

## **A NEW TWIST IN THE GREEK DRAMA**

### **a. The coalition government has survived but is wounded**

The coalition government in Greece has lost one partner and now rests on a majority of 3-5.

Economic policy failures are on the rise and clouds are again moving in. Greece is again with its back on the wall in between the Scylla of new measures and the Charybdis of a government collapse.

The tax collection mechanism is failing to deliver the revenues required and the government is looking to impose further taxes on property to counterbalance growing tax arrears. The middle class is again taking all the burden of failure. This is a self-defeating strategy as it undermines the political and electoral legitimacy of the Centre right government.

Another failure in privatizations has also affected sentiment. The privatization of the Gas Corporation (DEPA) was a difficult exercise that was bound to encounter headwinds. First, pre-privatization shareholders' structure was complicating matters as the Hellenic Petroleum participation was influenced by the Latsis Group. Second, domestic interests had accumulated debts through non-payment and were alarmed by the possibility of a third powerful party getting involved with the management of the company. That some of these interests participated in the first rounds of privatization can only be attributed to a peculiar "immunity" that powerful interests enjoy in Greece. Third, European Union (and USA) strategic considerations had played a major role in dissuading the Russians with veil threats about competition and energy dependence. GASPROM has declared that they will not participate again in the new round of DEPA privatization<sup>1</sup>.

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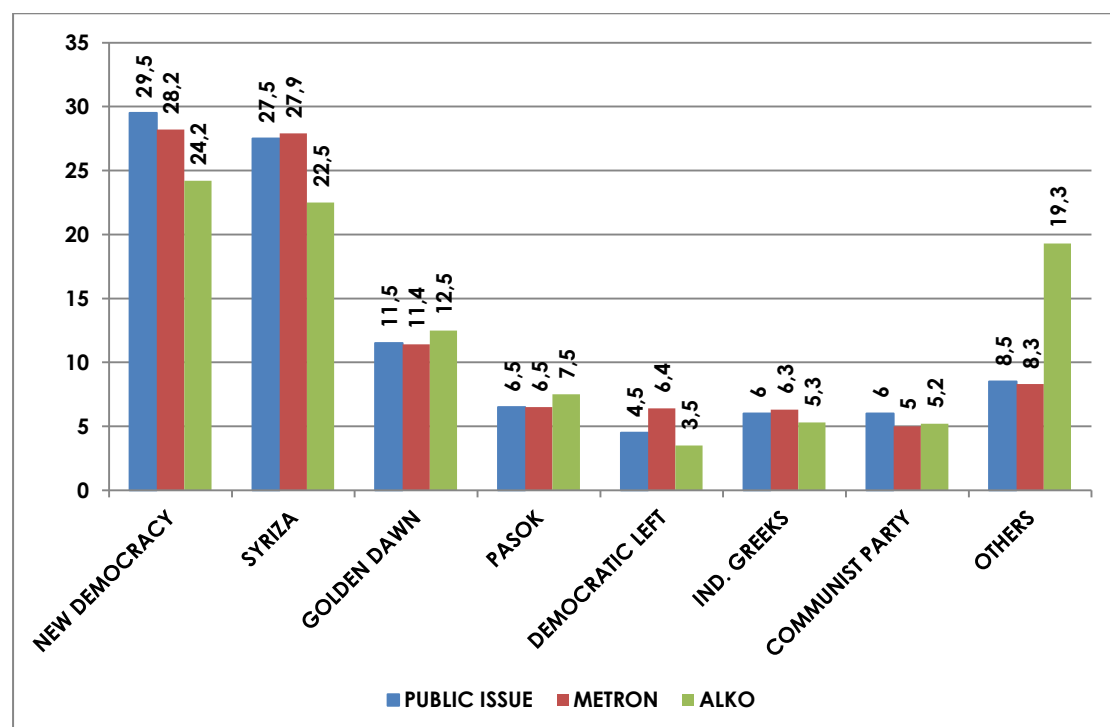
<sup>1</sup> GASPROM is also facing global challenges as its influence and capitalization have shrunked.

The coalition government has come out severely traumatized from the handling of the national television issue. The national television reform through closure has provoked an angry reaction not only from the unions involved but also from the coalition partners and some European quarters. The national television has always been a failed institution. Successive governments promised to reform it but they have miserably failed as they were too close to their “clients” and the unions were reform resistant. National Television (ERT) was as sinful and “unreformable” as Olympic Airways. The appalling handling was inevitable. It was an accident waiting to happen as the Prime Minister has not created an efficient mechanism for the preparation and implementation of reforms.

In fact the Achilles heel of this government is again lack of meritocracy. People are appointed in key positions not because they have skills to do the job but because they are insiders, friends or relatives of the top politicians. Old habits die hard in Greece. But compounding failures have reached now a level that is close to the collapse point. Troika representatives are very concerned as they realize that there are no reliable mechanisms in Greece to implement reforms in any sector.

Over the last month the Democratic Left was searching for an excuse to leave the coalition. They have started with the proposal of the antiracist draft law which caused an embarrassment to the Prime Minister and unnecessary friction among coalition members. Then during the negotiations on how to resolve the television crisis the DL leadership changed its position a number of times and finally insisted on the reinstatement of all the employees as a precondition for staying in the government. National television can function with about one third of the 2500 employee. DL's position was seen by most people an excuse to leave the government.

The move by DL can be superficially explained on purely electoral calculations. DL was losing electoral support as they have failed to differentiate from other coalition partners. Both DL ministers were only creating problems instead of resolving them and they proved to be very shy on reforms. In fact the participation of DL in the coalition was acting as a brake in promoting reforms and as a result compliance with the creditors' conditions was erratic. However, the causes for DL's departure are much deeper and it seems that for its departure it paid a high political cost.



**Source:** Public Issue for the Daily Newspaper Kathimerini published on the 15/6/2013, METRON for the weekly Newspaper EPENDITIS, published on the 15/6/2013 before or near the National Television closure and ALKO for the Sunday Newspaper 'PROTOTHEMA' published on the 30/6/2013.

Some powerful sections of the business community seem to be dissatisfied with the reform effort. They have been used to preferential treatment in getting contracts, securing loans or even running debts against the state or public sector companies. They are reluctant to comply with new rules imposed by troika, sometimes in great detail,

which undermine their privileges. Furthermore, other segments of the business elite see little progress with the restructuring of the economy and as a result their prospects are worsening. The combine effect is expressed in a new round of pessimism and the development of a strong undercurrent for breaking free from the memorandum 'straightjacket' on the way to return to drachma.

#### **b. SYRIZA is not exactly a government in waiting**

The failed business elites are looking for a re-alignment of politics as well. SYRIZA has no real electoral dynamic. Successive government failures accidents and shortcomings, as well as widespread dissatisfaction with austerity are not politically capitalized by the opposition. In all polls up to now respondents express the opinion that they trust this current government arrangement as more trustworthy, by a great margin, compared to a SYRIZA based government.

In the most recent Public Issue<sup>2</sup> poll, the public believes that a New Democracy based government is better placed to address the country's problems by 37% as opposed to a SYRIZA based one which is supported by only 22% of the respondents.

The main opposition party has been greatly affected by the Cyprus crisis. The attraction of voodoo economics that with great ease were circulated by top SYRIZA figures have no real appeal anymore to the people as they realize that there are no easy solutions in the current conjecture<sup>3</sup>. Confusion prevails on major and sensitive issues and on the run up to an election SYRIZA will be hard pressed to clarify its position on economic policy and the debt issue.

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<sup>2</sup> KATHIMERINI 15-6-2013.

<sup>3</sup> The spokesman for economic policy Mr. Milios has recently declared in an interview that: "The issue is not monetary, but it is a matter of a social conflict. Our slogan remains on the one hand, no sacrifice for the euro, but at the same time no illusions about the drachma".

The recent interview<sup>4</sup> of the Secretary of the SYRIZA Parliamentary Group is revealing.

*"Reporter: Is there a real danger for default?"*

*N. Voutsis (Secretary of SYRIZA parliamentary group): There is a period of months, last year we had figured to be 5-6 months at a cost of 4.2 billion, where the country may not pay its obligations, etc. as it is engaged in the renegotiation of debt contracts, the country will be able in these months at least with the existing resources and production, to stay on her feet. If more time is needed, we will see with the people what to do. "*

### **c. The grand design of business elites**

The strategy of some sections of the business elites is first to undermine the capabilities of the government so that it falls further behind with the implementation of the current reform program. DL's departure was the first step in this direction. Their second aim is to create a friendly towards SYRIZA political party, which will participate in a future government. This second step will be the next test of their influence. They plan to destabilize PASOK with a series of defections culminating in the creation of a new populist center left party with the remnants of 'Papandreism' (old and new). They also plan to give generous media support to the new party. Whether this latest 'grand design' will fly over the longer term it is another matter. Most of the participants are either political vampires or failed ministers of the last Papandreou government very unpopular in the electorate mainly because they were associated with deceitful practices, electoral promises that were never kept nepotism and incompetence.

However, one should not underestimate business elites in Greece. Some small sections of the elite have developed a culture based on the worst traditions of Byzantium and others on the Sicilian mafia. Both institutions, as we all know, were very successful for centuries.

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<sup>4</sup> VIMA FM 2-7-2013.

Europeans have an interest to support this current government as a last chance to save not only the Greek economy but also as a way to facilitate the Europeanization of the political process. It is a difficult task as the political parties of the current coalition have failed to reinvent themselves and rely mostly on the same personnel responsible for the crisis. It seems that there is no internal process of renewal in the political system. The historical evidence points towards the direction of a “Schumpeterian” resolution, as only after major crises and national catastrophes the old order is swiped away and replaced by new forces. It will be a pity if Greece has to go through a major calamity in order to achieve its revival.

#### **d. The outlook**

The two party coalition government has to regain the political initiative become more unified in the execution of its policies and counteract inertia in key sectors of the reform effort.

Greece's survival rests now on the fulfillment of some very basic assumptions. The benign scenario is that at least the two new appointments (Minister of Administrative Reform and Minister of Health) will be more efficient and aggressive in pursuing reforms. They have better intentions compared to their predecessors and few illusions as to the difficulties that lie ahead. But they are running out of time. Troika and the creditors are desperately looking for results and policy slippage has to be reversed.

More effort must also be directed in the tax collection mechanism and the resolution of the tax arrears bag log that has eluded all the previous governments. Private sector involvement in the latter issue is now overdue.

This government has to end the culture of postponing all the difficult decisions for later as the political cost is higher on the run up to various elections in 2014 (for European Parliament and Municipal and Regional Councils).

With past experience as a guide, full political recovery is difficult to occur. The most likely scenario is a continuation of the current status quo for at least another year. The government will continue to muddle through with considerable policy slippage and stagnant popular support while the opposition will be unable to capitalize. At this stage even this 'slow death' process can be considered as good news but it may not last. The postponing of the economic recovery fuels uncertainty undermines the rehabilitation of the banking system and results in higher unemployment. Sustainability of this intermediate scenario is now questionable.

The bad scenario of a government collapse and 'sudden death' cannot be ruled out even with 2013. There are two possible variations to this scenario. First, the coalition government may attempt to engineer a revival of expectations and call early elections in an effort to stabilize its position. This move may result in a new prolonged period of negotiations to form a new government with uncertain outcomes. Second, there is always the possibility of an 'engineered' collapse of the current government through defections and the creation of new parties. In this case the ground would have been set for a SYRIZA based government which will try to renegotiate debt agreements and that may lead to default and GREXIT.

**S. Travlos 2/7/2013**