thus to depreciate Greece's implicit exchange rate. But this solution is very costly for the country. Greece is already eighteen months into recession, and no one knows how long it will still take for the country to correct its prices in relation to Germany's and the Netherlands' prices.

By proposing the referendum, Papandreou was paving the way for Greece's withdrawal from the Euro, and for the depreciation of its currency. This way, wages would also be reduced, but in one fell swoop, and without resorting to more unemployment. For Greece this is the best solution. It does not leave the European Union, but only the Euro, and it returns to its own currency, depreciated as compared to the Euro. There are risks in this move for Greek banks and regarding a possible inflation in the new currency. But both risks are probably smaller than the cost of remaining in the Euro and trying to implement an austerity plan that is too big and has no popular support.

In order to decrease those risks it is important that the withdrawal from the Eurozone is agreed upon, as the restructuring of its public debt is already being agreed upon. For the Eurozone it will be good that a country that became structurally unbalanced no longer be part of it. The imbalance is considerable, not only the fiscal one but also the exchange rate one. And it is better to think about a negociated and orderly withdrawal from the Euro.

Instead, Papandreou capitulated, and Europe went back to the restructuring alternative, plus the austerity, plus the increase in the European Financial Stability Facility. If the financial agents were calmer and more confident, if they were not so concerned with the high indebtedness of the countries of the Eurozone, this could really be the way, provided that the European Central Bank added to it a more active action in support of its members. But Europe is going through abnormal times, the fear of new crises makes financial markets even more unstable than they already are, and in abnormal times abnormal solutions are required. Such as the Real Plan in Brazil. Such as the action of the Federal Reserve Bank in the United States after the 2008 crisis. Such as Eurozone policies and the policy of its Central Bank should be, among them the withdrawal of some of their members.