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SATURDAY-SUNDAY, JUNE 16-17, 2012

Economy of Greece is being left to fend for itself

ATHENS

Multinationals withdraw and stores empty out amid political uncertainty

BY LIZ ALDERMAN

Business in Greece has virtually ground to a halt, with the evidence everywhere — including the rows of unsold screws, drills and power tools at Deodoris Diamadis's hardware store here.

"Commerce in Greece is down to almost nothing because of all the economic and political uncertainty," said Mr. Diamadis, a slight, pale man with a grim look on his face, as he watched the occasional customer flit in and out without buying. "We're hoping that a new government will resolve this crisis."

But whatever the outcome of the pivotal Greek elections Sunday, and whether the country ultimately leaves the euro currency union, there will almost certainly be no quick fixes for Greece's economy. It is too deeply broken by a crushing government debt and the flight of foreign companies and money from the country.

Conditions have deteriorated so rapidly in recent months that any new government will have a daunting challenge in trying to reignite growth and create jobs in the face of a 22 percent unemployment rate. Sales of clothing, pharmaceuticals and gasoline have slumped, and many companies short on cash have resorted to i.o.u.'s or simply stopped paying one another altogether.

And while small businesses like Mr. Diamadis's shop have little choice but to hunker down, multinationals have been pulling up stakes on a daily basis.

On Friday, Carrefour, the giant French supermarket and retail group, said it was selling its entire Greek operation to its Greek franchise partner at a loss. The company "is concentrating its efforts on markets where it sees growth," a spokesman said, "and Greece's economic prospects are difficult."

Also Friday, Coca-Cola's operations in Greece received a credit rating down-

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SCENARIOS FOR GREEK EURO EXIT
Europeans worry that letting go of Greece could risk the social and political stability of Europe. *PAGE 3*

ITALY DETAILS PLAN TO REVIVE GROWTH
Prime Minister Mario Monti said his administration's efforts would include the sale of state assets. *PAGE 9*

IN DIFFICULTY, CYPRUS WEIGHS OPTIONS
Officials are considering an E.U. bailout request, and are also pursuing a possible loan from Russia. *PAGE 9*

Weighing scenarios for a Greek euro exit

LONDON

The true cost to Europe may be political chaos and rising nationalism

BY STEPHEN CASTLE

With speculation swirling about a possible Greek exit from the euro — at a price tag estimated at more than $1 trillion — policy makers worry that letting go of Greece could risk something more precious yet: the social and political stability of Europe.

An uncontrolled default could unleash a host of frightening scenarios upon a country and a Balkan region on the edge of the European Union — including hyperinflation, political instability, disintegration of public services, increased migration across borders, social breakdown and even the collapse of law and order. Were nationalist politicians to fill the vacuum in Greece, that could escalate tensions with Turkey.

Even Britain, which is a long way from Greece, says it is drawing up contingency plans to restrict immigration in the event of a financial collapse.

This underlines a central dilemma: the departure from the euro zone of Greece, seen by many partners as highly unreliable, might make it easier for the rest to agree to the closer integration needed to save the euro.

Yet a Greek exit also "could trigger a social and economic implosion in that country with shock waves reverberating beyond its borders in a region rife with flash points," said one European diplomat, who spoke on the condition of anonymity because of the sensitivity of the issue.

"The last thing the E.U. wants or needs is a failed state on its borders in a region as combustible as this."

In this view, Greece will have to be helped — and expansively — whatever the outcome of the Sunday elections.

"The last thing the E.U. wants or needs is a failed state on its borders in a region as combustible as this," said Simon Tilford, chief economist at the Center for European Reform. "Greece would not be left to its fate because they cannot afford to let a country descend into chaos."

"Either way," he said, "Greece is going to cost the euro zone a lot of money. The question is whether it is outside or inside the euro zone."

Conceived as a project to guarantee peace after devastating wars in the 20th century, European integration has helped reunify the Continent, bringing 10 former Communist nations into what is now a 27-nation bloc and promising membership to the fractious countries of the Balkans.

Yet support in Western Europe for further expansion is fraying, as is enthusiasm for free movement across borders inside Europe's passport-free travel zone, the Schengen area.

A deepening crisis in Greece could only stoke tensions.

According to a recent report from Open Europe, a nongovernmental group that campaigns for reform of the European Union, "leaving the euro zone would mark a large shift in Greek society and politics." Political and social stability are "two things which may already be at risk" from a euro exit, it said.

The document suggested that if Greece were to leave the currency, it would need up to €259 billion, or $327 billion, in short-term international support — excluding longer-term financing or the costs of contagion.

Charles Dallara, managing director of the Institute of International Finance, has said that the total cost would probably exceed $1 trillion.

Simeon Djankov, deputy prime minister and finance minister of Bulgaria, which joined the European Union in 2007 and shares a frontier with Greece, said in an interview by telephone that his country was well prepared for a Greek exit and had even benefited from investors' moving money across the border.

Yet he conceded that there was a risk of social breakdown in Greece and an increased migration across frontiers that Greek border guards already find hard to police. "Given that the standard of living in Greece has been dramatically reduced over the last three to four years, it is entirely possible for this to happen," he said.

Greece does not have a land frontier with the Schengen zone, but is already seen as a weak link in Europe's external border. Last year about 55,000 migrants entered Greece, mainly crossing the frontier from Turkey, and about 15,000 have arrived this year, according to Frontex, the E.U. border management agency, which has about 100 officers on the bloc's land border with Turkey.

If the Greek government were unable to pay customs officials and other public servants, frontiers could become more porous still, opening the way to more crime and illegal migration into the European Union.

In addition, Western European nations worry that a financial meltdown would prompt thousands of Greeks to exercise their right, as E.U. citizens, to move to wealthier countries like Germany or Britain. That could prompt emergency restrictions on free movement, again testing a fundamental E.U. principle.

For Balkan nations, migration from Greece is likely only a limited issue, according to Vladimir Gligorov, an economist at the Vienna Institute for International Economic Studies.

So far, for instance, few of the estimated 700,000 Albanian migrants living in Greece have returned to Albania, though remittances are thought to be down. A real crisis "would have important consequences for Albania," an impoverished country of some three million with a weak economy and rampant smuggling, Mr. Gligorov said.

In addition, he noted, Greek banks have been active in surrounding Balkan countries — Bulgaria, Macedonia, Serbia, Albania and Romania. "The main worry is what would happen if the Greek banks were nationalized or there were bankruptcies," he noted.

Perhaps more worrying is the signal that a deepening political chaos would send to a region still struggling to establish Western-style democracies. Mr. Gligorov ruled out a return to the military rule that ended in 1974 in Greece, but conceded that a successful authoritarian takeover "could be a very appealing model for a lot of Balkan politicians."

Tanja Fajon, a Slovenian member of the European Parliament who specializes in the western Balkans, maintains that "what is happening in Europe is already having a negative psychological effect on a region which is trying to come closer to Europe."

When Slovenia joined the bloc in 2004 and then the euro three years later, "it was like the fulfillment of a dream," Ms. Fajon said. "For countries in the Balkans that were living behind closed borders, this is also their dream — but it is one that is falling apart before their eyes."

How Greece squandered its freedom

In the vote on Sunday, a bitterly divided nation faces a choice between two deeply flawed al-[illegible]tives.

Nikos Konstandaras

ATHENS My country is hurtling toward an election that will decide its fate — whether Greeks will fight on to remain part of Europe's core or succumb to their own weaknesses and turn inward, choosing isolation, anger and uncertainty greater than that from which they wish to flee.

The vote on Sunday will change our lives — determining not only whether we remain in the euro zone but also the nature of our society and the fate of the democracy that was re-established just 38 years ago after a dictatorship. We are bitterly divided between those who want to carry on with the reform process and those who want to turn back the clock. Our partners in the European Union are frightened of the consequences of our vote, but seem otherwise indifferent to our fate.

At a moment when the choices should be as clear as possible — between reform and stagnation, between Europe and isolation, between painful progress and the deceptive comfort of surrender — the issues are hopelessly confused by false expectations, by false choices and by the total failure of a political class that can't propose solutions to the country's problems and can't forge a minimal national consensus on what is at stake and what needs to be done.

We face a choice between two deeply flawed alternatives. On one hand, there is New Democracy, a center-right party that has done much to undermine Greece's economic reform and revival over the past two years. It refused to support the bailout agreement signed by the Greek government, the European Union and the International Monetary Fund on the grounds that it would stifle growth and so it undermined initiatives like tax reform that would have helped combat tax evasion by self-employed professionals and businesses. Yet it is now presenting itself as the responsible force that will stick to austerity and keep Greece in the euro zone.

On the other hand there is Syriza, a fractious coalition of 12 radical groups that has anointed itself the herald of leftist change throughout Europe and declares that it will immediately annul the bailout agreement while demanding that our partners continue to lend us money. The latter course could lead to the country's swift exit from the euro and a chaotic and unpredictable future.

Since last October, after the first suggestion that Greece might be forced out of the euro zone, we have lived with desperate uncertainty. Suicides, once few, are on the rise as the pressure becomes too much for some. Meanwhile, families and the disorganized and underfunded social security system can no longer cope. In a country of fewer than 11 million people, more than a million are jobless. Everyone else lives in fear that he or she may be next as companies close or lay off workers. Migrants are leaving and Greeks are emigrating. A recent study conducted on behalf of Panteion University in Athens suggests that 7 out of 10 Greeks between the ages of 18 and 24 hope to seek their fortune elsewhere.

This uncertainty has inspired radical choices. A cousin of mine, and his wife, left with their young child a few weeks after she was offered a job in Dubai, in the United Arab Emirates. They reasoned that one job in Dubai was more secure than two in Greece.

In villages around the country, the unemployed and pensioners from cities and towns are returning to the land to clear fields and grow crops that they feel they and their extended families will need if the economy gets even worse. A friend, a successful lawyer, is thinking of going into farming as he sees his clients falling by the wayside.

My elderly parents follow the news carefully, anxious about possible shortages of medicines. Having lived through many ups and downs, they are more sanguine than most: ''Whatever happens to the many will happen to us as well,'' my mother says.

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The insecurity shakes us to our core. When I go to the A.T.M., I hold my breath until I hear the reassuring whirring sound that says the machine will give me what I've asked for. I wonder whether I will be so lucky next time. My wife and I have been working for more than 25 years, saving for our children's education, because even though about half our salaries go to taxes and social security, we know that we must pay for private schools, that we cannot count on state hospitals, and that our pensions are not guaranteed. (All this because others do not pay taxes, and because successive governments did not do their work.)

Every day we wonder whether we have done the right thing, jeopardizing our savings in a stubborn statement of confidence in a country that, since its founding, has declared bankruptcy several times. How will we tell the children that their lives would have been better if we had been less inert, less idealistic, more adaptable to circumstances? In a few years' time, will they be able to travel and study abroad as easily as we once did? We don't know.

The choice Greeks face on Sunday might appear simple — between tightening our belts and remaining in the euro or leaving it and facing an economic meltdown. But politics is never simple here.

The discredited New Democracy party, which governed Greece from 2004 to 2009, represents the failed political system that allowed Greece to fall so deeply into debt in the first place and then signed on to harsh austerity measures.

And a coalition led by the left-wing coalition Syriza wouldn't be the breath of fresh air that its 37-year-old leader, Alexis Tsipras, would like us to believe. Its platform is populist to the point of nihilism as it tries to suck up the support of those who've abandoned the mainstream parties and their failed policies: It promises to annul the reforms and austerity measures of the past two years, nationalize banks, block privatization plans and even take back some of the state companies that were recently sold off.

A fatal sense of entitlement eroded the self-discipline and inventiveness that once helped us achieve great things.

Meanwhile Pasok, the Socialist party that until May had been Greece's other major political faction, alongside New Democracy, has withered to near irrelevance because it is blamed both for policies that stacked the public sector with political clients and bloated state spending, and for implementing the austerity and reforms demanded by our creditors.

None of these parties have advanced a serious agenda to avoid disaster. Those who are deeply in debt — or who aspire to gain at the expense of others — hope that the economy's slate will simply be wiped clean. Those who have stashed their money abroad will be able to buy assets on the cheap if Greece leaves the euro zone. But the people who work hard and pay taxes, who have a stake in reform and progress, who carry the burden of every mistake, have no credible representative to vote for. Those who want a better Greece have to look for the least bad option.

The widespread feeling of loss is worsened by the understanding that we wasted most of the past four decades — the longest period of peace and prosperity that the country has known. Greece made great strides toward achieving the standards of its European partners, with major infrastructure projects, hospitals and schools, and with European Union subsidies and markets helping to create a booming economy and a new middle class. But we allowed development to become a bubble. We lost the self-discipline, moderation and inventiveness that once helped the Greeks achieve great things, and we succumbed to political expediency, delusions of grandeur and a fatal sense of entitlement.

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Ever since the Greeks began their war of independence against the Turi in 1821, these different aspects of the national character have been in perpetual conflict, resulting in breathtaking swings between glorious heights and desperate depths.

The heroic resistance to the German occupation in World War II was followed by a civil war between left and right that still cripples our politics; the inspiration of the Athens Summer Olympics in 2004 was followed by the economic, social and political ineptitude that brought us to today's collapse of the main political parties, and what is turning out to be the destruction of the country's backbone: small businesses and the middle class.

We hear that about €80 billion has been pulled from bank accounts and that €500 million to €800 million is bei[illegible] withdrawn each day. Some of this goes toward paying bills, while the rest is being hidden or moved abroad.

And yet, last month there was still about €170 billion in Greek banks, despite the growing chorus of economists declaring that Greece will leave the euro. Why? Maybe when the volcano rumbles, when the thugs come for our neighbor, when a society gives up the fight for progress, the familiarity of our routines numbs us to the dust and roar of the coming stampede. Maybe we do not think bad things will happen to us.

Maybe that's what the people of Constantinople felt before it fell to the Ottomans in 1453, or the Greeks who were swept out of Asia Minor in 1922, or the innocents sucked into the civil war of 1946-49.

What I want to remember from Greece in 2012 is how laziness and years of intellectual sloppiness can waste the gift of freedom and leave open the gates of the city — how we allowed our leaders to pander to us until we had no one capable of leading us, no one next to us at the barricades.

NIKOS KONSTANDARAS *is the managing editor and a columnist at the Greek daily newspaper Kathimerini.*

France Tel: +33 1 41 43 93 00
Tel: +33 1 41 43 93 61 Classified: +33 1 41 43 93 85
852 2922 1190 The Americas: Regional Office, 620 Eighth Avenue, New York, N.Y. 10018 Advertising Tel. +1 212 556 7707 Fax: +1 212 556 7706, Circulation Tel. (toll free) +1 800 882 2884 or +1 818 487 4540 Fax: +1 818 487 4550 ihtus@espcomp.com
Fax: +44 20 7061 3529