

World Knowledge Forum 2012

10 October 2012, Dominique Strauss-Kahn – How Should We Save the Eurozone?

Apropos to the ongoing social unrest in Greece responding to austerity measures required by Germany in return for bailout cash, the former director of the International Monetary Fund, Dominique Strauss-Kahn, gave his opinion on what is at stake. The talk at the 13th World Knowledge Forum in Seoul, South Korea, covered Mr. Strauss-Kahn's ideas of the source of the problem, and his plan to solve it.

According to Mr. Strauss-Kahn, "It looks very difficult to restore growth, and with no growth, there will probably be no future for the Eurozone." The problem, he said, lies in two kinds of risk: the economic threat, stemming from a lack of confidence and divergence in the EU, and a lack of tools to combat the risk.

"Confidence is crucial," the former IMF director reiterated while addressing leadership in Europe. "Greece is at the root of the problem, but it's only two percent of the Eurozone. The smaller it is, the bigger the problem, because it appears the European leaders are unable to fix a problem of two percent."

The increasing divergence among Eurozone members is also alarming to Mr. Strauss-Kahn. He explained the requirements for stability through a single currency include the different players having similar figures, inflation rates and debt ratios. "You cannot have a union with different interest rates," he said, prefacing his dire warning that it is possible "the survival of the zone is at stake."

He proposed that the formula for this survival begins with Greece. "My view is that they need to take their losses. The more you try to avoid your losses, the more you increase your losses," he said. He pointed to the successes of the private sector involvement in erasing large amounts of Greek private debt before asking for more official sector involvement.

"The only solution requires Greece to go back to growth," explained Mr. Strauss-Kahn.

In addition to his idea of what needs to be done, he made firm the severity of following the wrong path. On the possibility of a Greek exit from the Eurozone, Mr. Strauss-Kahn said, "If one drachma is one half of the euro, then the defaulted debt will be twice as bad."

This would have a poisonous effect on the zone, causing bank runs for the smaller countries. He continued, "The Portuguese might see the push on Greece and say, 'We may be next.'"

His solution required two tools. The first would be to close the interest rate gap. "You have not at-risk countries borrowing at a low rate, and the risky countries borrowing at a high rate. There's the divergence."

The second tool deals with the moral hazard of forced fiscal reform allowing a future return to the problem. Mr. Strauss-Kahn stressed, "You need to have a structural compact that is directly imposed to those nations."

Wrapping up his speech with continued reminders that the Eurozone needs accepted losses and a strategy that is growth-oriented, he included a harrowing conclusion. "This economy accounts for twenty-five percent of the global economy. When one quarter of the global economy is not growing, this is a problem for everybody."