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A Greek exit would be national suicide

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An exit from the euro would be catastrophic for Greece. I appreciate that there are no quick fixes for the crisis. But I have no doubt that remaining in the euro is the lesser of two evils.

The moment Greece leaves the eurozone, real wealth and incomes would fall dramatically. According to Eurostat, even in 2010, 27.7 per cent of Greeks lived in poverty and social exclusion, although local estimates place the figure at near 40 per cent. Two new classes of euro-stable and drachma-poor Greeks would emerge. Pensioners and wage earners alike would suffer the traumatic effects of a depreciating currency.

A fully fledged bank run would be unleashed and depositors would either keep their money under their mattresses, only to convert it to drachmas in a flourishing black market, or seek safety abroad. Banks would need to inject fresh capital that would have to come from the Athens printing press, leading to inflation. Greek debt, already unsustainable, would require funding that would become unavailable upon a return to the drachma. The need to revert to central bank financing of fiscal deficits would lead to a loss of credibility of the currency as the sole source of value and medium of exchange. Unemployment would rise further, testing the limits of a fatigued society's patience. The economy would enter a deeper depression.

In an economy that produces little and exports even less, the competitiveness gains from a constantly depreciating currency might not offer much of an export recovery. Were Greece a commodity exporter such as Argentina, or an established export-oriented economy, the logic of an exit would prevail. Yet even if Greece were an export-based economy and global economic conditions were favourable, it would still take a long time for incomes and wealth to revert to pre-crisis levels. True, imports would fall and the high current account bill of Greece would shrink. But essential goods might become scarce, leading to market distortions and the creation of black markets. Fuel would be rationed and, in one of the most medicine-dependent countries in Europe, even aspirin would become a tradeable commodity.

A depreciating currency could lure additional tourists but probably not enough to sustain high growth. Greeks have to offer better services, infrastructure and value for money, which has nothing to do with the currency regime. Shipping is a global business with fewer multipliers than tourism. Luring tycoons is not dependent on a cheap currency but on the overall business climate, which remains unfriendly and prone to unscrupulous union interventions.

An exit from the euro would lead to plummeting asset prices and Greece would offer excellent bargains for those holding a stronger currency. Privatisation would lead to ridiculous bargains when denominated in drachmas, delegitimising any sale in the public's eyes.

A euro exit would lead to a wave of corporate bankruptcies as debt owed in the old currency would become insurmountable. In a potentially hyperinflationary environment, interest rates would remain high, quashing corporate growth.

The devaluation of the drachma in the 1980s proved myopic and failed to make the currency competitive. What Greece needs urgently is to implement structural reforms, minimise red tape, restructure its Byzantine tax system, reform its dilapidated public sector and combat entrenched corruption. That would do far more to ensure increased competitiveness. Without real structural reforms, foreign investors will continue to stay away.

Leaving the management of the new drachma and the printing press to the same political demagogues and populists would lead to certain destruction. The corrupt establishment would be free to mismanage once more. Much-needed structural reforms would be postponed and change sacrificed in the name of political expediency and populism. None of the current political figures or their parties offers much in the way of rational thinking and hope.

The same political establishment that brought Greece to its knees cannot be entrusted with a euro exit. The economic policies pursued over the past two years have proved disastrous but a euro exit would amount to national suicide.

The writer is a Greek economist