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Statesmanship and the Greek Crisis

NEW YORK – Sovereign-debt crises such as the one in Greece can be resolved only through bold steps by both debtor and creditor. The debtor needs a fresh start through a debt write-off; the creditor must find a way to provide one without rewarding bad behavior. For a deal to be struck, both sides must have their needs addressed. Thus, serious reforms and deep debt relief need to go hand in hand. It is for this reason that Greece and Germany, its largest creditor, need a new *modus vivendi* in order to resume negotiations.

To begin with, the Greek government must be clear about the need for urgent economic reforms. The country's economy has not just collapsed; it is structurally moribund. The roots of Greece's problems stretch far deeper than the austerity of

recent years.

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In 2013, for example, resident inventors in Germany filed some 917 patent applications for every million inhabitants. Resident inventors in Greece, by contrast, filed just 69 patent applications for every million.

If Greece wants the prosperity associated with a technologically advanced, twenty-first-century economy, it will have to earn it, by

producing innovative products that are competitive on world markets, just as Germany does. Doing so is likely to be a generational challenge.

For its part, Germany must acknowledge the enormity of Greece's collapse. The Greek economy has shrunk by around 25% since 2009; unemployment stands at 27%, with youth unemployment at nearly 50%. When Germany faced comparable conditions in the early 1930s, its creditors shrugged, and the resulting instability allowed for the rise of Adolf Hitler. After World War II, however, Germany's debt was slashed, enabling it to rebuild. Given this experience, it should understand the importance of cutting a country's debt when the burden of servicing it becomes unsustainable.

The case for offering a country a fresh financial start is both economic and moral. This makes it difficult for many bankers to understand, as their industry knows no morality – only the bottom line. Politicians, too, tend to have their moral compasses calibrated to the relentless hunt for votes. Finding effective and moral solutions requires genuine statesmanship – something that has been all too rare during the euro crisis.

Greek Prime Minister Alexis Tsipras and German Chancellor Angela Merkel now have the opportunity to rise to the occasion as European statesmen. Since Tsipras's election in January, German officials have barely been able to contain their fury that a left-wing upstart government of a tiny, bankrupt country would dare to challenge one of the world's great economies. Finance Minister **Wolfgang Schäuble**, for

example, has repeatedly sought to provoke Greece into leaving the eurozone.

Tsipras's response to these provocations has been clear and consistent: Greece should stay in the eurozone, and it needs a fresh financial start to do so. On July 5, the Greek people backed their young, charismatic leader with a decisive "No" vote on the unreasonable demands of their country's creditors. Their decision will one day be recognized as a victory for Europe over those who preferred to carve up the eurozone, rather than give Greece the chance to start anew within it.

At the likely meeting between Tsipras and Merkel this week in Brussels, the stakes could not be higher. The economic costs of the impasse have been catastrophic for Greece, and pose a grave threat to Europe. The breakdown of negotiations last week sparked a bank panic, leaving Greece's economy paralyzed and its banks on the verge of insolvency. If the banks are to be revived at all, they must be saved within days.

If Tsipras and Merkel meet as mere politicians, the results will be catastrophic. Greece's banks will be pushed to the point of failure, making the costs of saving Greece and the eurozone prohibitively high. If the two leaders meet as statesmen, however, they will save Greece, the eurozone, and the faltering European spirit. With the promise of deep debt relief for Greece and a rapprochement between Greece and Germany, economic confidence will return. Deposits will flow back into Greek banks. The economy will come back to life.

Tsipras needs to assure Merkel that Greece will live within its means, not as a chronic ward of Europe. To ensure such an outcome, debt relief and tough reforms should be phased in over time, according to an agreed schedule, with each party following through on its commitments, as long as the other does, as well. Fortunately, Greece is a country of exceptional talents, capable of building new competitive sectors from the ground up, if given the chance.

Merkel must now take a stance that is the opposite of the one her finance minister has pursued to date. Schäuble is undoubtedly one of Europe's towering political figures, but his strategy for saving the eurozone by pushing Greece out was misguided. Merkel now must step in to save Greece as part of the eurozone – and

that means easing the country's debt burden. To do otherwise at this stage would create an irreparable split between Europe's rich and poor, and powerful and weak.

Some – in particular, the ever-cynical bankers – argue that it is too late for Europe to save itself. It is not. In Europe, many influential leaders and citizens still view the marketplace as constrained by moral considerations, such as the need to alleviate economic suffering. This is an invaluable asset. It makes it possible for Merkel to offer Greece a fresh start, because it is the right thing to do and because it accords with Germany's own experience and history.

That idea of an ethical approach to the Greek crisis might sound absurd to readers of the financial press, and many politicians will undoubtedly consider it naive. Yet most European citizens could embrace it as a sensible solution. Europe rose from the rubble of World War II because of the vision of statesmen; now it has been brought to the verge of collapse by the everyday vanities, corruption, and cynicism of bankers and politicians. It is time for statesmanship to return – for the sake of current and future generations in Europe and the world.

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