

Last Exit Before Chaos

di Paul Krugman

There's an odd summer-of-1914 feel to the current state of the Greek crisis. While some of the main players are, rightly, desperate to find a way to head off Grexit and all it entails, others – on the creditor as well as the debtor side — seem not just resigned to collapse but almost as if they're welcoming the prospect, the way, a century ago, far too many Europeans actually seemed to welcome the end of messy, frustrating diplomacy and the coming of open war.

Is there still a way out? There should be. As I and others have been saying for a while, the arithmetic is actually quite clear: Greece cannot run a primary deficit, it cannot be forced to run a large primary surplus, so a small primary surplus is the obvious solution and better for all concerned than euro exit.

There is, one must admit, a new problem caused by the current confrontation itself: uncertainty has pushed Greece back into recession, and the primary surplus achieved last year has vanished. But given a deal it should be possible to arrange some temporary financing while a modest recovery puts the primary balance back into the black.

The big problem is how to get a deal given lack of trust on all sides. The Greeks feel, with justification, that they have been treated as a conquered province by callous and incompetent proconsuls, and balk at anything that seems like a return to the regime of the past 5 years. The institutions – looking over their shoulders at the Swabian housewife – don't trust that the still-inexperienced Syriza government knows what it is doing, has the capacity to deliver, or is realistic about what has to be done.

Yet from what I hear there is still room for at least a temporary deal. Greece would have to deliver some concrete action – VAT hike, some adjustment on the pensions (but not a complete reform right now), maybe something on product markets. Enough so that Merkel and others can say that Greece is acting, but framed in such a way that Tsipras can say to his backers that he is not surrendering like his predecessors. Given something along these lines, the people who have been raising the bar could probably be forced to lower it again to something feasible. That is, it should be possible to get everyone to stand down.

There are just a few days left. Let's hope that cool heads prevail.