Let Greece profit from German history | Jeffrey Sachs

The overwhelming truth about the Greek debt crisis is that it's a massive distraction. Greece accounts for a mere 2% of the eurozone economy and the EU population. This doesn't mean that Greece should be pushed around, still less pushed out of the eurozone. It means the very opposite: the crisis should be resolved, and largely on Greece's terms.

The problem with a currency union is that seeds of doubt can destroy the economic area, if not the common currency. The euro is infected with doubt: will Greece remain? If Greece goes, will Portugal be next? And if they go, why not Spain, Italy, and who knows who else?

These doubts don't just fester; they lead to capital flight that in turn aggravates the very doubts that prompted them. Greece's precarious position in the eurozone long ago led to a withdrawal of funds from the Greek banks. The resulting illiquidity, in turn, pulled Greece into a near-fatal economic crisis. A more interventionist European Central Bank under Mario Draghi averted a crash, but the crisis hasn't ever fully gone away. Several bailouts have been little more than patch-ups to get Greece through a few months at a time.

Anybody who does the Greek debt arithmetic (and it sometimes seems that in Berlin nobody actually does) knows that it cannot repay its external debts, now around 170% of GDP, without a level of pain that is simply beyond the tolerance of democratic societies. The leftwing party Syriza is no anomaly; it is telling the financial and political truth in the runup to Sunday's elections, however unpleasant that may be to politicians in Berlin and Brussels.

John Maynard Keynes taught us this 96 years ago, after the Versailles treaty, in the The Economic Consequences of the Peace: "Will the discontented peoples of Europe be willing for a generation to come so to order their lives that an appreciable part of their daily produce may be available to meet a foreign payment, the reason of which … does not spring compellingly from their sense of justice or duty?" he asked.

And his answer: "In short, I do not believe that any of these tributes will continue to be paid, at the best, for more than a very few years. They do not square with human nature or agree with the spirit of the age." Of course he was right, but only after disaster struck.

Some Germans today insist that a debt is a debt, and that Greece must repay in full. They should know better from their own history, starting with Keynes's unsuccessful plea to lower Germany's reparations burden. They should recall the relief that Germany was granted through the Marshall plan, and the 1953 London agreement on German debts. Did Germany "deserve" the relief in 1953? That was not the right question. Germany's new democracy needed the relief, and Germany needed a fresh start. It played a major role in the economic recovery and construction of Germany's democratic institutions.

We are, thank God, not in any great drama of a postwar settlement. Europe is rich, prosperous, and democratic. Yet French and German banks made too many loans to Greece a decade ago, and Goldman Sachs facilitated accounting legerdemain to hide the rapid buildup of Greece's sovereign debt. Greece's private creditors have already taken a deep haircut on the debt. The bigger challenge – and one that could be much more easily solved – is the debt owed to official creditors, sums that are large for Greece but very small for Europe.

Does Greece "deserve" the debt relief? Greek politicians behaved badly; so did German, French, and US banks; and so have many Greek tycoons who hid their wealth abroad, out of reach of the tax authorities.

Who "deserves" what remains a difficult question. Yet as with Germany in 1953, the proper question is whether Greece needs debt relief, and whether Germany and the other creditors should give it. On that the answer is unequivocal. The eurozone is heading either for a constructive debt-relief agreement or for a political crash with potential ramifications vastly larger than Greece.

The solution would not be difficult technically. Greece's outstanding external debts should be restructured as very long-term loans at a fixed and low euro-interest rate, say 0.5% for the next five years, rising to 1% in the 2020s and beyond. Rather than pulling exact numbers out of the air, some straightforward debt arithmetic would help to identify a realistic trajectory for Greece's recovery.

Debt relief will not solve Greece's economic problems, but it would open the door to a solution. The real solution involves hard work by young Greeks to open new businesses and find new export markets, and for Europe as a whole to launch an investment-led recovery by building a new, smart, 21st-century European infrastructure – one that could, for example, enable Greece's fabled Mediterranean sunshine and wind to provide some of Europe's low-carbon energy needs. The first step is to stop the pain.