There’s more than one way to leave the euro Commentary: Millions fleeing Greece, Spain, Ireland, Italy, Portugal


LONDON (MarketWatch) — Over the past few years we have grown used to discussions about one or more countries leaving the euro EURUSD +0.08%. The Grexit, the Spexit, and the Quitaly, have become part of the lexicon of the financial markets.

There have even been suggestions that the Germans might want to get out — that is the avowed aim of the newly launched Alternative für Deutschland party.

It may or may not happen. We’ll find out in the next few years. But of course, there is more than one way to exit the single currency. Countries can stay in, but the people can leave. And on a dramatic scale, that is what now seems to be happening.

Europe is starting to see waves of migration on a scale it has not witnessed since the great 19th-century exoduses to the new worlds of America and Australia.

In some ways, that may make the single currency work better. But it will also leave a hollowed-out periphery. And while valuations may get very cheap in nations such as Spain or Italy, investors need to be very careful about buying into economies that will be locked into permanent decline.

When times are hard, people have always looked to make a living for themselves somewhere where the prospects are better. Times have been very hard in much of peripheral Europe for three years now, and so it should be no great surprise that we are now starting to see a massive movement of people.

Even so, the figures are startling. Italian emigration was up by a third last year, rising to 79,000 people. Traditionally, Italians have migrated from the poor south, but the biggest category now are young people from the wealthy north of the country. The under 40s make up half the total, compared with a third two years ago.

A study by Real Instituto Elcano in February showed 70% of Spaniards under 30 have considered moving abroad. Portugal has seen 2% of its population leave in the past two years. The numbers leaving every year has doubled since 2008. A record 3,000 people
are leaving Ireland every month, the highest level since the famine of the 19th-century. Some of them are Poles going home, but many of them are Irish.

Not surprisingly, a lot of them are moving to Germany. More than a million migrants moved to Germany last year, according to the Federal Statistics office, a rise of 13% from a year earlier. The number of immigrants coming from Spain, Greece, Portugal and Italy has risen by between 40% and 45% compared to 2012. But others are heading to wherever they have traditionally found work: Britain for the Irish, South America for the Spanish, and the U.S. for the Italians.

No one can blame then for wanting out. There are no jobs where they are. In Greece, the unemployment rate for the under-25s is now 62%. In Spain it is 56% and in Portugal it is 42%, and rising inexorably every month. These are now countries where, in truth, you probably won’t ever get a job. Maybe it will get better one day, but with the entire European economy now locked into a depression it seems unlikely. If you hit 30 without ever having had a job, the chances are you won’t ever get one. If the economy ever does recover, a whole new generation will have come along to take the work that gets created. In circumstances like that, moving is the only rational thing to do.

In fairness, mass migration is precisely what the euro area needs to make the single currency work. One of the criticisms of the euro when it was launched was that it was never likely to have the same mobility of labor as U.S.

So, while workers might move from Illinois to California if that is where the jobs are, they were unlikely to move from Sicily to the Netherlands. The cultural barriers were too high. Anyone moving within the euro zone has to leave their family and learn a new language and a new way of life and might well face discrimination when they get there. It is not something anyone will undertake lightly.

In extreme circumstances, however, that is now what seems to be happening. Labor is getting more mobile. To some degree, that will help balance the economy out. Wages will fall in Germany as workers flood into the country, and they will start to rise in the periphery as the people depart. In modest amounts, the free movement of people is good for the economy — just like the free movement of any other factor of production. The trouble is, it wreaks havoc on the country people are quitting. The migrants are usually the best-educated and hardest-working — and the more of them leave, the worse the economy gets for those who are left behind.

Even worse, most of the peripheral nations already have terrible demographics. Populations were aging even before the crisis struck, and government budgets were under huge pressure. As the young people leave, the remaining population will get older and older. And as they take their tax revenues with them, government deficits will get bigger and bigger.
For decades, Ireland had precisely that problem. Its brightest young people emigrated to the Britain or the U.S. It was only when that went into reverse that the Irish economy finally started to flourish. If the euro does survive — and there is still a big question mark over that if you are looking a decade out — it will be with a hollowed out periphery.

There is a lesson in that for investors — and a worrying one. While in many respects stocks in countries such as Italy and Spain look cheap by any historic measure, and could be worth buying if you think the euro will survive, these will be economies stuck in permanent decline.

The reality is that even if the single currency is fixed, those economies will never recover — and should be avoided at all costs.

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