"Greece Should Leave Euro So Global Growth Can Restart"

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Staying in the Euro is a Terrible Decision for Greece

Everyone wants Greece to stay in the Euro. European governments and politicians, the European Central Bank, the individual central banks of the European countries, the European Commission, even the Greeks themselves. But the best thing that could happen for Greece and for Europe is for Greece to default on all its debts and leave the Euro zone.

That's because it is mathematically impossible for the Greeks to pay back all their debts. Even if they stay in the Euro zone, they would never be able to pay all or even most of these debts.

So even if Greece does stay in the Euro, its public and private creditors would never get all or even most of their money back. They have essentially lost it all now. The only difference if Greece stays is that these debtors can pretend that they would get this money back. If Greece leaves they can't even pretend any longer.

If Greece stays in the Euro, it would still be the same uncompetitive country it is now. It would still price its exports in Euros so its exports won't rise. It would still have the same rotten and corrupt system that got it into this mess in the first place. It would still have sky-high unemployment, citizens who won't pay taxes and it would still have an austerity program that would never work.

Greece would Prosper if it Leaves the Euro

So the only rational thing for it to do is to default immediately on all its debts. There is a recent precedent, namely Argentina. Argentina defaulted totally on its debts in 2001. It had two years of near-Depression conditions, and then the economy came back strongly.

These days Argentina is a relatively strong economy again. True, it still has a corrupt government and dysfunctional labor and government systems. But it has a functioning economy and is way better off than it was than before it defaulted.

You can't expect a default to cure everything including a dysfunctional government and social system. But for Greece, getting a functioning economic system back again would be well worth the trouble.

If Greece defaulted, it would have a couple of years of near-Depression conditions. Its new/old currency the drachma would be re-introduced and be worth at best 40% of what the Euro is now. So its imports would drop precipitously and a lot of manufacturing would stop.

But at the same time its tourist industry would skyrocket. Exports like olives and other agricultural products would suddenly increase dramatically. Wages would plummet in real terms leading to huge new hiring for workers as new companies move in to take advantage of these new ultra-low-cost conditions. US and European manufacturers would start to locate manufacturing in Greece instead of countries like France, Germany and even China.

In addition to these effects, Greece's entrepreneurs – yes Greece does have them and some of them are really good – would start lots of new companies, some of which would leverage their business off the dirt-cheap costs that would now prevail in the Greek economy. Production and employment would increase and within two years Greece would have a dynamic and fast-growing economy with numerous dynamic new companies.

Of course, the governmental system would still be dysfunctional, just like Argentina's is today. There would still be massive corruption and tax avoidance, but the people wouldn't care too much because they would have jobs and a future again. That's why Greece should get out of the Euro as fast as possible, because it would be good, very good, for it.

The Europeans are Using Greece to Cover Up Their Massive Structural Problems

OK so Greece has powerful reasons to leave. Surely that isn't the case for the Europeans?

That is because the European countries would have to write off the massive amounts they have lent to Greece. The ECB (European Central Bank) would essentially have no capital once it has written off these loans. That means it would have to be recapitalized.

Recapitalization of the ECB would require massive capital injections from the Euro zone countries. In turn this would mean that the European countries would have to raise taxes and cut spending on social programs. The lifestyle of the Europeans would be reduced and they would therefore get rid of all the current political leaders.

Surely no European leader is going to choose such a scenario?

But as we have said, the Europeans aren't going to get their money back anyhow. The amounts they are reporting as loans to Greece on their balance-sheets are essentially fictional. To any normal banker, the entire loan portfolio for Greece is likely to be 100% non-performing and so should be written off now.

Essentially the entire banking system of the Euro zone is a giant shell game. The figures published by the banks are totally misleading. That is because if the real position of the European countries and their banks was really known, there would be a revolution from the right-thinking people in Europe. In essence the figures in the European central accounts are like the saying in the old Soviet Union: "I pretend to work; you pretend to pay me."

So the Europeans want to keep hiding the true banking and loan picture across the Euro zone. That's because they know that once it becomes known and they are forced by voters to take action, this would lead to higher taxes and lower social spending. That would impact their own jobs, which they want to keep.

European political leaders don't want to write off these loans because in reducing the lifestyle of their own voters they would also reduce their own personal lifestyles too.

In this particular way, there is actually no difference between the Greeks and the Europeans. The Greeks want to stay in the Euro zone because they think it would help to stop their lifestyle going down too much. The Europeans want to keep the Greeks in the zone because they want to maintain their own lifestyle too.

We have two shaky pillars propping each other up, but in the end they will both fall down. Better to do it now while the Europeans can still control the process.

Keeping Greece in the Euro Makes the Greek and European Problems Even Worse

If the Europeans keep pretending that the Greeks will pay them back, they will merely be pushing the problem back in time. However at some stage it would still have to be recognized and accounted for. At that time the impacts on taxes, spending and the lifestyles of Europeans would still occur and would still be drastic.

If the Europeans start addressing the problem now by writing down Greek debts, they would also have to start the process of recapitalizing the ECB and other European banks, and cutting expenses in social programs. The sooner they start this process, the sooner they would resolve it. And the sooner they resolve it, the sooner European economies would start to grow again.

The real problem that the Greek issue is masking is the systemic problems in European economies. Their first problem is rigid labor markets causing high unemployment, especially amongst the young, and slowing down overall hiring. The second is extremely high social spending which is essentially unsustainable. The third problem is a high level of nonperforming loans in European banks, especially the regional banks.

Until the Europeans address these problems, they, including the Germans, will continue to have low or even negative growth rates. The reason the Europeans don't want to let Greece leave the Euro zone is that the resulting impacts would force them to publicly acknowledge these deep systemic economic and financial problems. Once they do that they are going to have to make tough decisions that they are trying hard to avoid.

But if they do make these tough decisions they will start to transition to an economic model more like that of Germany. That is to everyone's advantage.

Greece's top problem is rigid labor markets. Exiting the Euro probably won't solve this just like it didn't in Argentina. But it would force the Europeans to at least appear to address their own deep structural problem in this area.

The new French premier Hollande has said that he wants to stimulate growth in France rather than impose more austerity. But France's top economic problem is its rigid labor markets.

If Greece exits the Euro, France and Hollande would be forced to address this major problem. So would Spain and Italy, where this is also the number one problem. That's another reason the southern European countries doesn't want Greece to leave, because then they would have to fix their own deep problems. That would mean confronting the unions who they are too scared to deal with.

It is clear that unsustainable levels of social spending have been a major factor in the Greek crisis. But it is also a major factor in Italy, Spain and France too.

If Greece goes, there would be nowhere to hide for the leaders of France and the southern European countries since their own growth rates are going to be under massive pressure. Instead of focusing on the money that Greece owes them, they would have to turn their gaze inwards to their own structural economic problems in their social spending sectors.

Throughout the Euro zone it isn't just the big banks that have problems with nonperforming loans and inadequate capital. It's the regional banks too.

The problems of the cajas in Spain are well-known. But even the regional banks (the Landesbank) in Germany have major problems which are only now being addressed, but still inadequately.

The Europeans have a massive problem with capital adequacy in all their banks including the ECB. A Greek exit would also force them to focus on and address this problem too. That's another one they don't want to face because it would mean they have to address deep fiscal and spending issues which would adversely impact their political supporters, again the unions, but also people on pensions and social welfare benefits.

Greece has in fact been a convenient excuse for the Europeans not to take any action on their own systemic economic and structural problems. A Greece exit would force them to address all of these. That would help the global economy and particularly China and the US by leading to higher growth rates in Europe than are possible under the current structural constraints.

If Greece Leaves, Germany Can Focus on the Really Big Problems in the Euro Zone

A major objection to allowing Greece to exit the Euro zone (even presuming the Europeans have any choice in the matter) is that this would encourage the Italians, Spanish, Portuguese and maybe even the French to take similar action.

But I don't see action like this from any of these countries. For a start their debts are payable for them, even though they are quite high. None of them is anywhere near as dysfunctional as the Greek situation and government, although Italy does come a little close. All of them have the future possibility of regaining growth due to the existence of vibrant internal companies and industries which have carved out their own strong industrial niches globally.

The biggest danger is a run on the banks in one or more of these countries. But the biggest danger of all is a run on the banks in Greece which could well happen before the Greek election on June 17. If that happens, my guess is that Greece would be forced to exit the Euro zone immediately without waiting for the election.

But if there were a run on the banks in other countries, such as Spain, I think, this would force the Euro zone countries to introduce a pan-European deposit insurance scheme for European banks. Since the Germans would have to agree to the deposit insurance scheme, and would have to put money in to support it, they would have powerful leverage against the southern Europeans and the French in forcing them to take more action on their structural problems.

If that happens, the northern European countries, including Germany, the Netherlands and Finland, would put even more pressure on the southern Europeans and France to lower their social spending and free up their labor markets in order to try to increase growth rates.

In essence, if the Greeks leave the Euro, the Germans would then focus their heavy guns and criticisms on the countries of the Euro zone that haven't yet done the right things to put their economies in order. Getting rid of Greece allows Germany to focus its attention on the really pressing structural problems in Europe rather than focusing on Greece, which is merely a bit-player in the overall scheme of things.

Europe Needs to Let in Some Fresh Air

This is all happening just as the US economy is making decent progress, but while both China and Europe are slowing down sharply. The US has always come through its recessions quicker than the Europeans.

The usual reason cited for this, which I believe is correct, is that the US system forces banks and financial services companies to acknowledge nonperforming loans much more quickly than the Europeans. That is because the US system is much more focused on overall banking transparency that that in Europe.

The European banking system is dismally opaque compared to the US. The Greek situation is an extreme example of that.

The Europeans are using the Greek situation to resist any moves towards transparency which would reveal what is really going on. But it is only when they get a high level of transparency that they will make the necessary decisions to free up their dysfunctional labor, social spending and banking systems.

Once they do that they will get growth. The rest of the world should cheer on this movement for transparency because this is what will help China grow rapidly again and the US to speed up its current low rate of growth.

Looked at in this way, the shock of a Greek exit is the best and probably the only way to get the Europeans to introduce growth policies that confront their massive structural problems. A Greek default is probably the best opportunity to come to Europe since the original Maastricht Treaty to get its growth to where it should really be.

In the US we call this tough love. Sometimes you have to be cruel to be kind. That's what we need in Greece and especially Europe right now.

Dr. E. Ted Prince, the Founder and CEO of the Perth Leadership Institute, located in Florida in the US has also been CEO of several other companies, both public and private. He is the author of 'The Three Financial Styles of Very Successful Leaders (McGraw-Hill, 2005) and numerous other publications in this area. He is a frequent speaker at industry conferences. He works with large corporations globally on leadership development programs and coaches senior executives and teams in the area of financial leadership. He has held the position of Visiting Professor at the University of Florida in the US in its Graduate Business School and also at the Shanghai University of Finance and Economics in China.