

ECONOMIC AND SOCIAL BACKGROUND TO THE ELECTIONS

S. TRAVLOS

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THE CAUSES OF THE CRISIS

- ❖ Cheap credit and a squandering public sector have fuelled growth for more than 12 years. Large construction projects associated with the Olympic games have contributed to the growth mirage.
- ❖ Reforms were mainly enacted up to 2001 when joining the euro became a reality. Then society and the political and union elites have decided that there was no need for further reform. The reformer Prime Minister Mr. K. Simitis was defeated in the streets over a pension reform bringing his efforts to an end. PASOK trade unionists allied with populist left and right wing politicians have demanded his head on the plate. He just survived to see through the preparation of Olympic games.
- ❖ The ND won power in 2004 and instead of proceeding with reforms and the re-invention of the state as they have promised they ended up adopting old habits. An unprecedented expansion of public expenditure, increased renumeration of public servants and failure to build up on the Olympics legacy has exacerbated underlying weaknesses.
- ❖ The Lehman crisis has put on the spot light all the weak links of the world economy and Greece was the most vulnerable.

POLITICAL ELITES QUARRELLING LED TO A DELAYED REACTION

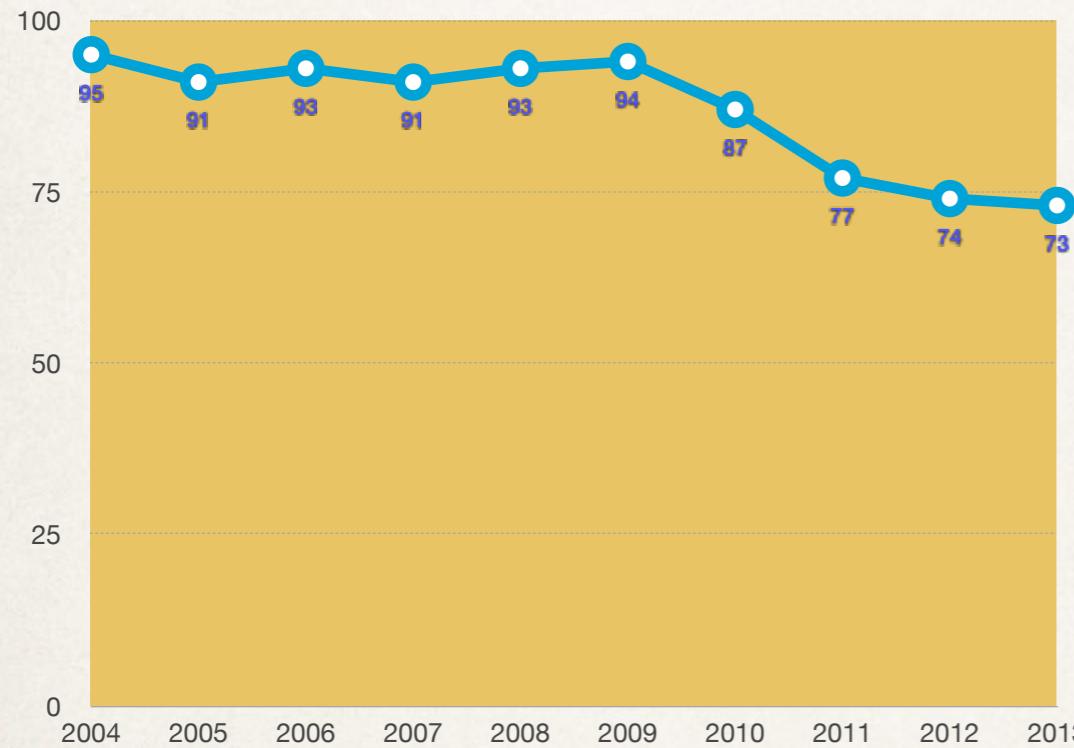
- ❖ The ND government had seen the gathering clouds but failed to tackle the problem at the start. Weakened by a number of scandals and facing an incoherent and power thirsty opposition was reluctant to take corrective action. In political terms ND had lost the initiative as it was too late in 2008 to become reform minded when they wasted 4 years in benign voter appeasing policies.
- ❖ All political parties have been warned in the Spring of 2009 about the deteriorating situation but political posturing prevented any action.
- ❖ The government change in October 2009 was also another lost opportunity for Greece to adjust. The incoming Prime Minister was promising hands-outs. The Finance Minister was delivering on them defying guidance from European Commission that the game is over for Greece.
- ❖ Precious time has been lost with the markets becoming nervous. The adjustment package announced in February 2010 was too little too late and the ensuing resort to the tripartite control mechanisms was inevitable.
- ❖ The tripartite group has repeated many mistakes of the past. The now accepted criticism of the wrong multipliers used in simulations underpins a more fundamental lack of judgement on the part of institutions that have a set of prescriptions which however do not work everywhere. Even Mr Draghi has later identified as the main weakness in their approach the sequencing of policies suggesting that the program must have been more reform oriented at the beginning accompanied by a more gradual public finance consolidation.

THE MAIN ECONOMIC IMPACTS

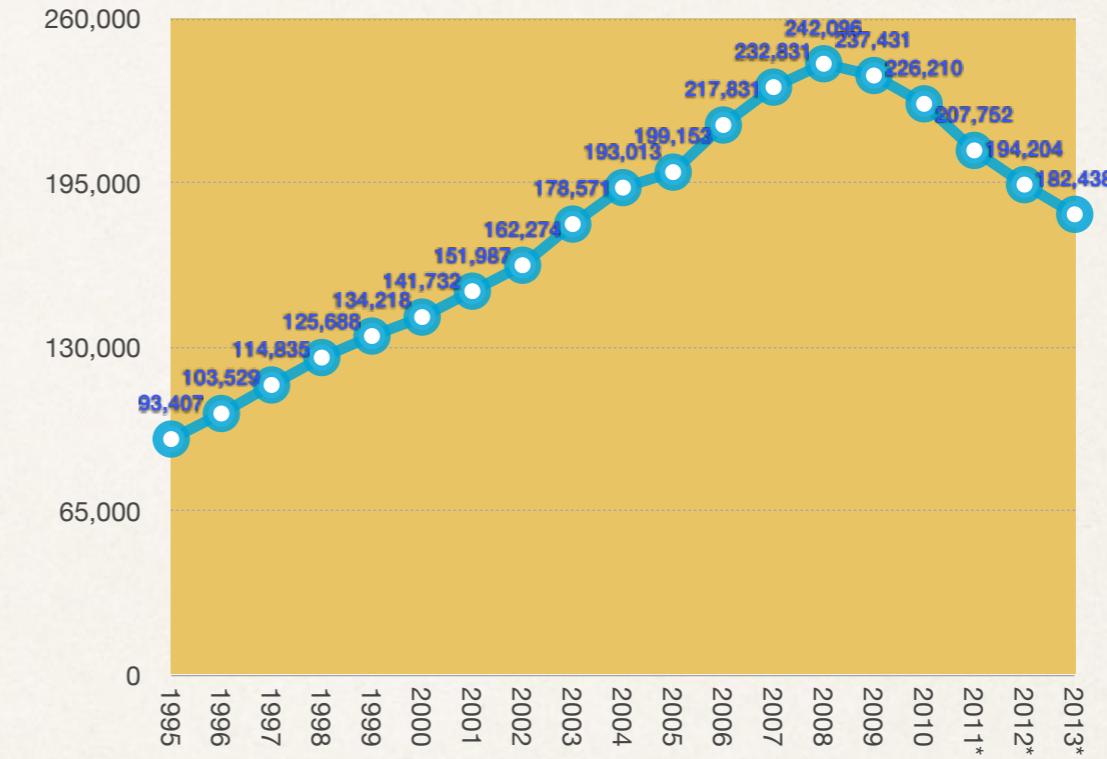
- ❖ Greece convergence effort started in the mid-1990s came to a halt. With the economy at a free fall deconvergence emerged as the dominant trend for the next 5 years.
- ❖ Consumption led growth has ended in tears but the switch to export led growth failed to materialise as investment has collapsed.
- ❖ The private sector has suffered the most damage with bankruptcies and massive redundancies.
- ❖ The twin threats of country risk and PSI have destabilised banks and as a result liquidity has evaporated. Deposits dwindled as savers transferred their money abroad or simply used it to pay taxes.
- ❖ The economic system became dysfunctional as expectations turned pessimistic, confidence evaporated and the government was unable to take any corrective measures.

GDP HAS SHARPLY DECLINED

● GDP PER HEAD PPS

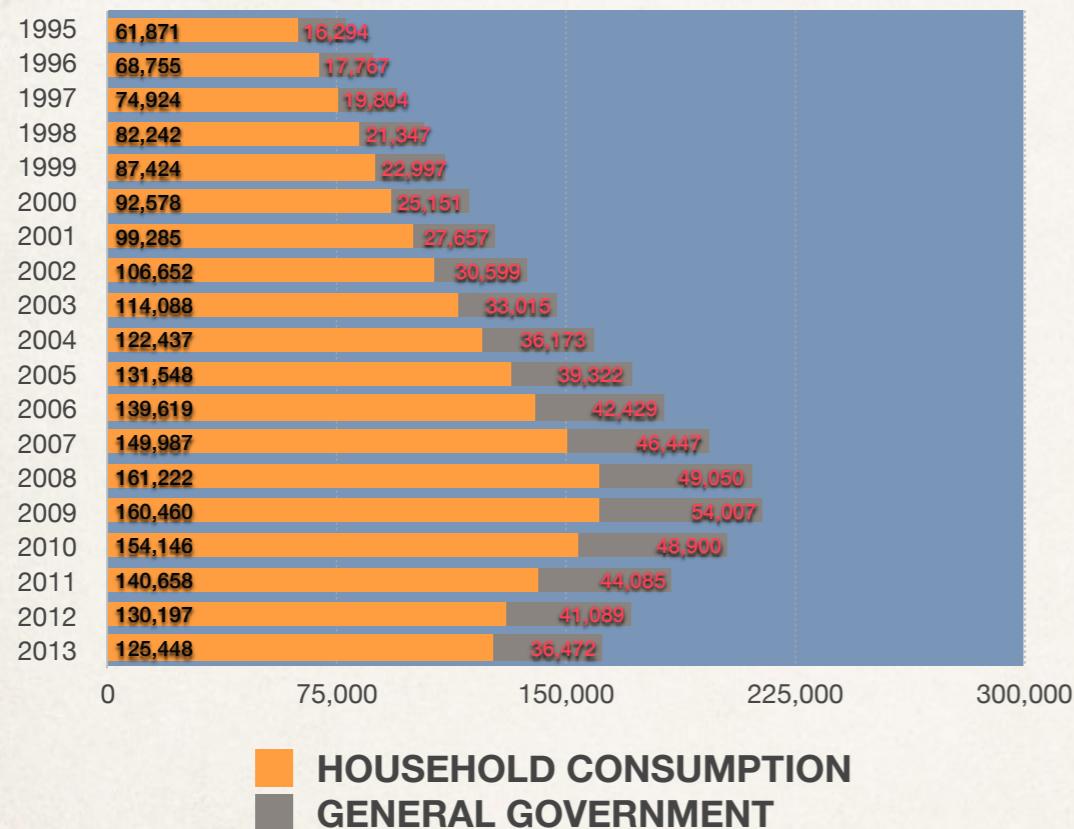


● GDP AT MARKET PRICES



GDP per head declined by 20% points compared to EU average and by 60 billion euro in absolute terms since 2008.

THE DRIVING FORCE OF THE ECONOMY - PRIVATE CONSUMPTION COLLAPSED



Private consumption declined by 36 billion euro since 2008 and government consumption by 12.5 billion.

INVESTMENT ON A FREE FALL



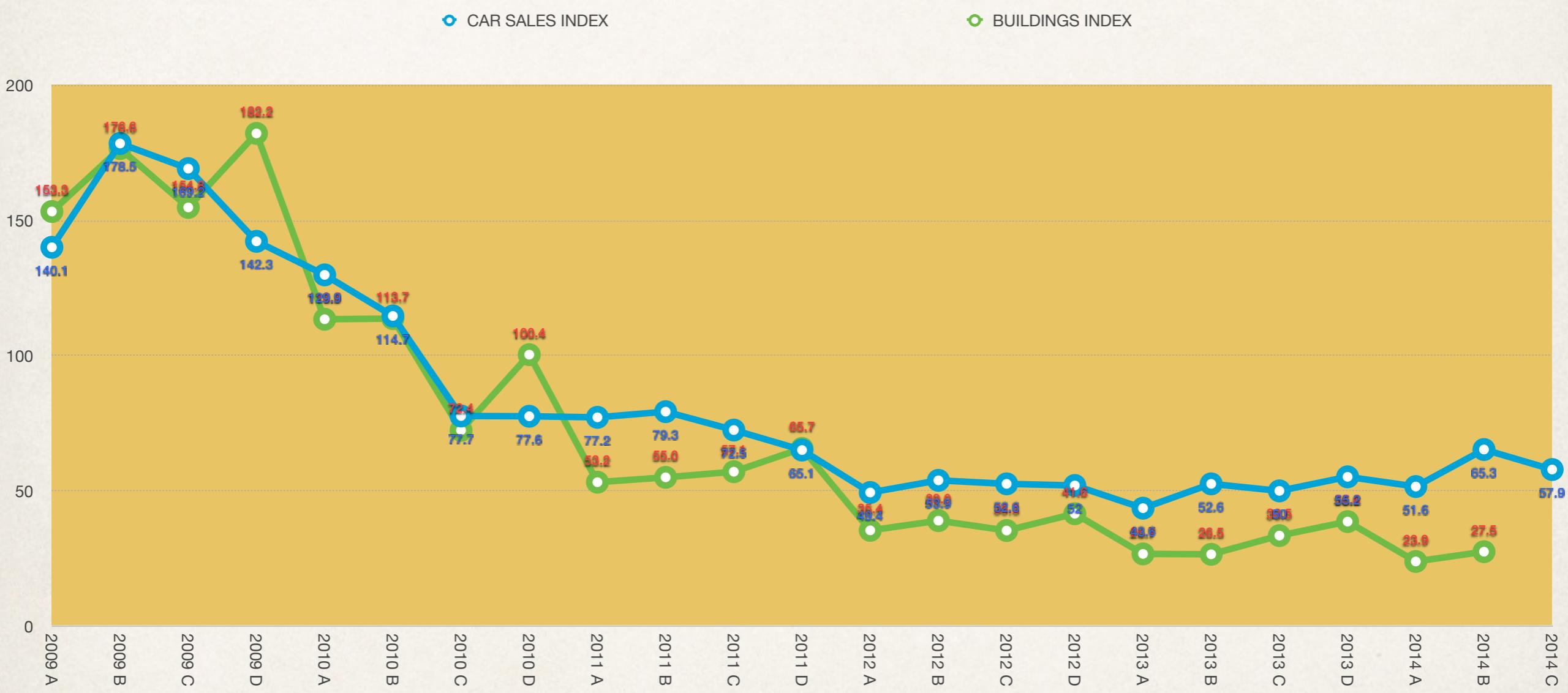
Investment is at an all time low less than half of the pre crisis level and investment in machinery required for the renovation and expansion of production (and exports) is only 42% of the pre crisis level.

EXPORTS ARE RECOVERING BUT NOT AS FAST AS WAS EXPECTED

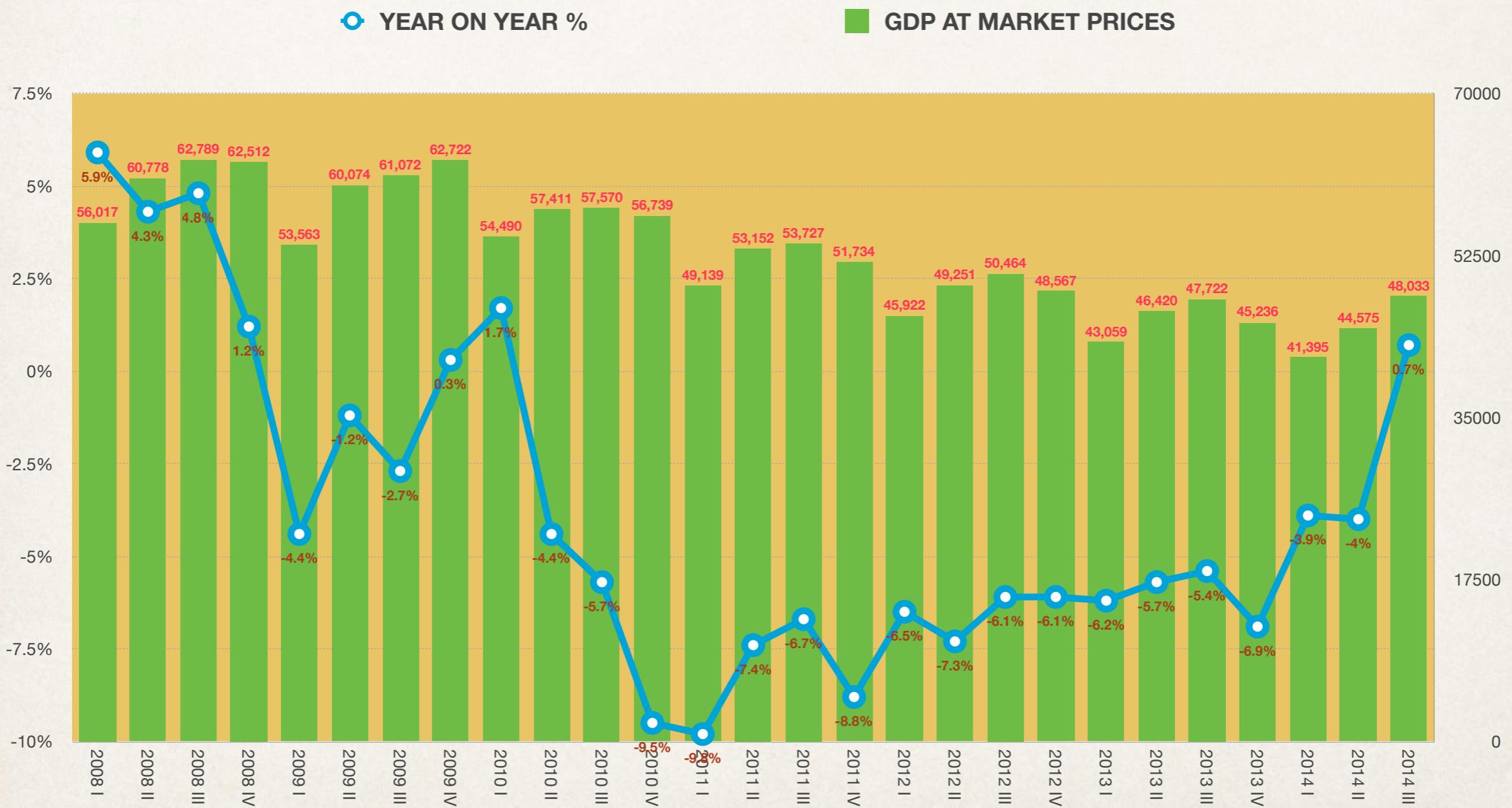


Without considerable investment in new high value activities the export led growth will fade away. Greece has to move up the value chain but the lack of the right business environment does not provide the right incentives for the shift while continuous support for large construction projects drains the economy from the necessary resources.

SEVERAL SECTORS WERE PARTICULARLY HIT



BUT THE CRISIS IS EBBING AND THE RECOVERY IS ON SIGHT

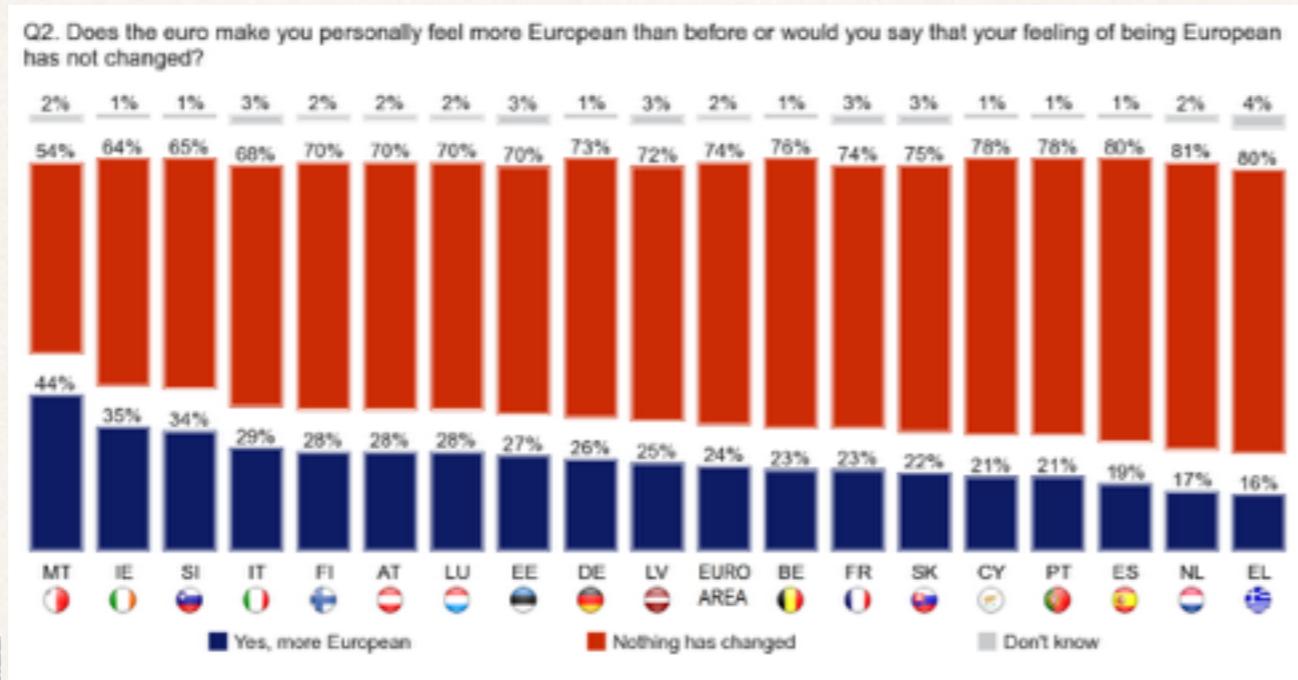


THE OUTLOOK IS IMPROVING BUT TOO MANY FALSE DAWNS IN THE PAST MAKE VOTERS SUSPICIOUS

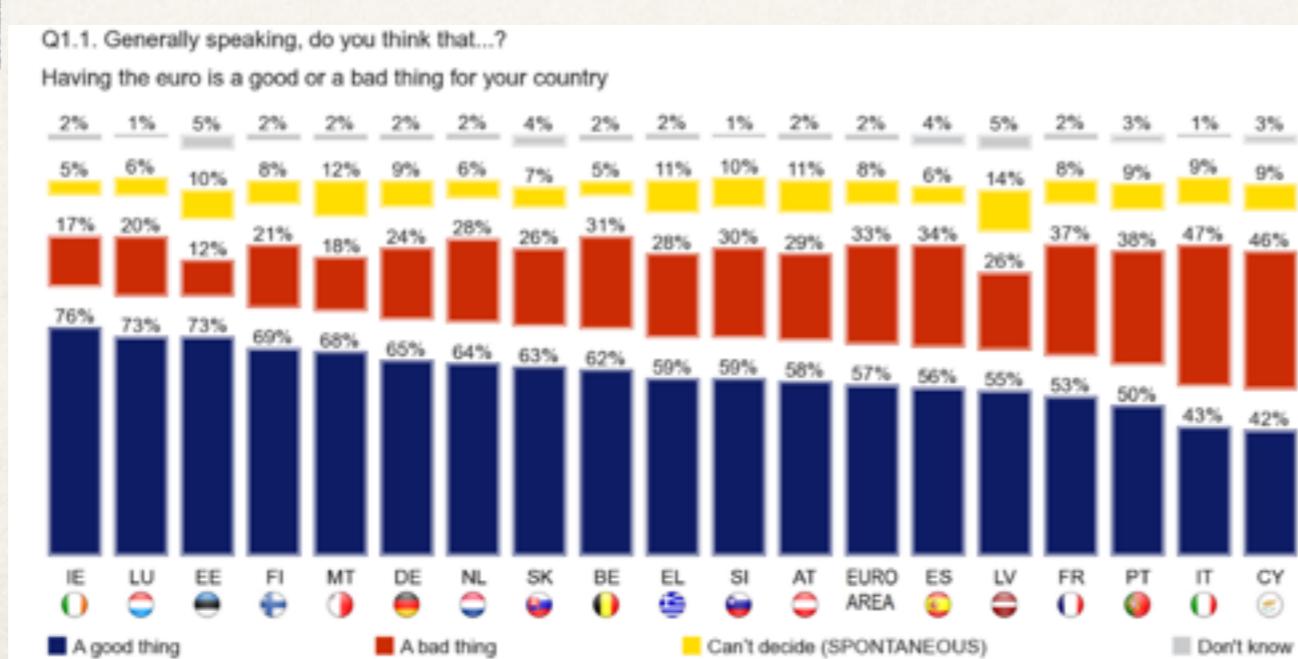
EU AND OECD FORECASTS - AUTUMN 2014

| | 2013 | 2014 | 2015 | 2016 | FORECAST |
|--------------|-------|-------|-------|-------|----------|
| GDP | -3.3% | 0.6% | 2.9% | 3.7% | EU |
| UNEMPLOYMENT | 27.5% | 26.8% | 25.0% | 22.0% | EU |
| GDP | -3.3% | 0.8% | 2.3% | 3.3% | OECD |
| UNEMPLOYMENT | 27.5% | 26.4 | 25.2% | 24.1% | OECD |

THE EUROPEAN DIMENSION REMAINS STRONG BUT IS BLURRED



SOURCE:
EUROBAROMETER

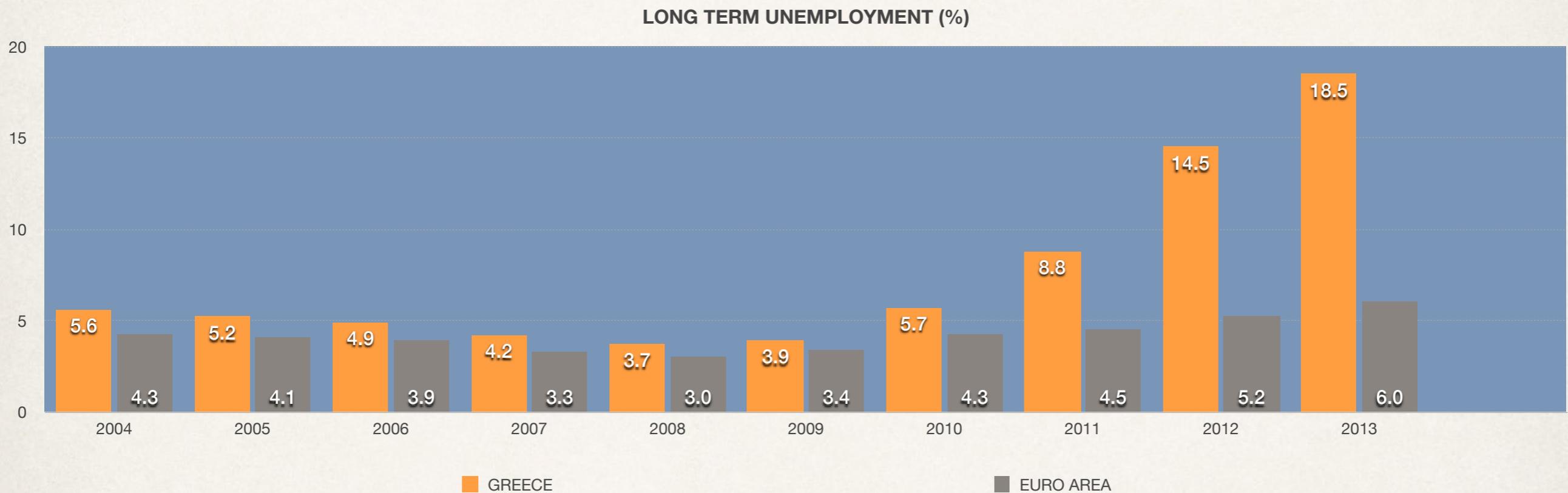


Having the Euro is a positive thing for 59% of the Greeks ahead of the Eurozone average and more than 16% from Italy. However, the Euro does not give a stronger European identity to the Greeks.

THE SOCIAL CONSEQUENCES

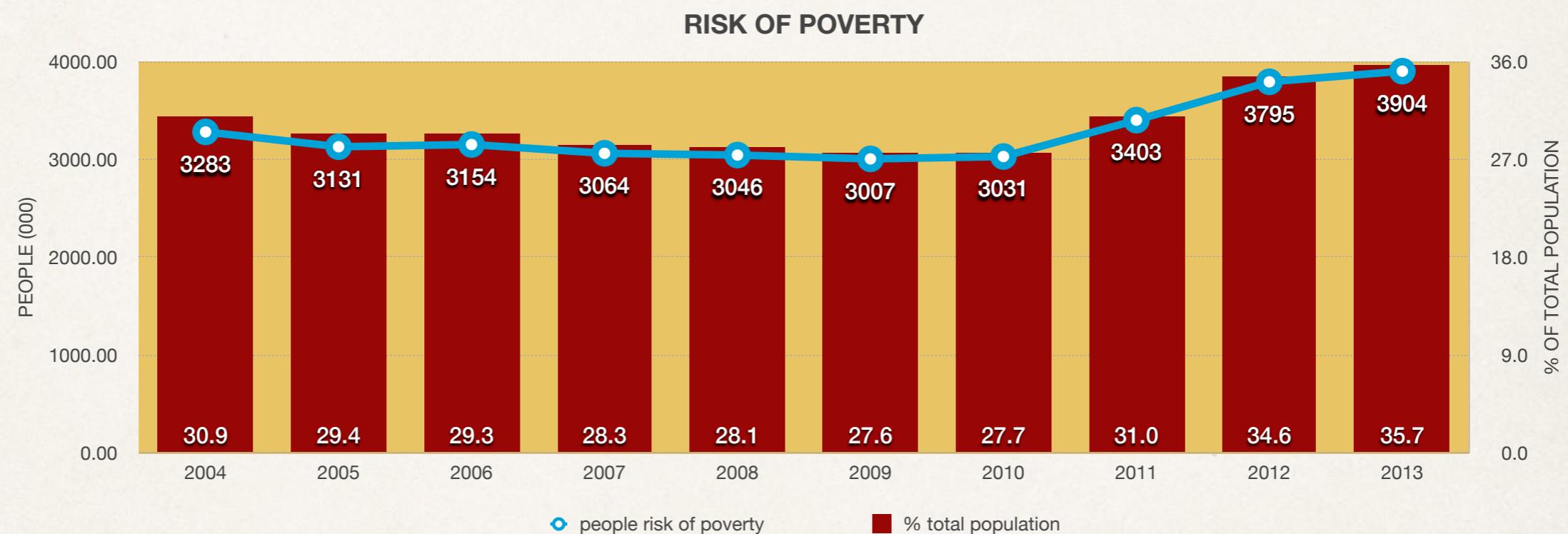
- ❖ The collapse of demand and liquidity have led to the destruction of the private sector and to massive unemployment. Long term unemployment which is the main cause of poverty has skyrocketed.
- ❖ The welfare system became unsustainable as social insurance contributions plummeted and the value of the reserve assets of Funds declined due to the collapse of the stock market.
- ❖ The belated overtaxation of property has resulted in the decline of households wealth the collapse of real estate markets and the undermining of the middle class.

LONG TERM UNEMPLOYMENT HAS EXPLODED



More than 520 thousand people are long term unemployed. Greece has three times the long term unemployment rate of the Eurozone.

RISK OF POVERTY DRAMATICALLY INCREASED



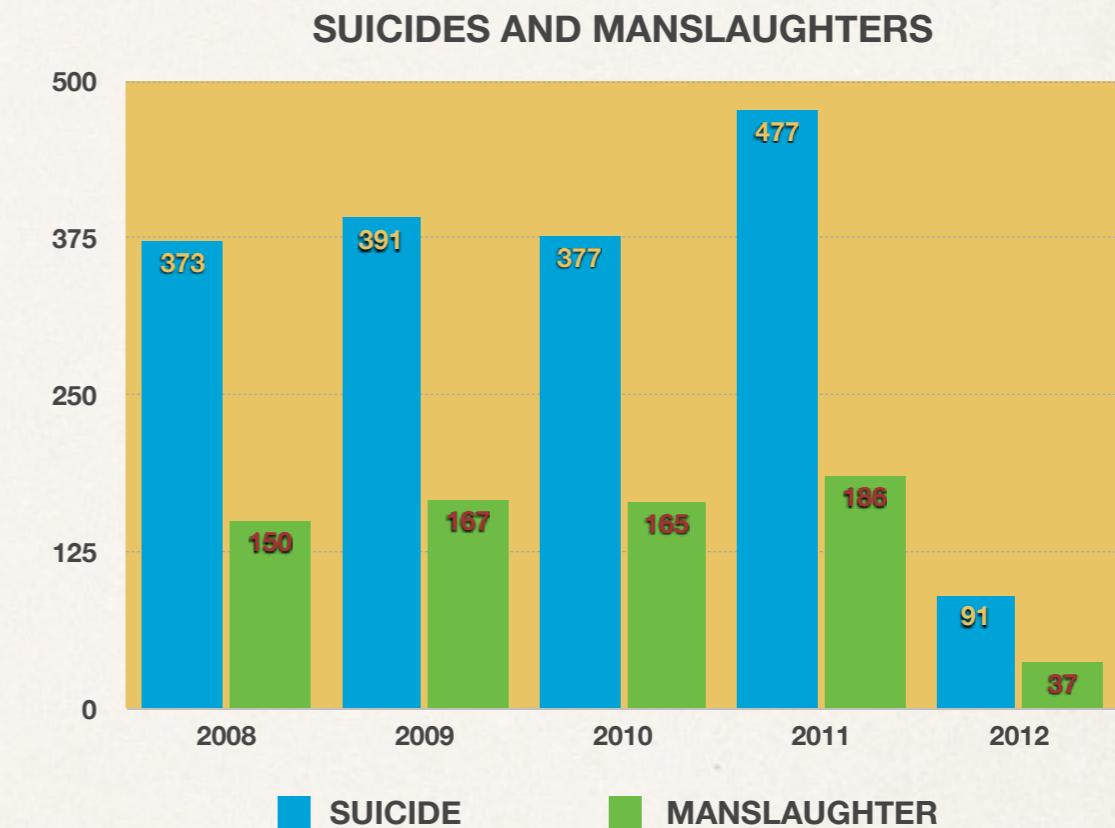
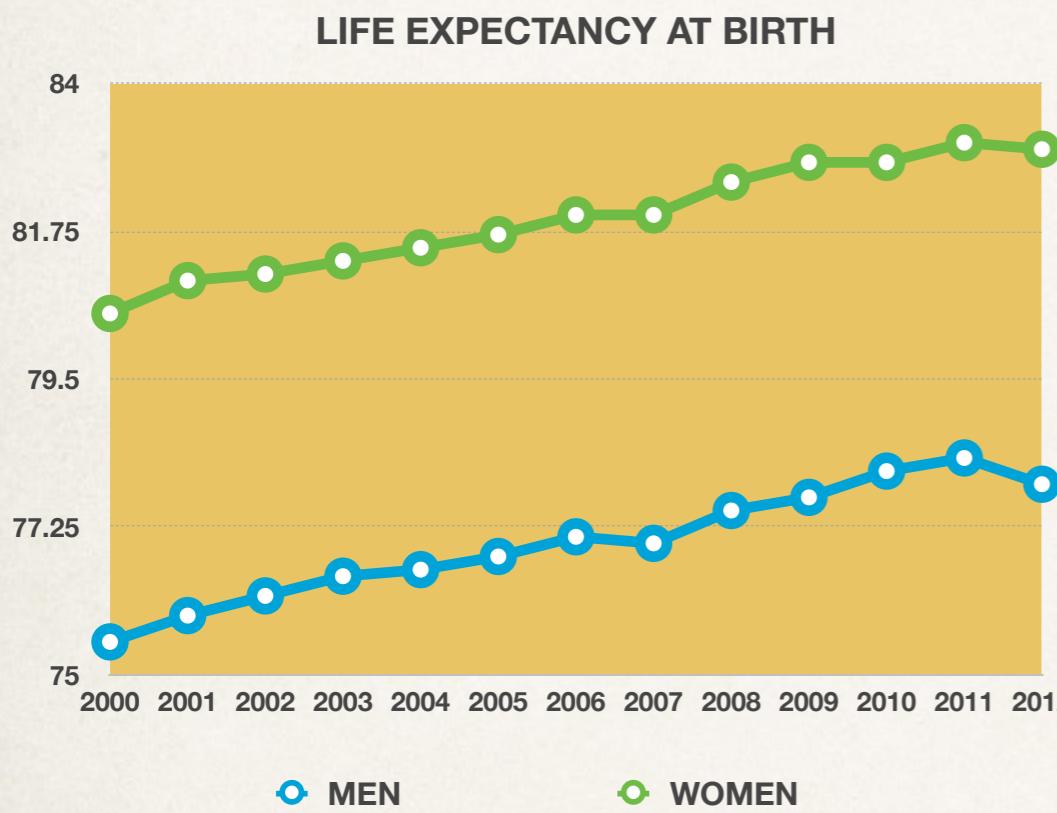
Almost a million people have been added to those at risk of poverty since 2009.

INEQUALITY MARKEDLY INCREASED



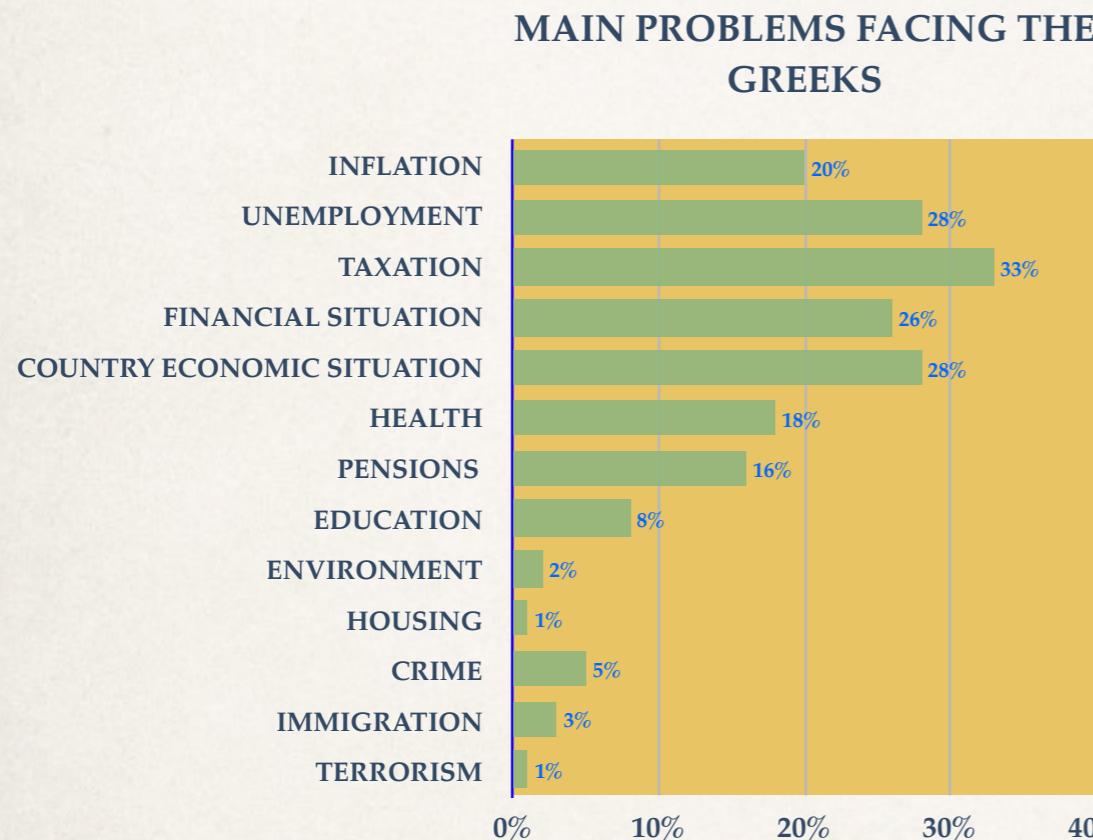
The ratio of total income received by the 20 % of the population with the highest income (top quintile) to that received by the 20 % of the population with the lowest income (lowest quintile).

THE CRISIS HAS A REAL IMPACT ON PEOPLES LIFE HEALTH AND DEATH PROSPECTS



It seems that the worst is over as people have learned to adjust to the new more difficult circumstances.

TAXATION UNEMPLOYMENT AND THE COUNTRY'S SITUATION ARE REGARDED AS THE MAIN PROBLEMS



The quality of life in Greece is currently judged by 74% of the Greeks as total bad compared to 42% for EU28. As a consequence Greeks are very dissatisfied with their lives 57% (20% in the EU28) and only 43% satisfied (80% in the EU28). They also believe that their life over the next 12 months will not improve and in fact 33% believe that it will get worse.

THE REFLECTION TO POLITICS

- ❖ The economic crisis has led to a new social reality with grave consequences for the political developments.
- ❖ The wealthy have managed to protect their interests especially those active in the international markets (shipowners, tourist entrepreneurs, exporters).
- ❖ On the other end a large part of the society has been marginalised as long term unemployment has particularly hit the private sector employees and the crumpling welfare system failed to protect them.
- ❖ Society has become more skewed as the middle class has crumbled and a large number of self employed and professionals have been impoverished.

- ❖ As a result the centre has collapsed and large segments of the society have been radicalised without a firm ideological direction moving freely from extreme right to left without moral restraint.
- ❖ As a result political parties of the left and right have identical perspectives and platforms and collaborate without principles on a anti-MOU ticket.
- ❖ Populism transcends parties and has become endemic undermining any long term reform and modernisation effort. As a result political leaders have failed to assume ownership of the reform process offloading the burden to Troika.
- ❖ Political fluidity has become a basic characteristic of the crisis period.

THE MAIN DILEMMAS

- ❖ There are two main issues in the forthcoming elections:
 - ❖ On the one hand **fear of Euro exit** and the risk of a sudden collapse and more poverty. Images of severe disruption in the CEE Countries following the collapse of “socialism” and Argentina in the early 2000s are haunting the voters. They feel it can happen here as well.
 - ❖ On the other hand they are **fed up with austerity** and failed promises. According to IMF calculations Greece will return to the pre-crisis GDP sometime around 2020. This is the longest recovery period in the post war Europe. Patience has evaporated.
- ❖ On the basis of these two simple issues the electoral dilemmas will be build by the two main camps. ND will play again on the fear of exit as in 2012. SYRIZA will offer a magic solution of ending austerity. Credibility may become an issue at some stage because ND has promised and failed to deliver an orderly exit from the MOU and the adjustment program while SYRIZA is economical with substantiation of its economic program.

NEW DEMOCRACY REMEMBERS ITS EUROPEAN CREDENTIALS AND HIGHLIGHTS ITS MIDDLE CLASS ROOTS

- ❖ The ugly face of populism that took the upper hand following the European elections has become a liability for ND and the Prime Minister. Disgraced politicians from the past were resurrected to counterattack SYRIZA with his own weapons.
- ❖ The PM's inner circle divided inept and incompetent have once again shown the limits of this administration headed by Mr. A. Samaras.
- ❖ For his political advisors it was hard to understand that ND populism was fuelling SYRIZA growth in the opinion polls. SYRIZA can outbid the government on promises. ND's populist turn soon became a farce which alienated serious voters.
- ❖ ND is now engineering a new turn towards modernisation and continuation of reforms in order to stay within the Eurozone and reverse the economic decline of the country securing in the process its own political survival.
- ❖ ND will try to mobilise all those voters that have a European perspective and they do not trust SYRIZA. But the loss of credibility may be detrimental for the effort.

BUT FAILS TO DELIVER A DAY AFTER CREDIBLE VISION

- ❖ ND has failed so far to project a credible day after plan and remains trapped to the modalities of the adjustment program.
- ❖ There is a lack of vision and no credible road map to new economic development and social recovery.
- ❖ The government has lacked throughout the last two years the recovery perspective and failed to address the key weaknesses of the economic system and mobilise resources in order to attract investment in dynamic sectors.
- ❖ The reality is that the MOU prescriptions remain the only development plan for Greece. But the creditors policies are biased towards stability (securing the repayment of debts) and have failed too often elsewhere to generate growth.

SYRIZA COMFORTABLE WITH RADICALISM IN PUBLIC AND APPEASEMENT BEHIND CLOSED DOORS

- ❖ The economic program of SYRIZA is based on two main pillars. First, to kick start the economy with the old national Keynesian reflation mechanism. Second, to rebalance social inequalities with policies targeting the weaker part of society. They both represent a radical departure from current policies.
- ❖ These two pillars are build on the shaky ground of debt relief. Various proposals of debt forgiveness have been circulated. The latest versions depend on the willingness of the ECB to assume the servicing of debt for at least 5 years.
- ❖ But the most contradictory attitude is towards investment. SYRIZA has condemned all privatisations and for some has indicated that he might review and reverse them. His leader is threatening foreign investors with penal procedures as he considers everything as a sell out. This policy stand appeases the trade unionists and various local activists which have tried for years to stop any productive investment in all localities on environmental grounds. However, it alienates future investors.
- ❖ In private SYRIZA's spokesmen try to convince european ambassadors and politicians that they will not act on a unilateral basis and that they will engage in negotiations. However, the issue is not just to engage but to come to some sort of compromise and SYRIZA's positions remain very far apart from those of the creditors. A turn requires considerable skills and a unified leadership. SYRIZA has a number of handicaps in this department including a vocal minority which may put the breaks in any effort to adjust policies to reality.

NO INDICATIONS YET FOR A TURN

- ❖ SYRIZA'S Leader Mr. A. Tsipras from Crete (13.12.2014) reiterated the main commitments of his economic program:
 1. Secure electricity, food and medical care to those who live under the poverty line
 2. Reinstate the 13th bonus pension
 3. Adjustment of debts to the State pension funds with income criteria.
 4. Restore the previous threshold of 12,000 euros of non taxable income
 5. Reinstate the minimum wage to 751 euros.
 6. New rules for non performing loans.
 7. Repeal the recent anti-labor legislation and broadening the criteria for the unemployment benefits.
 8. Creation of employment programs for 300,000 jobs.
- ❖ He claimed that "this program is fully costed. It costs about 12 billion euros in its entirety. It will be financed by the savings that will result from the debt arrangements, tackling tax evasion, the NSRF and the availability of the Financial Stability Fund ".

AND A FIVE YEAR DEBT MORATORIUM IS ON THE CARDS

- ❖ Mr Milios latest debt solution explained:
 - ❖ One of the central ideas of the proposal is the moratorium on interest payments and amortisation, which will allow progressive governments to have the fiscal space to exercise social and development policies. “
 - ❖ "Our proposal is for the ECB to take over the service of interest and amortisation for the five years 2016 - 2020, plus payment of all interest corresponding to the remaining debt of the euro area members, capitalising and adding interest to the already accumulated debt".

“PRAY FOR THE WINDS, FOR THE WINDS WOULD DO GREECE GOOD SERVICE”

(Oracle of DELPHI prophecy on how to win the Persians)

- ❖ Greece must pray for the **winds of change** this time to come quickly for “things to remain the same, everything **must change**” as Tancredi said in the Leopard.
- ❖ The electorate has been volatile. Old certainties have died and buried together with the old economic and social model. The European dimension is still strong but not as attractive as in the past.
- ❖ Political elites have failed to renew themselves. On the one side the same politicians that brought Greece to its knees still lead the mainstream parties and on the other side SYRIZA is dominated by a group of professional politicians trade unionists and activists who have little real life experience.
- ❖ In the forthcoming elections predictions are difficult as people are again facing difficult dilemmas between two camps that have too many weaknesses and few virtues. **One's hope that the Greeks will vote for the lesser of two evils.**

NOTE ON DATA

All Data have been taken from official sources mainly:
EUROSTAT, HELSTAT, EUROBAROMETER,
EUROPEAN COMMISSION FORECASTS, OECD.