Euro, to think the unthinkable

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In 1979 in China, it was "unthinkable" to head toward capitalism, and yet Deng Xiaoping thought it and forestalled the stagnation that occurred in the Soviet Union. In 2001 in Argentina, it was unthinkable to end the "plan de convertibilidad"; De la Rúa surrendered to this unthinkable, and the cost was a brutal crisis. Today in the Eurozone, it is unthinkable to abolish the euro, and yet the Europeans should think seriously about this alternative. The creation of the euro was a mistake, because there was no state behind it, and because it became a *foreign currency* for each one of the 17 nation-states that adopted it – a currency that, in times of crisis, they can neither issue nor devaluate.

The unthinkable is often pure fear and conservatism from leaders without vision. In this major euro crisis, Greece became an insolvent country, but it was said that to restructure its debt was "unthinkable"; when the debt was restructured with a write-down of 21%, it became unthinkable to increase this percentage; when the write-down was increased to 50%, it became unthinkable that the European Central Bank would support Greece and the other countries and banks, but a little later the BCE began to moderately buy government bonds and flooded the European banking system with liquidity. The unthinkable eventually turned out to be the solution.

Not long ago, Greek withdrawal from the euro was unthinkable, but today the economists of the European Commission and of the BCE are studying what shall then be done. They are right, but their leaders would act more wisely if they demanded studies about the extinction of the euro.

But the defenders of the unthinkable exclaim: "it would mean disorder and chaos!" I don't think so. The crisis of Europe's Southern countries, triggered in 2010, is a balance-of-payment crisis: it was caused by the overvaluation of the *implicit euro*, expressed by an average wage that is incompatible with the level of productivity. Its consequence were high current account deficits followed by high foreign indebtedness, particularly in the private sector. The public debt was already high because, in view of the 2008 global financial crisis, all the countries had adopted an expansive fiscal policy.

The extinction will imply some risks and costs, but the cost of trying to solve a crisis caused by current account deficits by reducing fiscal deficits was already considerable, including in terms of sacrificing democracy, and will continue to be high for many years, for all the countries, including Germany.

From a practical point of view, there would be no major problems. Of course, new banknotes would have to be issued. And, at a certain point, rather than going back to the old currencies, the countries would jointly transform the euro into a “national euro”: the German euro, the French euro, and so on. Afterwards, the countries with high current account deficits and high foreign indebtness would devaluate their currency. Which would cause a drop in wages, and some inflation. But this is a much more human and efficient way of practicing austerity and reducing wages than the one that is being used today: through recession and unemployment.

In the case of the euro, it is not just the fear of inflation that makes its extinction unthinkable. It is also the fear that it may “deconstruct” the European Union. But there is no such a risk; the EU is the most extraordinary case of political and social construction that I know, and it will only gain from taking a step back now. There will be room, in the future, for many steps forward.