Obviously, the question of Greece's survival in the EU is complex. It is not clear that if the Greeks refuse to pay, they will be cut off from further loans. First, the other side might be bluffing, as it has in the past. Second, if they do pay the next round, and they do get the next tranche of funding, is this simply kicking the can down the road? Does it solve Greece's underlying problem, which is that its debt structure is unsustainable? In a world that contains Argentina and American Airlines, we have learned that bankruptcy and lack of access to credit markets do not necessarily go hand in hand.

To understand what might happen, we need to look at Hungary. Hungary did not join the euro, and its currency, the forint, had declined in value. Mortgages taken out by Hungarians denominated in euros, Swiss francs and yen spiraled in terms of forints, and large numbers of Hungarians faced foreclosure from European banks. In a complex move, the Hungarian government declared that these debts would be repaid in forints. The banks by and large accepted Prime Minister Viktor Orban's terms, and the European Union grumbled but went along. Hungary was not the only country to experience this problem, but its response was the most assertive.

A strategy inspired by Budapest would have the Greeks print drachmas and announce (not offer) that the debt would be repaid in that currency. The euro could still circulate in Greece and be legal tender, but the government would pay its debts in drachmas.

In considering this and other scenarios, the pervading question is whether Greece leaves or stays in the eurozone. But before that, there are still two fundamental questions. First, in or out of the euro, how does Greece pay its debts currently without engendering social chaos? The second and far more important question is how does Greece revive its economy? Lurching from debt payment to debt payment, from German and IMF threats to German and IMF threats is amusing from a distance. It does not, however, address the real issue: Greece, and other countries, cannot exist as normal, coherent states under these circumstances, and in European history, long-term economic dysfunction tends to lead to political extremism and instability. The euro question may be interesting, but the deeper economic question is of profound importance to both the debtor and creditors.

In our time, economic and financial questions tend to become moralistic. On one side, the creditors condemn Greek irresponsibility. The European Union has dropped most pretenses about this being a confrontation between the European Union and Greece. It is increasingly obvious that although the European Union has much at stake, in the long term this is about Germany and Greece, and in the short term it has become about the IMF and Greece. Germany feels that the Greeks are trying to take advantage of its good nature, while the IMF has institutionalized a model in which sacrifice is not only an economic tonic to debtors but also a moral requirement. This is not frivolous on the part of Germany and the IMF. If they give Greece some leeway, other debtors will want the same and more. Giving Greece a break could lead to Italy demanding one, and Italy's break could swamp the system.

On the Greek side, the Syriza party's leaders are making the decisions. Those leaders have onlylimited room to maneuver. They came to power because the mainstream eurocratic parties had lost their legitimacy. Since 2008, Greek governments appeared to be more concerned with remaining in the eurozone than with the spiraling unemployment rate or a deep salary cut for government workers. That stance can work for a while, if it works. From the Greek public's point of view, it didn't; many Greeks say they did not borrow the money and they had no control over how it was spent. They are paying the price for the decisions of others, although in fairness, the Greeks did elect these parties. The Greeks do not want to leave the euro, interestingly. They want to maintain the status quo without paying the price. But in the end, they can't pay the price, so the discussion is moot.

The Greek government is thus calculating two things. First, would covering the next payment be better or worse than defaulting? Second, will behaving like the eurocratic parties they forced to the wall leave Syriza internally divided and ripe for defeat by a new party? The German calculation has to be whether a default by the Greeks, one that doesn't cause the sky to fall, would trigger recalculations in other debtor countries, causing a domino effect.

The Future of Free Trade

The more fundamental issue concerns neither the euro nor the consequences of a Greek default. The core issue is the future of the European free trade zone. The main assumption behind European integration was that a free trade zone would benefit all economies. If that assumption is not true, or at least not always true, then the entire foundation of the European Union is cast into doubt, with the drachma-versus-euro issue as a short footnote.

The idea that free trade is beneficial to all sides derives from a theory of the classical economist David Ricardo, whose essay on comparative advantage was published in 1817. Comparative advantage asserts that free trade allows each nation to pursue the production and export of those products in which the nation has some advantage, expressed in profits, and that even if a nation has a wide range of advantages, focusing on the greatest advantages will benefit the country the most. Because countries benefit from their greatest advantages, they focus on those, leaving lesser advantages to other countries for which these are the greatest comparative advantage.

I understate it when I say this is a superficial explanation of the theory of comparative advantage. I do not overstate it when I say that this theory drove the rise of free trade in general, and specifically drove it in the European Union. It is the ideology and the broad outlines of the concept that interest me here, not the important details, as I am trying to get a high-level sense of Europe's state.

To begin with, the law of comparative advantages does not mean that each country does equally well. It simply means that given the limits of geography and education, each nation will do as well as it can. And it is at this point that Ricardo's theory both drives much of contemporary trade policy and poses the core problem for the European Union. The theory is not, in my opinion, wrong. It is, however, incomplete in looking at the nation (or corporation) as an integrated being and not entities made up of distinct and diverse interests. There are in my mind three problems that emerge from the underlying truth of this theory.

The first is time. Some advantages manifest themselves quickly. Some take a very long time. Depending on the value of the advantage each nation has, some nations will become extremely wealthy from free trade, and do so quickly, while others will do less well, and take a long time. From an economic point of view this may still represent the optimal strategies that can be followed, but from a more comprehensive standpoint this distinction creates the other two problems with the law of comparative advantage.

The first of these is the problem of geopolitical consequences. Economic power is not the only type of power there is. Disparate rates of economic growth make the faster growing economy more powerful in its relation to the slower growing economy. That power is both political and military and can be used, along with economic advantage, to force nations into not only subordinate positions but also positions where their lesser comparative advantage diminishes even further. This does not have to be intentional. Maximizing comparative advantage makes some powers stronger than others, and over time that strength can leave the lesser power crippled in ways that have little to do with economics.

The last problem is the internal distribution of wealth. Nations are not independent beings. They are composed of autonomous human beings pursuing their interests. Depending on internal economic and political norms, there is no guarantee that there will not be extreme distinctions in how the wealth is distributed, with a few very rich people and many very poor people. The law of comparative advantage is not concerned with this phenomenon and therefore is not connected to the consequences of inequality.

Breaking the Law of Comparative Advantage

In looking at the European Union, the assumption is that each nation pursuing its comparative advantage will maximize its possibilities. By this I mean that each country will export that thing which it does best, importing things that others produce more efficiently. The comparative aspect is not only between nations but also between the products within the nation. Therefore, each nation is focusing on the things that it does best. But "best" does not tell us how well they do it. It merely tells us that it's the best they can do, and from that they will prosper.

The problem is that the time frame might be so long that it will take generations to see a meaningful result of this measure. Thus, Germany sees the results faster than Greece. Since economic power can translate in many ways, the power of Germany limits the practical possibilities of Greece. Moreover, whatever advantage there is in free trade for the Greeks, it flows unequally.

This is when comparative advantage runs as it should. But it has not run that way in Europe, because Germany has been forced by its economic reality to pursue exports of not only those products where it has a comparative advantage internally, but many products for which it lacks an internal advantage but has a comparative advantage externally — these are not necessarily the things it does best, but it does them better than others. Since Germany is efficient in multiple senses, it has advantages in many products and takes that advantage. Germany has a staggering export rate of more than 50 percent of gross domestic product. Comparative advantage assumes it will want to export those things that it produces most efficiently. It is instead exporting any product that it can export competitively regardless of the relative internal advantage.

Put another way, Germany is not following the law of comparative advantage. Social scientists have many laws of behavior that are said to describe what people do and then turn into moral arguments of what they should do. I am not doing that. Germany empirically is not driven by Ricardo's theories but by its own needs. In other words, the law of comparative advantage doesn't work in Europe. As a result, Germany has grown faster than other European countries, has accumulated more power than other countries and has managed to distribute wealth in a way that creates political stability.

Comparative Advantage and the Greek Issue

The result is that Greece is answerable to Germany on its debts. In the same way that no moral judgment can be drawn about Germany, none can be drawn about Greece. It is what it is. However, whatever problem it has in maximizing its own exports, doing so in an environment where Germany is pursuing all export possibilities that have any advantage decreases Greece's opportunity to export, thereby creating a long-term dysfunction in Greece. The German superiority perpetuates itself.

It is important to note that Germany did not operate without protections after World War II. It protected its recovering industries from American competition. The United States, an economic colossus that exports a relatively small amount of its production, also was heavily protectionist in the late 19th century. Similarly, the United Kingdom maintained tariffs to protect the British Empire's markets. Greece has no such protection.

The theory of comparative advantage is generally true, but it doesn't take into account time disparities, the geopolitical consequences of time lags or internal social dislocation. That is why I said it was both true and incomplete. And that is also why the European Union, however it might have been conceived in its simplest sense, suffers from massive disparities in the speed that nations accumulate wealth, has nations that do not behave as the theory predicts they should, and creates geopolitical imbalances externally and social dislocation internally. It's not that free trade doesn't work. It's that it has unintended consequences.

This is why I would argue that the Sturm und Drang over Greece's debt and the future of the euro misses the point. The fundamental point is that the consequences of free trade are not always positive. It is not clear to me how Greece ever recovers without the protections that Germany or the United States had during their early growth period. And since nations do what they have to do, the issue is not the euro, but free trade.

And this is Germany's dread. It is a nation that exports as much as it consumes, and half of that goes to the European free trade zone. More than anyone, it needs the free trade zone for its own well-being. This is why, however the Germans growl, it is not the Grexit they fear but rising tariffs. The European Union already allows substantial agricultural tariffs and subsidies. If they allow broader tariffs for Greece, then when does it stop? And if they don't, and Greece crumbles socially, where does that stop? Tweet: Free trade can be marvelous or dreadful, depending on circumstances, and sometimes both at the same time.