GREECE: WINDS OF CHANGE?

A few weeks ago it was almost certain that Greece will come up against German intransigence and will be pushed outside the EURO despite considerable efforts to adjust especially in the fiscal front. Following Ms. Merkel's visit in Athens winds of optimism have swept Greece. The government has speeded up negotiations with Troika and agreement was reached on a huge fiscal package. But suddenly labor relations became the major stumbling block with the left of center DIMAR party deciding to block any further liberalization of the labor markets while PASOK decided that the privatization process has to be re-politicizing again and come under parliamentary control. As a result the attention of the markets has shifted to the fragility of the government coalition.

Coalition: Wild is the wind

Prime Minister Mr. Samaras is pushing ahead with reforms determined to write down his name in history as the most unlikely savior of Greece in the modern era. He can rely on the most efficient and internationally respected Minister of Economics of the last decade in persuading European partners that he means what he says. But he has little help from anybody else from the cabinet with the exception of the Minister of Labor and the Minister of Public Order. The communication system of the government remains weak and few Ministers and MPs are brave enough to defend publicly difficult decisions. There is no overall vision. The Prime Minister will insist to pass the necessary legislation from Parliament as a one article law and thus in effect transform this process into a vote of confidence. The New Democracy parliamentary leadership is trying to persuade ambivalent MPs to vote in favor.

The two junior coalition partners have problems of their own. PASOK is now a fragmented disillusioned party on the brink. Its leader Mr. Venizelos has embarked on a war of attrition against the Minister of

Economics changing position on serious political issues every other week. He has been completely distracted by the handling of the HSBC list admitting that he had taken the sole copy of the list home without ensuring that the original remained in the Ministry when he left office in April 2012[1]. PASOK is now divided in several feuds and senior figures have agendas of their own. Mr. Venizelos closer ally in the past Mr. A. Loverdos is openly challenging him and has decided that the time has come for the creation of a new party. The parliamentary spokesman Mr. M. Chrysohoidis has distanced himself from the current leader and they are not in speaking terms. Others have been talking about the need for a re-alignment thus leaving the coalition and siding with SYRIZA. Two MPs have already indicated that they will vote against the package while another ten have openly revolted on the privatization issue claiming that parliament must have the last word on any major privatization and not HRADF[2]. *In total up to 10 MPs may not vote in favor of the package.*

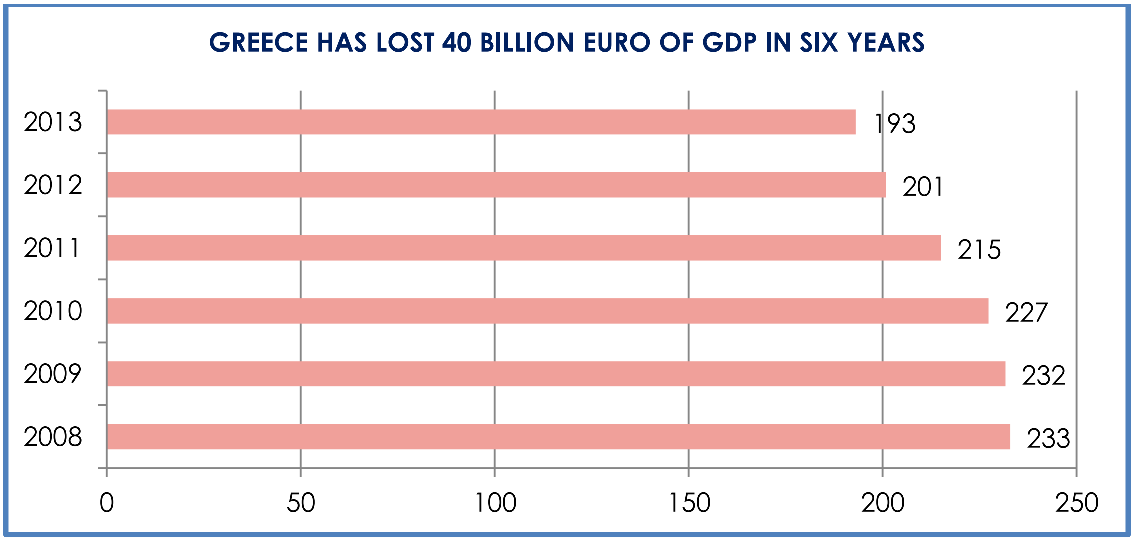
The Democratic Left party is a new comer to the pro-MOU front and as such it encounters major difficulties of adjustment. The initial euphoria based on the notion of re-negotiating the second MOU has given way to the reality of tough negotiations with Troika and the reluctance of European partners to provide further assistance in order to facilitate a more protracted and smoother fiscal consolidation. Internal pressures have mounted as party activists from various social groups are unable to withstand the pressure of voters and sympathizers. It seems that at this crucial juncture the party leadership decided to take a hard line as

[1] The initial Falciani list arrived in Greece sometime in 2010 when it was handed over to Greek Finance Minister George Papaconstantinou by his then French counterpart Christine Lagarde. The list was never used to establish possible tax evasion cases and it was copied from the initial CD to a USP device. Public opinion is suspecting a cover up of some high profile politicians that were in the initial list but they have been removed in later versions. The list has been discredited as it remained hidden for over two years and in any case contains illegally acquired data.

[2] They are the same MPs that 15 months ago have voted to establish HRADF and offload to this new agency all responsibility of privatization.

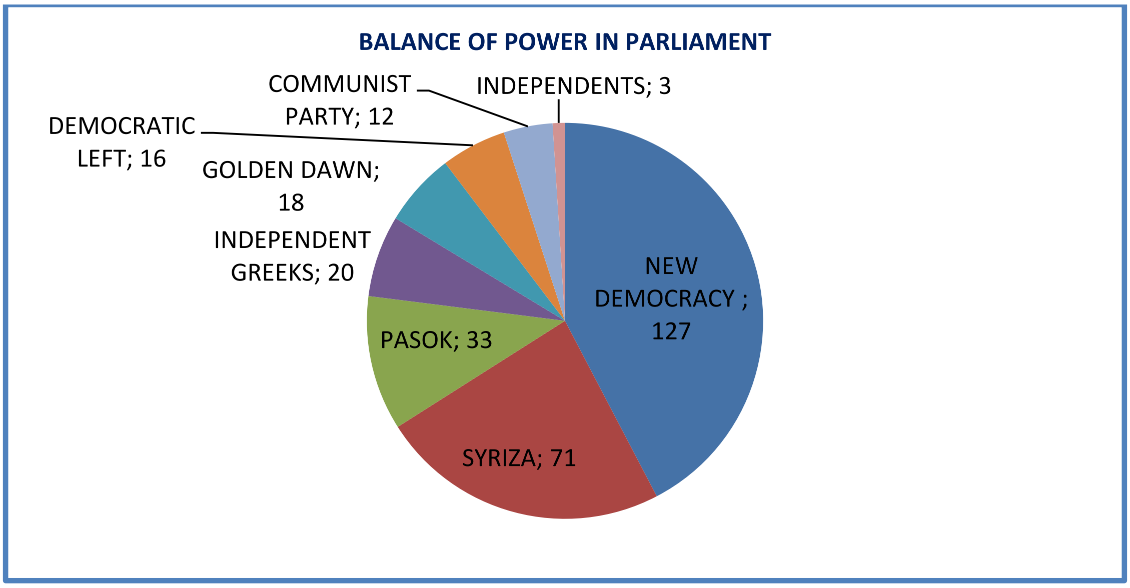
several MPs have expressed concern and one of them resigned the party whip to become independent. The responsible attitude of DIMAR up to now has been rewarded by voters as the Party continues to keep its influence in recent opinion polls. It remains to be seen as to whether the leadership will make another last minute turn and find some excuse to vote in favor.

The coalition is losing the communication battle as they are unable to develop a basic political story. Austerity is unpopular and Greeks have already lost a considerable part of their wealth, hundreds of thousands have lost their jobs and are at risk of losing their homes and thousands are facing criminal investigations unable to pay exorbitant tax obligations. *These policies cannot be defended as such but they have a meaning in a broader context of reviving the economy and ensuring continuing Eurozone membership.* They are a bridge over the economic abyss. The problem is that the coalition government has not produced a clear vision of how a restructured Greece will grow and produce wealth over the next decade and where new jobs will be created. The growth story is not there for people to see and as a result austerity has become a bridge to nowhere.



Austerity and reforms have produced some positive results so far in the real economy. Labor costs have sharply declined and exports have shown some signs of recovery. But no one is able to talk in Greece about green shoots yet as the economy is expected to shrink by at least another 4% next year.

The coalition has started with a majority of 29 (179 MPs out of 300) but they have already lost 3 MPs even before a vote is taken on the crucial package.

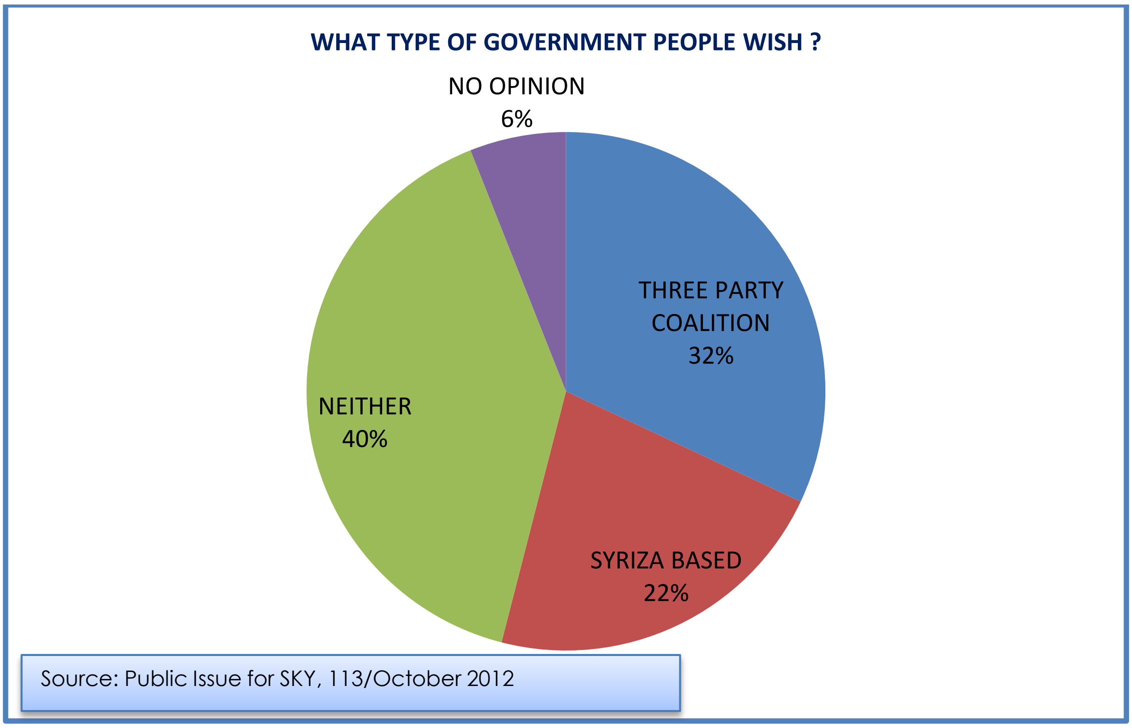


SYRIZA: Stairway to Heaven … for the people

SYRIZA has kept up throughout a strong anti-MOU rhetoric further consolidating its position and gaining a slim lead over New Democracy in the recent opinion polls. However, the rhetoric cannot hide the lack of strategy and the absence of any detailed policy initiatives that offer a realistic alternative to the current austerity package. When confronted the SYRIZA leadership cannot explain how they will finance the economic recovery that they are promising following a debt moratorium and the ensuing cut off of aid. The majority of the economic policy unit of SYRIZA realizes the difficulties of the current conjecture and keeps a low profile.

Generalities quibbling and anathemas against troika and its local collaborators are what we get from the SYRIZA top political leadership.

The wish that other European countries will elect a SYRIZA type of government sometime in the near future is the last resort for persuading the electorate that they represent a realistic alternative. However, internal feuds are simmering, centering on the issue of policy direction (reformist versus radical) and on whether trade unionists with extreme corporatist views will be accepted in the party.



Mr. A. Tsipras[3] in his latest article claims that: "What is needed is a comprehensive response to the debt problem similar to the one agreed at the international conference in London in 1953, which freed Germany from the stranglehold of debt and paved the way for the post-war economic success of West Germany. The purpose of this conference should be: The shielding of Europe against speculative attacks and the adoption of measures, among others, such as the collective management of debt and the guarantee of bank deposits, deleting a substantial part of the nominal value of the debt of southern countries of the Eurozone and the repayment of the rest with a

[3] Interview in Les Echos 28/10/12.

"development clause." The growth momentum will be resumed with a «New Deal» for Europe". In this interview the leader of SYRIZA attacked again the banks as the villains without revealing his proposals as to who is going to pay for their re-capitalization in case of such a massive debt write down.

The policy vacuum prevents SYRIZA of becoming a dynamic majority movement. As recent opinion polls indicate an increase in voting preferences is not automatically converted to a strong government perspective. In fact in the latest poll 35.1% of voters believe that if SYRIZA had formed a government the situation would have been worse than now with only 20.2% believing that the situation would have been better while 33,7% about the same[4]. However, the fragility of the current coalition government and its lack of a strategic vision may soon change SYRIZA fortunes.

Coalition: Autumn Leaves

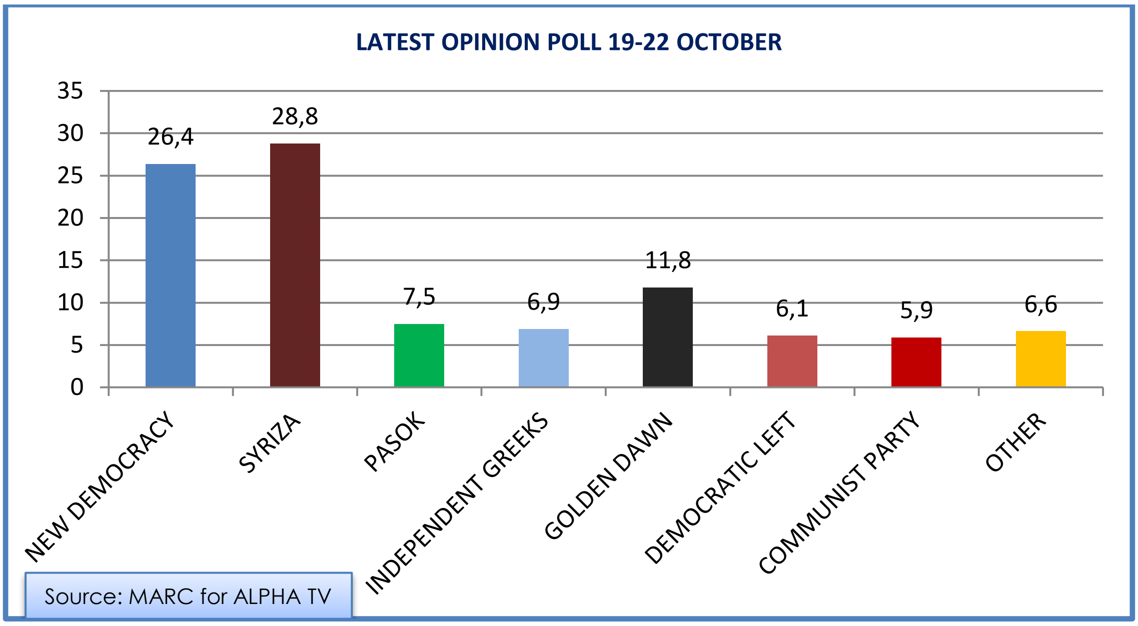
Behind the scenes negotiations are continuing among the coalition partners. The Prime Minister is making every effort to keep the coalition intact. It is a matter first and foremost of numbers. With so many PASOK MPs on the brink of defection, the government majority has suddenly become fragile. It is also a matter of credibility. An increased majority will reassure the European partners and the markets while will give to the coalition a much needed new impetus.

The PASOK leadership is anxious to see the continuation of the current arrangement. However, if DIMAR decides to leave the coalition they will most probably continue to support the government but at a heavy political cost. Hence, PASOK cannot afford to let DIMAR go without a fight. They must share the burden of supporting unpopular policies otherwise PASOK will be further marginalized and annihilated in a future

[4] The data are taken from The MARC opinion poll for ALPHA TV. The poll was conducted between 19 and 22 of October.

electoral battle. DIMAR has not yet decided to abandon the government but they are seeking an honorable way out in the form of a compromise move on the part of Troika which is not likely.

The Minister of Economics has said tonight on TV (28/10/12) that: "the troika remains adamant on three points: the 10% of the family allowance, the extensibility of collective bargaining and the ratification by the Parliament of privatizations. Troika believes that the first issue is already legislated while the second does not apply almost anywhere in the world". On privatization, continued Mr. J. Stournaras, "the troika insists on the existing arrangement as a prerequisite, correctly in my opinion, because otherwise would be difficult for a foreign investor to come in Greece."



Opinion polls indicate that the coalition still retains a significant influence among voters as at least 40% of them support the three parties while the opposition remains fragmented and unable to co-ordinate popular anger. PASOK is the weak link of the coalition with the current leadership unable to reverse the decline.

Despite the tacit approval of a majority of the voters the coalition is shedding its leaves as an increasing number of MPs are turning their back on austerity and seek contacts with the anti-MOU parties of the left and right in order to continue their professional career as politicians. They will soon realize that if this government loses its parliamentary majority the ensuing financial collapse and the wave of discontent will bury all the old political order irrespective of last minute repentance.

S. Travlos 28/10/2012