

# ELECTION UPDATE

## SYRIZA's ECONOMIC PROGRAM CONTRADICTIONS

### Papandreou's New Party

Mr Papandreou has finally decided to launch a new party and participate in the forthcoming elections. The name of the party is probably "Change Movement" capturing an old PASOK slogan from the early 1980s when his father was leader of the party and later prime minister of Greece. Mr. Papandreou is trying to make a come back but his legacy is his main enemy.

He promised in 2009 that there is "plenty of money" despite several warnings that the country was in deep trouble. His government in 2009 was packed with close personal friends who most of them proved to be inept. Some of them will be with him tomorrow when he launches his new party.

His last attempt to influence greek politics during European elections last summer ended in a farce. Then he directed some of his friends to join Democratic Left which subsequently miserably failed in the polls.



*A shopping arcade in Athens centre on New Year's Eve*

### THE ECONOMICS OF ILLUSION

SYRIZA has announced in September 2014 a package of economic measures in an effort to project a coherent and sound alternative economic policy and thus silence critics who have been claiming that the opposition party had only an anti MOU rhetoric.

The basic elements of this program include mainly relief actions but some are very costly. SYRIZA will reconnect families to the electricity network, increase the minimum wage to 751 euro, reinstate the 13th bonus pension and restore the previous 12.000 euro non taxable income threshold. It will also take immediate action to reduce unemployment through public programmes by creating 300.000 jobs. It is committed to lowering the enormous tax burden and to boosting public investment in an effort to accelerate growth.

## Latest polls indicate a resurgence of ND but SYRIZA is firmly in the lead

The latest polls for the forthcoming elections will be published tomorrow.

ND is closing the gap and Mr. Samaras has a high standing in the polls much better placed than Mr. Tsipras.

However, the lead of SYRIZA is considerable and up to now there is no indication for a reversal. It seems that people are fed up with austerity and give little attention to policy issues.

The gap is between 3.2% and 4% at the moment. The key to further changes remains with the undecided. Indications are that most of the undecided are leaning towards ND. On the other hand, past experience shows that some of the undecided just go with the winner. So the trends are contradictory and difficult to predict.

It remains to be seen whether pressure from European quarters will have any impact on Greek politics. Up to now a considerable part of people believe that SYRIZA will manage better in blackmailing the Europeans into submission.

Pollsters believe that a clearer picture will emerge after the 10th of January when the festive season will be over and the impact of the new Papandreu party will be revealed.

it will finally enforce some domestic debt relief with considerable write offs.

SYRIZA's economic program is based on a notion of national Keynesianism reflating the economy through rising income and employment. The increase in the minimum wage and in pensions as well as some public employment policies will increase disposable income and thus private consumption leading to a recovery in the economy. But the increase in minimum wages will exacerbate the competitiveness of the economy (especially the SMEs) and may result in the reversal of exports trends. At the same time increased consumption will lead to higher imports and thus the balance of payments problem is likely to re-emerge.

### *Vague on financing...*

SYRIZA has estimated this program to cost 12 billion euro while the Ministry of Finance has indicated that the total cost of the program is close to 20 billion euro.

Even their own economists have serious doubts about the credibility of the program. Prof. Lapavitsas has recently wrote in the Guardian (29/12/2014): "Syriza's programme is sensible and modest, but lacks secure funding. Greece also needs substantial finance to service its debts in 2015, perhaps up to €20bn".

Whenever the question was put to the party officials answers ranged from the impossible to the improbable. Fighting tax evasion, taking funds away from the European Structural Reference Framework or even the Financial Stability Fund were some of the proposals. Tax evasion is endemic but several governments have tried and failed to combat it as the incentives to evade have increased over the years and the capabilities of the tax authorities have at best the remain the same despite the introduction of draconian measures. The other two sources are beyond SYRIZA's reach as EU has imposed strict conditionality on both mechanisms. Failure to comply with the agreed reform program automatically leads to a freeze on any European Structural funding for the 2014-20 period.

SYRIZA has already made commitments to lower taxes on property and increase spending. It is difficult to find any other means of financing unless they turn on company reserves and bank deposits. Their latest proposal to issue more Treasury

Bills does not make any sense because of the domestic liquidity situation.

### *Evasive on negotiations ...*

SYRIZA's leading spokesmen are lately providing assurances that they will refrain from unilateral actions and that they will engage in negotiations with the creditors in order to reach an agreement albeit on a different policy mix. However, there are two main issues that require further clarification. First, what it will be the reaction of SYRIZA to a likely creditors' rejection of a new debt rescheduling and the watering down of the reform agenda. The new government will have to cover the repayment of existing loans and also finance its program. There are some debt repayments in the spring that might be manageable, but further repayments – €6.7 bn – must be made in July-August, which will need fresh funding from abroad.

Indications are that SYRIZA will stop servicing official debts and stop taking new loans to repay old debts. This position has been made clear on several occasions since the 29th of December when elections became inevitable. One of their spokesmen went as far as reading on TV a part of their congress decision saying that SYRIZA will stop repayment of debts. When challenged he said that "the debt repayment will be made with the inclusion of a development and social clause after ensuring a short period of interruption of repayment of interest and amortisation. To achieve these objectives all weapons will be used in case of a blackmail". A similar assertion was made by the head of their policy unit Mr. Dragasakis in a TV interview on the 29th of December. Mr. Dragasakis said that they will not raise any financing to pay back old loans.

The reaction to these remarks was not expected by SYRIZA. Today they tried to reassure the markets. The government of SYRIZA does not intend to proceed "neither with a non payment of debts or with any other unilateral actions", but upon becoming a government the current support program "will disappear" and negotiations with Troika will begin "from scratch," said the SYRIZA spokesman Panos Skourletis, amid concerns raised following statements on possible debt service interruption (SKAI TV interview). Whether these latest remarks are reassuring to the creditors and the markets is not known but they indicate how far apart are the two sides.

The second issue is related to reforms. Under the MOU Greece has deregulated the labour market, opened up product markets and made several attempts to privatise state entities. More reforms are needed. However, SYRIZA has vehemently opposed any privatisation and many other reforms. So apart from the public finance issue SYRIZA will challenge EU and ECB authorities on the reform agenda as well. Not only that but in certain areas there will be reversals and in privatisations SYRIZA may reopen some cases on the grounds of irregularities. Even under a limited monitoring process, still within the Eurozone, SYRIZA will be facing demands to implement more reforms that are completely beyond this party's perspective.

### ***Which way to turn...***

Despite repeated assurances by SYRIZA there will be an uneasy relationship with the creditors. No matter what the intentions are by the current leadership of SYRIZA it will be difficult to turn and change basic policy commitments. We have seen that in 2009 the then PASOK government required about 8 months to make and complete a full turn despite winning the elections with a comfortable majority having won 43% of the popular vote.

Now, five years later Greece cannot afford such a lengthy adjustment period and an accident may occur especially in the banking sector. SYRIZA has to answer to its own dilemma between credibility and gaining the popular vote. They have to win over the undecided by promising magic solutions and at the same time they have to calm the markets by adopting a more reasonable economic policy. As in the Brian Ferry's song:

*I didn't know which way to turn  
I didn't know which way to turn  
I can't control my feelings if I tried  
Right from wrong, from left to right ...*

### SOME CONTENTIOUS REMARKS BY SYRIZA POLITICIANS

#### *Mr. Tolios, Central Committee member*

*"Asked for his views on Action 24 Mr. Tolios read an excerpt from the text of the last Congress of SYRIZA, which states verbatim: "Without deletion of most of the debt the country cannot breathe. The repayment will be made with a development and social clause. This will follow after first ensuring sufficient time of non payment of interest and amortisation."...*

#### *Mr. Dragasakis Head of Policy Unit*

*Mr. Dragasakis announced in Mega TV "that in the coming days the main opposition party will present a plan under which Greece will now borrow only to invest and not to repay old loans".*

#### *Mr. Stathakis MP SYRIZA,*

*Mr. G. Stathakis has said that SYRIZA "will find the money" of 12 billion euro required for the financing of the program: "3 billion by ESPA, 3 of the FSF, 3 billion from restarting the economy through rescheduling the domestic loans and 3 billion from combatting tax evasion. "*

#### *Mr. J. Milius*

*"Five-year moratorium of payments, and burying of austerity for all", is the proposal of the Economic Policy Spokesman of SYRIZA John Milius in an address presented at a conference organised by the quarterly journal 'Theses' and the Levy Economics Institute .... ».*