OTHER VIEWS

FLAWS IN THE EURO

Greece's sovereign debt crisis, which has raised doubts about the creditworthiness of Portugal, Spain, Ireland and Italy, ought to cause leaders of the countries that use the euro to reexamine the basic premises of the single-currency club they created for 16 disparate economies and cultures.

In good times, the adoption of the euro helped facilitate trade. But prosperity also veiled inherent flaws in the euro treaty. Today those flaws have become all too evident. If Greece still had its own national currency, the drachma, it could do what countries with big fiscal imbalances have often done: let the local currency be devalued.

A cheaper drachma would reduce prices for exports and raise the cost of imported products. An increased volume of exports and greater consumption of domestic products could then engender a virtuous economic cycle. Greek G.D.P. would rise, the unemployment rate would decline, social welfare costs would be reduced, and tax revenues would improve. It would then be much easier for Greece to get its fiscal house in order. Instead, as the price for receiving a $145 billion bailout from the International Monetary Fund and other euro nations, the Greek government is being forced to cut salaries and pensions while raising taxes. This is a formula for protracted recession.

The euro nations should consider some fairly radical changes. One would be to give Greece — and, if need be, other debtor countries — a temporary furlough from the euro. Another would be to subject all users of the single currency to the same fiscal discipline. Yet another would be to give up the euro as a well-intentioned but failed experiment.

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