

Greece Needs To Exit The Euro For Its Own Good.

For there to be reform one has to quantify the problem. Under any form of bail out or support, the size of the problem is hidden. That Greece is in the Euro is already an impediment to price discovery and the quantification of the problem. The Greek economy needs to discover its marginal product for all factors and inputs. Inclusion in the Euro means that locally sticky prices perpetuate misallocation and mispricing. Since some prices will always be locally sticky, it is necessary to have an external adjustment. A Drachma is the additional degree of freedom the Greek economy requires. Under a freely floating Drachma, and there will certainly be volatility, the Greeks will be able to determine efficient factor prices, tax rates and calibrate their pensions and social security accordingly.

The immediate levels may not be palatable to the Greeks, especially in the short run, but the alternative, keeping the Euro and inefficient price discovery only leads to failure of Greek markets for inputs and outputs to clear. And this is a long term problem with recurring symptoms.