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Commentary

Armageddon – for Greece, the euro zone and the EU?

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The voices calling for Greece to exit the euro zone have become louder, including among prominent members of the German government.

In Germany in particular, some now believe 'lieber ein Ende mit Schrecken als ein Schrecken ohne Ende' (better a terrible ending than terror without an ending).

Much of the pretence has been dropped: the arguments of some are now clearly framed in terms of German national interest rather than trying to make the tenuous – and ultimately unbelievable – argument that Greece would also benefit from a euro exit, as the market would self-correct through wage and exchange-rate adjustments, leading to a (quick) Greek recovery.

Most proponents of a 'Grexit' acknowledge that there are many tricky issues which would need to be addressed, not least the issue of transition: for example, how exactly to prevent a bank run, capital flight or even mass migration, and how to deal with a sovereign debt default on such a scale. The recent downgrades by Moody's highlighted that very direct hits will have to be borne by countries that have entered into explicit or implicit (through the European Central Bank) guarantees for Greek debt.

The issue of further contagion has also been at the forefront of many decision-makers' minds: how to prevent such a development from affecting the other crisis countries even further. Containing contagion, for example through the inter-bank lending market, might require significant additional funding. But even more importantly, another huge task lies ahead: preventing psychological contagion. What will stop citizens in crisis countries from demanding their own deposits back if they see long queues in front of Greek banks? Would populists in other EU countries not exploit negative developments in Greece for their own anti-euro/EU rhetoric?

Convincing markets will require a deft exercise of double-speak, emphasising that Greece only dropped out of the single currency due to its exceptional position and that no other euro country could possibly be in the same boat. Whether that will work or whether markets will turn on the next eurozone country once the precedent has been established is an open question, with significant unpredictable downside risks.

But even if the process could be managed, the costs would be enormous, starting with Greece itself. Greece's economy and its political system would move close to collapse if the 'euro bracket' that has kept things together disappears. A state unable to pay wages even to its police and soldiers, a worthless currency with hyperinflation, the inability of any business to raise capital and therefore to invest, the complete breakdown of essential public services, political radicalisation with polarisation and maybe even violence: these things would not just be on the cards – they would be highly likely. Greece would be in danger of becoming a failed state, potentially destabilising the Balkans.

The immediate impact of a Greek exit from the euro would test the political Union rather than the economic one. How would we deal with a potential future Greek government – including radical parties – which is in no mood to enter into any European compromises? Decision-making in the European Union could become paralysed, with no clear mechanisms available at EU level to intervene.

The long-term impact on the European integration process would be even more disastrous. We are in danger of forgetting why we became a European Union: to bind all states in Europe together to safeguard democracy and prevent conflict. By giving up on Greece, we implicitly give up on this ideal. This is especially poignant with Greece: Athens entered the European Communities in 1981 to help to cement the transition from the dictatorship of the Junta. 30 years later, we are at risk of pushing Greece back into political uncertainty. This raises the question of what the European Union is really for – do we simply have a common market which maximises the economic interests of the stronger economic performers, or do we truly have an ever-closer Union based on solidarity, cooperation, mutual respect and trust? If we give up on Greece, the very process of European integration would be on the line.

Germany has a particular responsibility to safeguard the political project of ever-closer Union. Berlin cannot afford to conveniently forget that economic crisis can easily lead to extremism, radicalisation and conflict. Germany's leadership must stand up for this European ideal, whether the opinion polls point one way or another.

So what is the way out? Greece will remain an economic, social and political problem for the EU for a long time to come. We need to accept that Greece will continue to need help – and that doing this within the framework of Economic and Monetary Union is a far better solution than any alternative. At the same time, the Greek government must be ready to continue radically reforming the country's public administration and the foundations of its economy. But we also have to have mechanisms which ensure that countries like Greece have a realistic chance – and sufficient time and support – to reform their economies and their political systems, while maintaining an acceptable minimum standard of living for their citizens. To ensure that this can work, we will have to pursue a path towards a much higher level of economic and political integration for all EU member states.

Europe needs Greece to stay in the euro: not only because it is economically the least costly and least risky option, but also because it is the only way to sustain the real achievements of the European integration process: a European Union which safeguards not only the prosperity of the economically strongest, but also peace, prosperity and democracy for all its citizens.

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