

A Grexit may be plausible from an economic perspective, but politically it would be a disaster

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Should the rest of Europe be concerned by the consequences of Greece leaving the Eurozone?
Florian Schui writes that while from an economic perspective a Grexit is entirely manageable, from a political perspective it would be a disaster for the EU. He argues that Greece leaving the euro would send the message that European leaders are more willing to allow the Eurozone to break up than they are to abandon austerity policies.

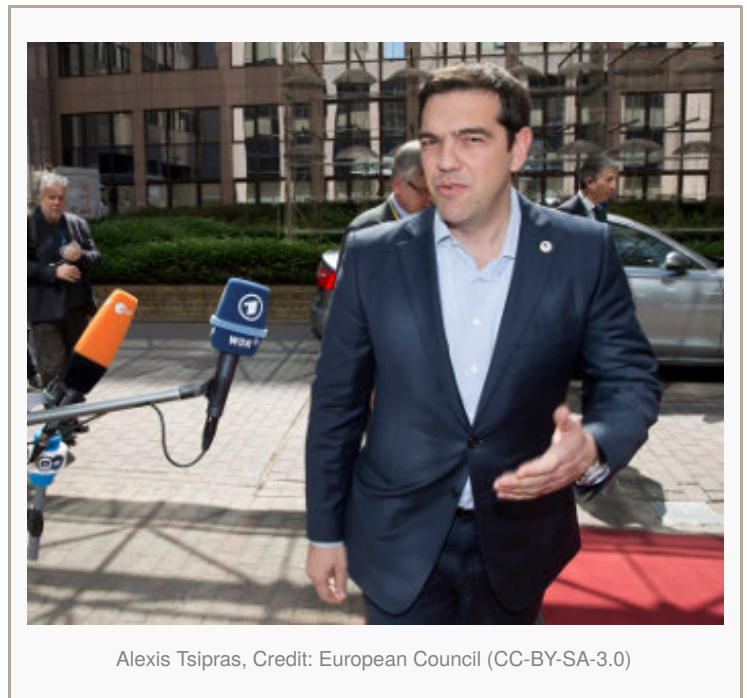


Greece has been on the verge of withdrawing from the Eurozone for such a long time that now an increasing number of people in Greece and elsewhere are convinced that the only solution still possible is the country's withdrawal from the monetary union. But is a Greek exit really a good solution? The answer largely depends on what you think the consequences of a withdrawal would be.

German and other European officials are anxious to emphasise that a Greek exit would not be a disaster but rather a controllable incident which would only cause a minor economic disturbance. From an economic point of view, these voices may well be proved right. From a political and historical perspective, however, a Greek withdrawal would be devastating.

The economic consequences

It is quite true that the economic consequences of a Greek withdrawal from the Eurozone and a subsequent default might well not be disastrous. Creditors have had an adequate period of time to prepare for a possible loss, and the bulk of Greece's debts are in the hands of government institutions anyway. Thus the financial markets might remain calm. The hefty financial involvement of national governments and international organisations, however, also creates problems. In the case of a Greek exit, the loans and guarantees which other countries have granted to Greece would turn into real losses which would have to be borne by European taxpayers. This would be bound to encumber relations between Greece and the rest of Europe even more and hamper future cooperation.



Alexis Tsipras, Credit: European Council (CC-BY-SA-3.0)

The political damage for the EU could be compounded by an actual improvement in Greece's economic situation in the wake of a withdrawal from the Eurozone: the country's national finances would suddenly be relieved of substantial payments for servicing debt, and exports would be facilitated thanks to a devalued new currency. Imports such as raw materials and technology would become more expensive. Although this would certainly inhibit Greece's further economic development, it would also force consumers to fall back on products manufactured at home and thus to contribute to economic recovery. The example of Iceland shows that radical haircuts can make economic sense.

The economic damage caused by a Grexit would therefore be likely to be limited. Without the euro, Greece would

be in a better position while the rest of Europe would sustain only moderate losses. However, the economic consequences are not the only factors that have to be taken into consideration. The political consequences of a Greek withdrawal from the Eurozone would be considerably more detrimental. Greece's collapse would emit a strong signal to other countries in crisis. The message would be that no solidarity could be expected from the rest of Europe when help is really needed. The EU would thus unequivocally demonstrate that it prefers to accept the community's breaking asunder rather than say goodbye to its erroneous austerity policy. This obstinacy in conjunction with a possible improvement in the financial situation in Greece after an exit would appear like a huge flashing advertisement for leaving the euro.

Political damage

The political situation would be further complicated by the fact that Greece would withdraw from the Eurozone but remain in the EU. This would cause the damage to political trust and cooperation that would result from leaving the Eurozone to spread to all other areas of European cooperation. The worst case would surely be if Greece, in its quest for financial aid, were to turn to Russia or another non-EU country, thus turning into a kind of fifth column inside the European system.

Even without the possible damage that would result from a Greek withdrawal from the Eurozone, the EU's position is already weaker than at any other time in its history. In the near future, the UK might distance itself from some parts of European cooperation, and the increase in regionalism and nationalism in the Union is a great challenge for the European project.

After the Second World War, a fresh start and the beginning of a new era of European cooperation were made possible by the generosity of Germany's victims and by Germany's readiness to play a constructive role in the future. However, grand gestures and political determination on both sides alone would never have been sufficient to advance European integration this far. The EU was able to acquire widespread support in the populations of Europe because it offered economic prosperity and political stability for all the inhabitants of the continent.

Since the financial crisis of 2008, the ill-conceived austerity policies have done great damage to the first objective. If these policies are not revised, it will also damage the second objective, possibly irrevocably.

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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