Greece-EU Standoff Increases Chances of "Grexit"

Writing in London's *Telegraph* on Monday, Nigel Farage, the leader of the anti-EU, pro-sovereignty UK Independence Party (UKIP), called Sunday's referendum in Greece "a crushing defeat for those Eurocrats who believe that you can simply bulldoze public opinion." Threats by those Eurocrats to shut off emergency financing unless the country agreed to its terms fell on deaf ears, especially among those under age 35: Eighty percent of them voted no on Sunday.

That cohort is the one least likely to remember the songs that were sung by those promoting the European Union decades ago: peace, prosperity, and freedom from war. Today they look around and see half of their number unemployed, with little chance of getting out from under crushing debt, and government intrusions reducing even further those chances for a peaceful and prosperous life.

As Farage noted, "a more prosperous Greece … must surely face up to the reality that a euro exit is both inevitable and desirable in order for a long-term economic recovery to truly begin."

The present reality for Greeks is daunting: Banks are closed, ATMs are limited to dispensing just $67 a day, food shortages are showing up in grocery stores, vendors are demanding cash instead of plastic, gas prices are heading higher, businesses are closing, and unemployment continues to rise — all symptoms of an economy in its death throes.

In its desperate search for funds just to keep the lights on, the Tsipras administration has raided the cash reserves of Greece's state-owned gas company, DEPA, along with those of all other public companies. It has even demanded that pension funds place their cash reserves with the country's central bank, and has threatened to implement its plan to force bank depositors to "bail in" their banks by extracting 30 percent of any account balance above $8,800 and transferring it to the bank's account.

It could get even worse. Greece imports 99 percent of its oil and gas, and any concern that DEPA will be unable to pay its bills for those products is likely to set off a chain reaction that could collapse the economy. As explained by a senior member of the energy consulting firm Poyry:

> This unfavorable framework could therefore result in a collapse of gas demand, as imported energy becomes too expensive to use by the Greek population [as customers] find themselves unable to settle their bills towards Greek importers, which could in turn affect the latter's ability to pay their foreign suppliers.

That's how an "energy consultant" describes a death spiral in an economy whose customers are no longer able to pay their bills.

At this writing, there is little movement by either Tsipras or those Eurocrats holding the purse strings — the European Central Bank, the European Union, and the International Monetary Fund — to come to terms acceptable to all. Tsipras has fired his incendiary finance minister and replaced him with a much softer one in hopes that he might be able to mend some fences. Tsipras has steadfastly said from the beginning that the referendum had nothing to do with exiting either the euro or the EU.

What he has demanded, however, is that 30 percent of the country's $350-billion debt be written off and the balance due be postponed for 20 years.

On the other side, German Chancellor Angela Merkel and French President François Hollande remain adamant that Greece keep its promises made before any such write-offs will even be considered. Even the emergency lending authority (ELA) that is barely keeping Greek banks alive is about to expire, which will only serve to annoy further both Tsipras and his constituents over their reticence to engage in meaningful discussions.

If meetings between opposing parties can be arranged, and terms agreed upon and approved by the five political parties supporting Tsipras in parliament, then the flow of funds will resume. All of which has to take place by July 20 when a payment of $4 billion is due to the IMF on debts previously incurred by Greece. If that date comes and goes without resolution or payment, then the chances for an exit not only from the euro but from the EU increase greatly.

In that scenario, a new currency would replace the euro. Already contracts are being drawn up for British firms such as De La Rue, which prints 150 currencies worldwide, either to resurrect the old drachma or issue a new one reflecting the new reality. That reality, if history is a guide, will result in a further loss of purchasing power by Greeks, perhaps by as much as 50 percent against the old euro. The changeover of ATMs and all the other machinery of commerce from the euro to the new script could take weeks, perhaps months.

Such an exit is not without precedent, however. In 2008 Iceland found itself in similar difficult circumstances. Its three primary banks had borrowed and lent amounts exceeding *11 times* the tiny country's gross domestic product. Iceland nationalized those three banks, forcing lenders to take a 100-percent loss on their holdings.

Its currency fell sharply in value, with foreign currency transactions coming virtually to a halt for weeks. Iceland's economy descended into a severe recession, with its GDP dropping more than 10 percent over a three-year period. However, by 2011 the economy had begun to recover, with unemployment dropping significantly and the government deficit declining from almost 10 percent of GDP in 2009 and 2010 to just 0.2 percent in 2014. Writing in Spiegel Online, investigative journalist Guido Mingels noted: "Iceland, with a population of just 320,000, has staged what appears to be the fastest recovery on record … salaries are rising, the national debt is sinking, and the government has paid off [its] loans ahead of schedule."

The most important impact of even the threat of an exit by Greece from the grasp of the EU, however, is the Eurocrats' loss of credibility. As Farage wrote:

> The result is a tired, stumbling European Union that is dying on its feet before our very eyes. Credibility for the project is fading fast as citizens right across Europe awaken to the reality of its authoritarian instincts that seek to ride roughshod over public opinion.…
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> An outdated European Union has been found out and rejected emphatically by young Greeks in the 21st century.

Freed from the austerity measures imposed by the EU, Greece would then be in a position to reduce government spending, open up its markets, reduce impediments to new business startups, and make the country attractive to foreign investors once again. Its rich history, its geography and its olive groves, its cotton, pistachios, figs, and almonds, and its fishing industries would all allow it once again to enjoy the right to exercise its national sovereignty without interference.

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