The Telegraph

The future of the euro rests with unfortunate Greeks

It is time to declare, unequivocally, that the euro is more trouble than it's worth and should be entirely broken up

By Liam Halligan

11:43AM BST 21 Jun 2015

"Launching the single currency marks a turning point for Europe and is crucial to stability, high growth and employment," declared Tony Blair, then Prime Minister, in March 1998.

"The euro's opponents are disheartened as their predictions of chaos and disaster haven't materialized," observed former Conservative chancellor Kenneth Clarke in October 2002, as British euro cheerleaders, many disgracefully opposing a referendum, were still pushing us to join.

• **Why the state of Greek hospitals tell us the drachma could be coming**

"The euro is a protection shield against the crisis," claimed then EU President Jose Manuel Barroso in February 2010, the Portuguese Maoist-turned-Communist-turned-Brussels-careerist seemingly unaware that sovereign bond yields were already flashing red across the eurozone "periphery". The likes of Spain, Portugal and Greece were struggling to remain solvent, their national balance sheets already weak from years of over-spending, then crushed by the gargantuan losses of hubristic, politically-powerful banks in the aftermath of the 2008 sub-prime collapse.


In 1998, Tony Blair said the euro would be "crucial to stability, high growth and employment"

It’s easy, as we contemplate financial disaster in Greece this weekend, to say: “I told you so”. It’s easy to assert, yet again, as we flirt with another “Lehman moment”, that economic theory and practical common sense dictate, and have always dictated, that national democracies sharing one currency and one central bank will always, eventually, come to blows.

It’s worth remembering, though, that those of us who railed against the likes of Blair, Clarke and Barroso for their dangerous rhetorical nonsense, who dared to defy the mainstream pro-euro consensus, were pilloried for our trouble. To be against UK euro membership was – until a few years ago, when the continental bond-market spams began – to be dismissed as a xenophobe or crank.

• **What happens next in the Greek debt drama?**
• **A Greek default must go the whole way and leave the euro**

No matter that every currency union in the history of man not based on decades of nation building has collapsed. Such was the arrogance of and political momentum behind the “European project” that rational debate ceased. It was only about five years ago, when voters across the continent got awkward, and bond markets took umbrage, that it became respectable to declare Britain should never join.

Well, the current chaos in Greece – a chaos which has seen **a proud country endure a slump worse than America’s Great Depression**, with national income now barely two-thirds of its 2008 level and **youth unemployment a heart-breaking 52pc** – should make it respectable for mainstream analysts to end this charade and declare, unequivocally, that the euro is now more trouble than it’s worth and should be entirely broken up. To say that today is, quite possibly, shocking or even “extreme”. But, again, just like the argument that the euro isn’t forever and the UK should never join, it’s based on logic, history and common sense.

From 2010 onwards, widening “spreads” between the sovereign yields of various eurozone members have worried financial markets. Since 2012, when European Central Bank President Mario Draghi was forced to do “whatever it takes” to save the euro – even enraging Germany by shifting from covert to full-blooded money-printing – investors have been properly spooked.

As someone who talks regularly with business people – not just in the UK, Europe and America, but across the emerging markets – I often hear the list of “systemic concerns” preventing the green light being given to factories, infrastructure projects or other commercial ventures that would otherwise generate growth and jobs. Such concerns have contributed mightily to the failure of the global economy to stage a convincing post-subprime recovery.

The danger of an American taper-tantrum remains on investors’ minds, with hyped-up US markets possibly reversing as and when the prospect of further Federal Reserve money-printing slips out of view. There’s growing angst about the Chinese stock market – which looks extremely toppy and vulnerable, also, to a snap-back. Then there’s increasing geopolitical risk, with the 2010 Arab Spring reverberating across North Africa and the Middle East, and now Islamic State of Iraq and the Levant attempting to take the region back to borders last seen before the First World War.

In nearly all such discussions, though, the danger posed by a eurozone meltdown looms larger than an American or Chinese stock market collapse, larger in investors’ minds than a Middle East implosion or even the danger of another “terrorist spectacular”.

For half a decade, now, the explosive potential of the incoherent, dysfunctional edifice that is the single currency has crushed investors “animal spirits”, causing them to stall their ambition, reining-in projects that could otherwise have gone ahead.

The Greek people have suffered badly from the combination of political grandstanding and financial myopia that created and has (just about, for now) sustained the single currency. But, even if we avoid a euro-induced market meltdown over the coming days and weeks, the laughably-named “economic and monetary union” has already cost the global economy dearly – which is why world leaders now need to consider if it should be dismantled entirely.

• **What happens if Greece defaults on its International Monetary Fund loans?**
• **Nine charts showing why Greece has to leave the euro**

Whether or not that happens depends on events this summer. Greece owes the International Monetary Fund €1.6bn (£1.1bn) by the end of June. To pay that, the Syriza government must agree to reforms on pensions, VAT and privatization, together with surplus targets, that will release the final €7.2bn slice of cash from an earlier bail-out package. But that requires Syriza to abandon the pledges on which an increasingly febrile Greek electorate put the party in power earlier this year.

So Greece could easily join Zaire, Zimbabwe and other generally war-torn countries that have defaulted on the IMF. Access to international capital markets would then cease as the Fund began its lengthy, bureaucratic default procedures – which may or may not cause a rupture on financial markets.

The far bigger danger is that Greece defaults on the €3.5bn it owes the European Central Bank by July 20, together with an additional €3.2bn in August. The Frankfurt-based institution would then, by law, have to cut the multi-billion euro credit lines that are keeping the Greek banking system afloat.

Lacking euros, as ATMs stopped working and savings evaporated, civic unrest would force Athens to recapitalize banks, and pay state wages and pensions, with something else. Whether the new currency was called drachma or euro-IOUs, that would amount to Grexit. The Greek government and all but a select group of Greek firms would then be credit-crunched, inflation would spike and growth would slump even further. Eventually, a weaker currency could help Greece recover – a lesson that wouldn't be lost on other uncompetitive eurozone countries. But the economic plight of millions of Greeks would likely get far worse, before it got better. So much for Senhor Barroso's "shield against the crisis".

• **Greek debt crisis is the Iraq War of finance**
• **Eurozone would be better off without Greece, warn Germany's 'Wise Men'**

Were all this to happen, while Greece was in turmoil, the ECB would no doubt hose down eurozone stock and bond markets with printed money. Yet the systemic shock of something as tumultuous as Grexit – however obvious, however widely foreseen – would still be significant. The sight of widespread rioting on Greek streets, the copycat protests in other cash-strapped eurozone nations, the historic enormity of the breach across Europe, would almost certainly cause the worst and most widespread financial crisis since that dark, depressing autumn of 2008.

The future of the euro – whether or not it survives, if other countries choose or are forced to leave, or if the rest of the world simply loses patience with Europe's absurd grand project and demands it is dismantled – will depend on the size of that shock.