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Social Nightmare Foretold if Greece Heads for Euro Exit

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In Athens, the homeless are on the streets in growing numbers, soup kitchens feed twice as many people as a year ago, and the poor are diving into garbage bins in search of scrap they can sell.

Greece is close to breaking point as it struggles with austerity targets set by creditors, but this is just a foretaste of the nightmare of unrest, hunger and even anarchy that could engulf the debt-crippled nation if it is forced out of the euro.

If the exact economic impact of such a move is hard to nail down – newly issued drachmas devalued by up to 70 percent, runaway inflation, a banking meltdown, a collapse in trade – the implications for ordinary Greeks crushed by the debt crisis are even harder to predict.

Without international bailout cash, salaries and pensions would go unpaid and violence, political extremism and uncontrolled emigration could quickly follow.

After voting inconclusively for parties that opposed foreign-imposed austerity, including the neo-Nazi Golden Dawn, Greeks head to the polls again in a month's time. This election is being portrayed internationally as a referendum on the single currency, even if Greeks do not yet see it that way.

A Greek exit from the 17-nation euro zone, or «Grexit» as some economists have called the once unthinkable eventuality, risks turning the nation into what would be close to a failed state on the edge of the European Union, one of the most prosperous societies the world has ever known.

Greece imports 40 percent of the food it consumes, nearly all of its oil and natural gas and much of its medicine. It has long been clear to some commentators that there could be trouble ahead.

Confronted with post-exit turmoil, foreign suppliers would simply put up the shutters until the situation becomes calmer, leading to acute shortages of basic commodities, which could fuel serious civil unrest, according to Bank of Greece Governor George Provopoulos.

Even if Greece did manage to import limited amounts of food and other basics, they would be cripplingly expensive.

Provopoulos warned as long ago as December that a return to the drachma would be «real hell», with Greeks forced to resort to barter during the transition period between the two currencies, «trading a kilo of olive oil for three kilos of flour».

“NIGHTMARE SCENARIO”

“There will be shortages in basic staples. Without fuel, the army and the police would not be able to move their vehicles. After a long period, things will return to a better balance. But during the first transitional phase we would be experiencing a nightmare scenario,” Provopoulos said.

A former finance minister, Yiannos Papantoniou, saw trouble ahead nearly a year ago: «Greece would not be able to support 11 million people so there will be huge emigration flows,» he told Reuters Insider television last July. «Disruptions, social disruptions will come. I would say a regime of total anarchy.”

Last year 23,800 Greeks emigrated to Germany alone, 90 percent more than the previous year, German data show and Greeks are queuing up to learn German.

Most economists agree the austerity measures Greece is laboring under offer it little hope of recovery near term, and some argue that if it leaves the euro, it could export its way back to health on the back of a vastly devalued currency.

But, barring tourism, it does not have businesses or industries that could drive such a recovery.

Even if freed of its debt-cutting targets, the fact the country runs a primary deficit – spending more than it takes in taxes – means it would have to continue austerity measures and, because it would be shut out of international markets, it would have no one to borrow from.

“Even if you strip interest payments, with a primary current account deficit at about 10 billion euros, it would mean economic life would grind to a halt,» said Yannis Stournaras, head of Greek think tank IOBE.

> “Greece would have a hard time to import oil, foods, medicines and other primary inputs. Imagine the navy, police, without fuel. Natural gas spigots would close. GDP would be hurt by a battered banking system. Public debt would increase.”

Greece’s recent history gives a taste of the political turmoil that could follow.

After German occupation in World War Two, the country plunged into bitter civil war during the 1940s. Political turbulence in the 1960s was capped by a colonels’ coup d’etat in 1967, with democratic elections not held until seven years later.

Conditions are already hard for business people in Greece, with the country in its fifth year of recession.

> “The first shortages have begun to appear,» said Melina Ferousi, a businesswoman who imports paper and stationery items. «French and Spanish suppliers are still selling on credit but German ones are particularly strict and are refusing to do so.”

Some German suppliers have said they could not extend credit to Greece even if they wanted to because their insurers are refusing to cover the merchandise.

Greek importers and exporters alike are finding it difficult to do business with foreigners, said Vassilis Korkidis, chairman of the retailers' union ESEE.

"It's not that they're not trusting their individual Greek business partners anymore, it's the Greek banks they no longer trust," Korkidis said.

But business people do not see an exit from the euro as solving anything. Greece imports practically all its machinery, tools and software, so companies would be unable to grow.

> "If we return to the drachma, nobody will be able to do business abroad anymore,» said Iraklis Megas, who imports animal food. «I'll have to shut down my company the next day and so will thousands of others."

How Greece would manage a transition from euro to drachma is unclear. A possible precedent is the split of Czechoslovakia into two countries with their own currencies in 1993.

All cross-border money transfers between them were halted and border controls were tightened. Stamps printed secretly in Britain were glued on 150 million banknotes, which were trucked around the country with the help of police and the army.

"DRACHMAGEDDON"

Greece would have to try something similar, with some suggesting euro notes might be stamped with a D for drachma, but there are doubts whether it could introduce a new currency in a short period of time.

"In my assessment, Greece does not have the strength of institutions to pull that one off in an orderly way. Instead, it's likely to be a slippery slope, which – through chaos and ruin – may then end the same way months or years down the road,» said Erik Nielsen, global chief economist at Unicredit.

In the end, since the International Monetary Fund, the European Central Bank and euro zone governments are now left holding most of Greece's 250 billion euro debt mountain, they may decide it is best to try and keep things going rather than drop the curtain on Greece's euro dream and face heavy losses themselves.

That is the calculation being made by the SYRIZA party, which had until recently been surging ahead in opinion polls with its radical anti-austerity platform that European leaders say will lead to certain bankruptcy and an exit from the euro.

But a poll on Thursday showed a return in support for the establishment parties that negotiated the bailout, a sign the nightmare scenario of life outside the euro may be sinking in.

Some have even been able to see the funny side. «Drachmageddon», on Radio Arvyla TV in November, told how the drachma, kicked into outer space in 2001, crashed back to earth as a meteor and destroyed everything.

> "The main reason we expect Greece to stay in the union is that as bad as things are now, it will be worse out," said Marc Chandler, global head of currency strategy at Brown Brothers Harriman.
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> "It seems far too simple to think that a devaluation is all Greece needs." [Reuters]

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