

It is the Value of the Euro and not the Euro that is the Problem

Germany and Greece are bickering over the austerity measures but the real issue is not this. The problem is not the common currency but rather its value. Who determines that one euro should be traded at 1.6 US dollars? Why has euro constantly been appreciating from a value of one-to-one in 2002 to 1.6 in 2008? The European Central Bank has followed a policy of overshooting the value of euro. Who has benefited from such a strict monetary and exchange rate policy? The answer is more than obvious if one looks at the trade surpluses and deficits of the original twelve eurozone members. Germans, Luxembourgiens, Austrians and the Dutch (GLAD countries) have thrown a party with regard to euro's value. The bill is paid by the PIIGS of the eurozone. France was the goofy of the party because even though she was running trade deficits, Nicolas Sarkozy was mesmerized by the beauty of the German Chancellor.

GLAD's trade surpluses were zero in the pre-euro years and were boosted to over one trillion in the first ten years. PIIGS and the 'goofy' started with almost zero deficits but the euro years left them in less than a decade with huge accumulated trade deficits. Trade deficits led to accumulated public debts and when the made in USA economic crisis hit Europe and the overshooting value of euro was coming back to its equilibrium, the GLAD countries' surpluses were diminishing. They decided to sacrifice the PIGGS and asked the 'goofy' to slaughter them using the austerity measures as a butcher's knife. It seems that the French people have decided to get rid of their goofy in the 6 May elections. The new leader could be a new hope but he has missed the point. He insists on an assistance package to create growth and employment. Presumably these funds will be managed by the same authorities that managed previous structural (assistance) funds.

The solution is a simple one. The exchange value of euro should be set to serve the interests of the crisis stricken economies of the PIIGS. Someone must tell the GLAD countries that their happy hour is over and they must pay the bill of their unfair anti-competitive practices. A stable and strong value of euro of 0.9 will help the Greek economy to recuperate and thrive. The austerity measures would become irrelevant. Instead of haircutting the Greek debt they should have used the money to send 5 million German tourists per year to Greek islands. This would have solved the Greek problem and no other action would have been required.

Just recently, Sarkozy's European Serin Frau Merkel has proposed to the Greeks that they should hold a referendum on the issue of euro. She wanted to find out whether Greeks wanted to stay in the eurozone. The real question though is not the euro but rather its value. In other words, should the value of euro be high or low? In either case it should be stable. Should Europeans have a strong euro of 0.9 US dollar or should they have a strong and stable euro of 1.6? Let's have a pan-eurozone referendum on the issue? Let the people of the eurozone also elect the members of the governing council of the European Central Bank which will implement the voted policy. These elected officials when they are sworn in office, their oath should include the following statement written by Keynes in his 1936 *General Theory* masterpiece: *it can only be a foolish person who would prefer a flexible wage policy to a flexible money policy.* And lest they forget it, it should be written with large capital letters in the main entrance of the ECB edifice.