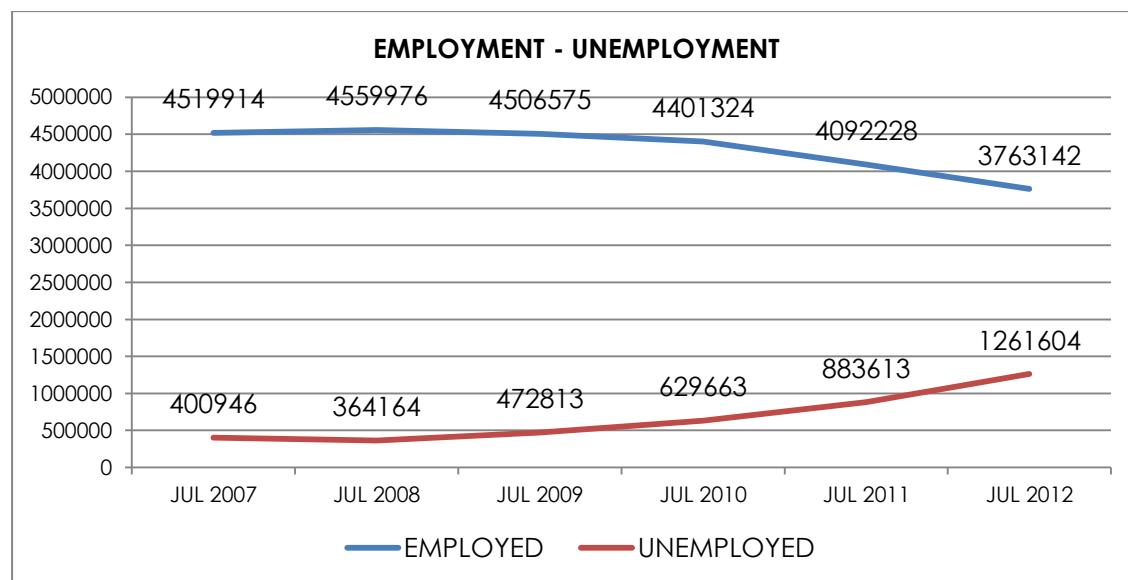


## COALITION POLITICS IN GREECE: A STORM IN A TEACUP?

We have been witnessing over the last four months a relentless pressure from Troika on the Greek side on a broad range of issues. This time Troika is going for an overkill to avoid the embarrassment of a new failure on achieving targets. The result is that the stability of the Coalition government has been increasingly tested. The latest episode on labor reforms indicates that the junior parties in the Coalition have reached their limits.

The paradox of this negotiation is that the creditor governments and the IMF have been hiding behind Troika. Ms. Merkel has repeatedly said that they cannot decide without a Troika report. But a collapse of the Greek coalition government is likely to unleash terror in the markets and will pave the way for a deeper recession and the spread of the crisis to Spain and Italy. The bill will be paid by the taxpayers of the core European countries and the politicians will pay the price not the Troika bureaucrats.

The re-engineering of the Greek economy including the productive system is likely to take a generation without considerable outside assistance. The difference between what Troika is asking and what the Coalition parties are prepared to give in labor markets is relatively small by comparison to the consolidation that has been achieved over the last 3 years. The level of compensation has not prevented the firing of 900 thousand employees since the start of the crisis back in 2008.



Some try to explain the position of the Troika with reference to the lay-offs in banks. As banks are re-capitalized and mergers take place several thousand employees will be fired. Troika is not willing to accept that a part of the resources used for reinforcing the banks will be used to compensate employees. Thus they insist on drastically reducing the level of compensations. However, the insistence of Troika on deeper labor reforms can also be explained by the lack of progress in other areas.

Greece has repeatedly failed to implement liberalization reforms in the product and services markets. Privatization has been stalled and the establishment of an independent authority (HRADF) has only delayed the process. The energy market remains effectively closed to competition as the incumbent PPC dominates both production and transmission. The opening up of professions has been protracted and limited. The regulatory framework remains rigid, layers of legislation have been amassing over the years and a prospective investor will have to shift through piles of secondary legislation in order to determine his obligations. Pervasive bureaucracy is choking economic activity and the latest horizontal cuts in civil servants' salaries have killed any work related incentive. Innovation is strangled through poor management inadequate incentives and the undermining of researchers morale.

*Therefore, the competitiveness of Greece will result not from growth enhancing reforms but from cost cutting ones and the labor market will pay the price.*

It seems that Greece is unable to become the Denmark of the South<sup>1</sup>. The Greek political system and society have been accustomed to a different mode of operation. Thus, Troika has decided to create another Bulgaria and the bill will be paid by the Coalition parties which incidentally are their only allies. The Coalition has a great difficulty to accept this destiny for Greece. However, the three parties have failed to explain to the people the necessity

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<sup>1</sup> That was the vision of the ex-Prime Minister Mr. Papandreu back in 2009. After an extremely successful career as a leader in Greece he now teaches at Harvard. The Americans have a sense of humor difficult to comprehend or something else is happening!

of the alternative. In fact the Coalition's failure in communication is becoming more acute than the policy failure.

The latest internal dispute is more theatrical than real. But if the three leaders behave in such a manner, who is going to stop the MPs from revolting in Parliament? The New Democracy Party has a populist group of MPs which are keen to show their credentials to their clientele. PASOK has lost almost half of its electoral influence and is highly destabilized torn between those in favor of remaining in government and those flirting with SYRIZA. The Democratic Left which has been acting responsibly up to now is increasingly nervous as they realize that policy compromises with Troika have no end. The current crisis is likely to be overcome with another compromise as the stakes are high but what will happen at the next turn when a new major issue will come up? The number of MPs declaring their intention to vote against the package in Parliament is increasing, with 5 already indicating that they will not support the measures.

Prime Minister Mr. Samaras is determined to go ahead as time is running out for Greece. Even if the current timetable is strictly kept the next tranche will not be released before the 20<sup>th</sup> of November. Any accident in the process cannot be rectified as crucial dates relating to debt management are very close for comfort. The discussion is now centered on the structure of the law which will be tabled in Parliament: one law with one article or two articles or two separate laws. This is a non-issue as MPs determined to vote against will not hesitate to do it irrespective of the structure. In case that the MPs vote in favor of the fiscal package but against the labor reforms the outcome will be the same: Greece would not have met the preconditions for the release of the tranche. Troika and the Europeans can wait until Greece decides on the issue.

**S. Travlos 24/10/2012**