18

Under siege, Greece feels push toward the euro exit

FRANKFURT

Economists in Germany argue that split with Athens would benefit all

BY JACK EWING AND LIZ ALDERMAN

If the European debt crisis were an ol ocean survival movie, there would be a scene in which the passengers in th lifeboat realize that they don't hav enough food and water for everyon and that someone needs to go over the side. We're looking at you, Greece.

In fact, that is the sentiment a growing number of reputable economists and other commentators, particularly from fully liquid Germany, have been expressing lately.

Greece, they say, should leave the euro zone for its own good, as well as the Continent's. Some German economists argue that other members of the 17-nation currency union, like Portugal or even Italy, might need to leave as well.

''It is better for all concerned, in particular for Greece, if the country leaves the euro temporarily,'' Hans-Werner Sinn, president of the influential Ifo Institute at Ludwig Maximilian University in Munich, wrote in an essay published two weeks ago.

Continuing to throw money at Greece will only reduce incentives for the country to restructure its economy, he and other experts say, while pushing Europe toward a so-called transfer union where the stronger countries are required to prop up the weaker ones.

As it turns out, there is no provision in E.U. law for a member to be ejected, according to legal experts. Greece would have to withdraw voluntarily. But if the other countries cut off aid, it might have little choice.

Among European economists outside Germany, the idea that a country should

EURO, PAGE 15

German economists push to cast off Greece

EURO, FROM PAGE 1

be put under pressure to leave the euro zone is regarded as reckless and cruel. Greek banks would fail, the country would default on its debt and would lack a credible currency with which to buy essential imported goods like oil or even food. The whole euro area would suffer as investors feared the disintegration of the currency union and perhaps even the European Union itself.

"It's very risky," said Silvio Peruzzo, an economist in London for Royal Bank of Scotland. "It would set a precedent for other countries leaving the region, and the market would start to flirt with the idea that the euro as a whole doesn't make sense."

But in Germany, with its embedded fear of inflation and insistence that individuals should suffer the consequences of their actions, the idea that Greece should just leave is gaining wider currency, even in elite circles.

Otmar Issing, a former chief economist of the European Central Bank and one of the architects of the common currency, has implied that Greece should exit.

Asked about his position by e-mail, Mr. Issing answered indirectly, saying that countries that break the rules of monetary union — as Greece did — should have to fend for themselves.

"If a country does not comply with the conditions agreed on, it should not get further financial aid," he said. "A country which does not get further support has to decide what to do."

Mr. Issing and Mr. Sinn are both extremely influential, and their thinking provides an intellectual foundation for opinions widely held by ordinary Germans. Chancellor Angela Merkel is facing intense pressure within her own center-right party, some of whose members are pushing for a special party congress to discuss the debt crisis.

Meanwhile, such German attitudes get plenty of publicity in Greece and

"It would be costly, but at least with the drachma we would be able to control our own currency and our own future."

other stricken euro countries, where they feed stereotypes of arrogant, domineering Germans and stoke the resentments that are already deeply straining European unity.

Greeks, it seems, are as fed up with Germany as Germans are with Greece. As plumes of tear gas bathed the streets of Athens in June, for example, many protesters volunteered that they wanted the drachma back.

"We don't care about staying in the euro," said one protester, who gave his name only as Dimitris. "It would be costly, but at least with the drachma we would be able to control our own currency and our own future."

Greeks have still not gotten over a cover of the German magazine Focus last year that depicted the Venus de Milo raising a middle finger. "Cheats in our euro family," said the headline, a reference clearly aimed at Greece.

"People believe Greeks don't pay our taxes and we don't want to work," said Christos Manolas, a Greek businessman. "That's a myth perpetuated by the Germans."

Mr. Manolas cited a study published in June by the French bank Natixis, which found that Greeks and other south Europeans worked more hours than Germans, though the German economy was more productive.

Nor have Greeks let go of the idea that Germany owes them billions of euros in reparations that were never paid after the brutal Nazi occupation during World War II. "We could pay off half our debts today with those reparations," Mr. Manolas said, echoing a sentiment widely expressed by his fellow citizens.

The Irish consider themselves to be in a different category from that of the Greeks, with high productivity and one of the most innovative work forces in Europe. But there, too, there is resentment toward perceived German high-handedness.

No matter that the bailouts came from E.U. partners, the European Central Bank and the International Monetary Fund. When a senior Irish central bank official was asked during an interview how the country would manage after receiving a bailout, he replied, "We are just going to have to heed whatever our new paymasters in Frankfurt tell us."

Among European economists as a whole, the idea that Greece should withdraw from the euro is seen as irresponsible, if not verging on madness. Jean-Claude Trichet, the president of the European Central Bank, has called such proposals "absurd."

Charles Wyplosz, an economics professor at the Graduate Institute in Geneva, said the idea that Greece should spin off was "as silly as could be."

"It would be the undermining of the euro itself," he said. "Nobody will benefit from that."

The German view is also based on the presumption that the northern European countries have a more virtuous record than those in the south, which has not always been true.

Early in the past decade Germany's budget deficit was in violation of treaty limits and its economy was one of the weakest in Europe.

But Mr. Sinn of the Ifo Institute and other German economists argue that countries like Greece will never do what they need to do to fix their economies if others keep bailing them out.

They point out that market pressure in the past week has prompted the Italian government to speed up efforts to remove barriers to entrepreneurship, after years of procrastination.

"We have seen that market pressure via higher interest rates is the most convincing sanction — if not the only one — which will trigger substantial, immediate reform measures," Mr. Issing wrote.

Economists who say Greece should leave the euro zone acknowledge that Greek banks would probably fail and the economy suffer a deep recession.

"Individuals would have to accept a big drop in living standards," said Matthias Kullas, an economist at the Center for European Policy in Freiburg, Germany. "But the living standard has to fall anyway."

The benefit would be that Greece would have its own currency and monetary policy and could devalue to recover competitiveness, he said. "It would be a very difficult adjustment process, but afterward, Greece could stand on its own two feet," he said.

Other countries, like Italy and Portugal, might face pressure to leave the euro area, too, Mr. Kullas said. "Some countries would suffer, and some would not be able to stay."

But the result, he argued, would be a currency union with more integrity.

"Whoever wants to be a member of the euro zone has to follow the rules, and undertake the necessary reforms," Mr. Kullas said. "For me that would strengthen trust in the euro."

Liz Alderman reported from Paris.