GREECE should exit the eurozone ASAP

By Alan Kohler, The Australian, 10 Feb 2015

GREECE should exit the eurozone ASAP. In fact, I'm not sure why they haven't done it already. They should quickly reintroduce the drachma and devalue it by a lot.

Last night, the new Prime Minister, Alexis Tsipras, made a defiant speech to Parliament, which was a good start. He laid out plans to dismantle what he called Greece's 'cruel' austerity program and ruled out any extension of the bailout.

The Athens bank share index promptly dropped 10 per cent, the Greek market as a whole fell 5 per cent and the yield on its three-year government notes rose 366 basis points.

Greece's financial system would be bankrupted

It's true that Greece's financial system would be bankrupted by replacing the euro with the drachma, since the banks' assets would be in devalued drachmas while the debts remained in euros, and the nation itself would have to default on its debts. But as Mr Tsipras well knows, debt defaulters are always forgiven.

In fact, in 377AD Greece became the first nation in history to default on its debts and has spent about half of its period of independence over the past century in a state of default.

Long list of countries that have defaulted

The list of countries that have defaulted include the United Kingdom, Germany, Japan, France, Denmark, Sweden, The Netherlands and, let it not be forgotten, the United States.

Not only was Greece forgiven its many defaults by the world's banks, it was invited to join the eurozone (having cooked the books just a bit) and last year the yield on its sovereign 10-year bond traded down to below 6 per cent. Talk about not learning from history! It's now back at 11 per cent, and the three-year bond is at 22 per cent).

So, while it's true that if Greece returned to the drachma it would be excluded from capital markets for a while, it really would only be for a while.

Tourism, shipping industry, export industries would soar

In the meantime, there would be long queues of tourists at Athens Airport and crowding onto ferries into the Aegean Sea. Tourism would soar, as would its shipping industry, along with the flowering of a thousand export industries.

If currency manipulation was good enough for China when it came to rebuilding its export industries, why not for Greece?

German definite "Nein!"

Of course, the question is whether Germany would actually let Greece exit the eurozone, and the answer is definitely "Nein!"

Germany needs Greece (and Italy and Spain) inside the euro to keep the currency down. In a way, the existence of the eurozone is a form of currency manipulation by Germany that's every bit as direct and effective as China's peg to the US dollar.

As a case in point, over the past 12 months the Australian dollar has actually appreciated against the euro by 7 per cent while depreciating against the US dollar by 12 per cent.

As a result, sales of Audi rose 20 per cent last year, Mercedes Benz 16 per cent and BMW 11 per cent.

Germany's exporters would be uncompetitive

If Greece were to leave the euro, Germany's big carmakers would suddenly become uncompetitive, along with Germany's other exporters, and have to leave as well.

If Greece left, then so would Italy, Spain, Portugal and Cyprus. As a result, Germany, the Netherlands, Belgium and France would be left with the world's strongest currency and the collapse of their export industries.

They will not allow this to happen, which is why Mr Tsipras is so cocky and defiant. He can, and will, drive a very hard bargain because he knows that Germany needs Greece more than Greece needs Germany.

Joining the euro damaged Greece

In fact, it is fair to say that joining the euro has done Greece a great deal of damage, so that there is a case for Greece exiting no matter what enticements are eventually offered to them to stay.

As Alexis Tsipras told the Greek Parliament last night: " … the bailout was cancelled by its own failure and destructive results."