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# The Greek Elections of 2012 and Greece's Future in the Eurozone

## Outline

The aim of this paper is threefold. First, it presents the key characteristics of the Greek elections of 6 May and the corresponding campaign, highlighting the main trends, winners and losers in their context. Second, it discusses Greece's future in the Eurozone, on the basis of the experience of the pre-crisis period, the handling of the ongoing crisis, political and policy developments at the European level and the core demands of the Greek electorate. Finally, it presents three scenarios with regard to likely developments after the Greek elections of 17 June 2012.

## Introduction

The Greek general elections of 6 May 2012 marked the end of the lengthy period that Greeks have come to call '*Metapolitefsi*', a term that denotes both the return to democracy and the end of a meddling monarchy through a referendum held after the demise of the dictatorial regime in the summer of 1974. The result of this election marks the end of this period as well as a degree of continuity with the post-1974 era.

### A Greek election like no other? Patterns of continuity and change

In the election of 6 May the two main parties – the conservative Nea Dimokratia (ND, New Democracy) and the Panhellenic Socialist Movement (PASOK) – suffered a humiliating defeat.<sup>1</sup> While in the past their combined share of the vote would easily exceed the 75 (or even 80) per cent mark<sup>2</sup> with one or (often) both of them exceeding 40 per cent, in May 2012 they slumped

to 18.85 and 13.18 respectively, down from 33.5 (a historic low) and 43.9 respectively in 2009.<sup>3</sup>

The major winners of the May 2012 elections were

- SYRIZA – the Alliance of the Radical Left that brings together 12 left-wing groupings including former members and officials of the Greek Communist Party, left radicals, far leftists and some ecologists – whose share jumped from 4.6 in 2009 to 16.8 per cent (second largest party in parliament),
- two new parties namely a) the Democratic Left – a pro-European, moderate left-wing party rooted in the Euro-communist tradition composed of former members of SYRIZA's main grouping, and b) the Independent Greeks – a nationalist/populist party that sprung from the conservative ND in early 2012 – with 6.1, and 10.6 per cent respectively and, above all,

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<sup>1</sup> The figures regarding votes and turnout utilized in this section stem from the Greek Ministry of the Interior (<http://www.ypes.gr/el/Elections/>).

<sup>2</sup> This happened, for example, in 2009, 2004, 1996, 1993, 1990, 1985 and 1981.

<sup>3</sup> The extent of their defeat is captured even more tellingly by the dramatic decline in the number of votes that they received in comparison to 2009. ND dropped from 2.295.719 to 1.192.054 votes, while PASOK's decline was even steeper: from 3.012.542 to just 833.529 votes.

- the fascists of Golden Dawn whose share of the vote jumped from 0.3 per cent (i.e. 19,624 votes) in 2009 to 7 per cent (440,894 votes) in 2012.<sup>4</sup>

The number of parties that are represented in parliament increased from five to seven. However, a remarkable 19 per cent of the vote (up from a long term trend of 4-5 per cent) went to parties that did not gain any parliamentary seats because they did not exceed the three per cent threshold. These parties include the Greens, the hard right populists of LAOS (Popular Orthodox Rally), two neo-liberal parties, namely the Democratic Alliance (created by MPs who in 2010 split from the conservative ND by supporting the austerity measures that were a condition for the bailout of Greece by the EU and the IMF) and Drassi-Liberal Alliance, and a new right-wing party called Δημιουργία Ξανά (Creativity Again; it combines economic liberalism with social conservatism) that respectively obtained 2.9, 2.9,<sup>5</sup> 2.5, 1.8 and 2.1 per cent of the votes.

Turnout was approximately 65 per cent, down from 71 per cent in 2009 and in line with the established national trend.<sup>6</sup> Given the record abstention of 35 per cent and the record share of 19 per cent of the vote that went to parties that are *not* represented in parliament, it can be argued that the new composition of the Greek parliament as it emerged from the election of 6 May 2012 reflects the wishes of 53 per cent, i.e. *just above half* of the electorate.

### The electoral campaign

In terms of the electoral campaign, populism was undoubtedly a clear winner. Indeed, it can be said that as one of the main weapons that had been systematically used in the past by ND and PASOK (the other being clientelism), *populism* has effectively returned to haunt them. The terms of the debate pitched ‘patriots’ against ‘traitors’; ‘supporters’ of austerity against its opponents; ‘honest’ parties against ‘liars’ and the failed old parties against the untested but promising new ones.

Amongst the political parties that gained most from populism were SYRIZA on the left and the Independent Greeks on the right of the political spectrum. The former offered a studied equivocation on Greece’s membership of the Eurozone: while arguing that they want to keep

the country inside the Eurozone, SYRIZA also declared that this depends on the behaviour of other Eurozone members (and the capacity of the single currency to survive the current crisis) and should be judged, above all, on the basis of ‘the interests of the people’, thus implying that the latter can be achieved either inside or outside the Eurozone.<sup>7</sup> Aware of the overwhelming support that the euro enjoys amongst ordinary Greeks, they toned down their equivocation during the last two weeks of the electoral campaign.

On the right, the Independent Greeks offered ‘sovereignty within the Eurozone’ but without explaining to the electorate the basic fact that membership of the Eurozone and the EU as a whole essentially entails a completely new understanding of sovereignty – pooling it in common institutions and then exercising it jointly with others for mutual benefit.<sup>8</sup>

Equivocation and contradictory promises were only two of the three key expressions of populism that permeated the electoral campaign. The other was the absence of direct and explicit references to (perhaps) unpopular but necessary measures – e.g. with regards to the number of public sector workers – despite the fact that the country is facing the most significant crisis in decades and ordinary Greeks explicitly acknowledge that radical change is needed.

### Winners and losers

ND and PASOK were clear losers because Greek voters – many of whom had voted for one or both of them in the past – saw them as part of the problem, not the solution, to the country’s economic, social and political woes. This is unsurprising given that, with the exception of a five-month interlude in 1989-1990,<sup>9</sup> they alone have run the country since 1974. Precisely because of this simple fact, when the crisis hit, Greeks knew which parties were to blame. So, what Greeks call *δικομματισμός* – which loosely translates into *two-party hegemony* but in reality equates to the idea that Greece had to be ruled by either ND or PASOK, with the two parties taking turns in government – is another key loser.

As the election result clearly indicates, ordinary Greeks no longer believe that the country has to be run by one of these two parties. Indeed, the clear defeat of these

<sup>4</sup> One could also note that the unreconstructed Communist Party increased its share of the vote from 7.5 to 8.5 per cent but this reflects a net gain of less than 20,000 votes.

<sup>5</sup> Down from 4.2 per cent and 15 seats in parliament in 2009.

<sup>6</sup> It was 74 per cent in 2007 and 76 per cent in 2004.

<sup>7</sup> Unlike SYRIZA, the Democratic Left remains unequivocally opposed to the country’s withdrawal from the Eurozone and the return to the drachma.

<sup>8</sup> This is unsurprising for a nationalist party that, by definition, relies on a romantic conception of the ‘nation’ as its lynchpin.

<sup>9</sup> During that period there was a government of national unity in place.

two parties coupled with the fact that no party managed to receive even a fifth of the vote<sup>10</sup> (with four parties receiving more than ten per cent<sup>11</sup> and a total of 13 parties receiving at least one per cent of the votes cast, paints a picture of unprecedented *fragmentation* of the vote, i.e. the antithesis of the norm. The flip side of this fragmentation is the crushing defeat of the hitherto hegemonic idea that only<sup>12</sup> *single-party governments* can rule Greece.

For the same reason, the electoral result also constitutes a personal defeat for Antonis Samaras – the leader of the conservative ND who stems from the party’s nationalist wing – and his strategy. A key part of his rhetoric during the electoral campaign focused overwhelmingly on his wish for a ‘clear mandate’ (to him); a mandate that would enable him to ‘change everything’, as he repeatedly declared, by ruling on his own, i.e. without the need to forge alliances with other parties, despite the dramatic nature of the country’s problems. In fact, he went even further: he declared that if the election of May 2012 did not result in his party having an absolute majority in the Greek parliament, he would engineer new elections ‘again, and again, and again’ until he achieved his declared objective. This clearly demonstrates how detached from socio-economic and political realities he was (like much of the Greek political *élite*).<sup>13</sup>

Through the electoral result, the sovereign Greek electorate clearly declared that instead of recourse to messianic figures – which is part and parcel of the country’s political culture, coupled with the overwhelming role of a handful of political dynasties such as the Papandreou, the Karamanlis, the Mitsotakis and other prominent families – resolving these problems requires much broader consensus, i.e. coalition governments. In addition, Samaras’ strategy of a) initially vehemently opposing the austerity measures that were a condition for the IMF/EU bailout of Greece

prior to b) agreeing to them in exchange for the IMF/EU second bailout coupled with removing George Papandreou from the post of prime minister and gaining some ministerial posts<sup>14</sup>, has also been defeated.

Crucial to that effect has been the creation of the nationalist/populist Independent Greeks from within the ranks of ND. This new party absorbed many of ND’s disaffected voters, scoring an impressive 10.6 per cent. Central to this outcome was the new party’s aggressive rhetoric via the consistent denunciation of the ‘traitors’ (i.e. the Greek politicians, including Mr Samaras) whom they accused of acting as the local representatives of the IMF/EU ‘loan sharks’ – especially Mrs Merkel, the German Chancellor. This kind of rhetoric helped the new party attract the support of some of ND’s traditional voters, such as current and former military officers (or other public sector employees) and their families who had been affected by the austerity measures.<sup>15</sup>

The new party offered an unequivocally right-wing, anti-austerity, ‘patriotic’ alternative to ND’s ‘responsible popular right’ platform. In other words, Mr Samaras’ strategy of denouncing the austerity measures while his party was supporting the government that implemented them has failed. However, in terms of overall electoral support for right-wing parties, it is noteworthy that in percentage terms, ND’s score in 2009 was almost identical to the score obtained in 2012 by ND and the two new parties on the right of the political spectrum. Nevertheless, in view of their diverging policy prescriptions, it is a mistake to lump them together.

The fascist Golden Dawn’s remarkable rise reflects a rejection of mainstream parties and the rise of immigration as a political issue (in a country of migrants). It is more present amongst men, first time voters or voters of ND and LAOS, the greater area of

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<sup>10</sup> The electoral system is another loser of this electoral contest. In its current form it gave a ‘bonus’ of 38 (nominally 50) parliamentary seats to the party that attracts the largest number of votes. The aim of this system is to avoid deadlock in case of a close contest between the hitherto two main parties (none of which challenged this rule; indeed, they made it because ultimately they prefer a majoritarian to a proportional system). However, it is clearly at odds with the popular will as expressed at the ballot box. Indeed, because of this rule, the rather small difference between the first two parties in terms of percentage points (2.1 per cent) or votes (130,789 amongst the 6,324,104 valid votes) has been translated into a difference of a whopping 56 (i.e. almost a fifth of the total 300) parliamentary seats with the first gaining 108 and the second just 52 seats. This is a clear distortion of the popular will that further exacerbates the problem of the deficient democratic legitimacy of the Greek party and broader political system.

<sup>11</sup> In 2007 and 2009 only two parties (ND and PASOK) had managed to reach double-digit figures.

<sup>12</sup> This is the norm that applies in the overwhelming majority of cases since 1974.

<sup>13</sup> Numerous opinion surveys conducted before (as well as after) the election clearly showed popular support for coalition governments.

<sup>14</sup> Acting in an effort to distance his party from the unpopular measures that the bailout entailed, he ordered his MPs who became ministers in the coalition government headed by Lucas Papademos since November 2011 to resign from parliament. Of course, this tactic did not work because this government and the bailout which was coupled with the largest public debt ‘haircut’ – known as PSI (private sector involvement) – would not have seen the day without his party’s support.

<sup>15</sup> This involved wage cuts as well as some reforms to their generous very early retirement arrangements.

Athens, the unemployed, strata with lower levels of formal education and, remarkably, 18-24 and 25-34 year olds.<sup>16</sup>

PASOK, on the other hand, shares with ND a large part of the factors that have led to their electoral debacle. For a start, many Greeks believe, justifiably, that these two parties have wasted huge amounts of public funds – the former during the 1980s, the latter in 2004-2009 – largely but by no means exclusively by recruiting numerous supporters in the public sector. Second, why would voters trust them to run the country's finances given the extreme state of these parties' own finances, despite the very generous public funding?<sup>17</sup> Third, both have for many years sought to paper over ideological and policy differences between either internal factions or leading figures. In the past the outcome of these internal differences had taken either the form of splits (with the losing side being expelled, or operating under the threat of expulsion in parties that have remained largely undemocratic) or personal arrangements (e.g. ministerial or other posts). The emergence of competitors with a much more focused ideological platform (or at least rhetoric) in a period of crisis has offered voters clear alternatives, despite the fact that the leading figures of these parties are anything but new faces in the Greek political scene.

PASOK in particular, paid a heavy price because a) it is seen as a party of officeholders largely interested in maintaining office and the various kinds of privileges that are associated with it; b) the populism of its previous leader, George A. Papandreou who won the 2009 election after campaigning relentlessly on the basis of the slogan that 'the money is there' despite in fact knowing<sup>18</sup> that the exact opposite was true and c) it had lost any sense of ideological direction and did not defend the choices it made while in government.

However reluctantly, his successor (E. Venizelos) retained the strategy of a catch-all party by including in party lists both politicians who had taken a leading role in enthusiastically implementing the IMF/EU adjustment programme and many who had either voted

against it in parliament or had tried to water it down in the implementation stage. These mixed signals simply accelerated the party's disintegration because they indicated clearly the hitherto hegemonic party had lost its sense of direction.

In policy terms, it is clear that austerity, the core element in the 'mnimonio' – memorandum of understanding between the Greek government and the EU and IMF – was a major loser but it is important to *distinguish* between two groups of parties, namely a) those that favour the *unilateral act* of abrogation or annulment of the memorandum (namely SYRIZA, the Communist Party, the nationalist Independent Greeks and the fascists of Golden Dawn, that between them obtained 42.8 per cent) and b) those that prefer the re-negotiation of its terms *with* Greece's partners (ND, PASOK, Democratic Left, the Greens, and four smaller right-wing parties, that together obtained 44 per cent).

ND – having initially opposed it prior to changing track and supporting it, though never wholeheartedly, as a condition for the second bailout of Greece – and PASOK only half-heartedly defended it and justifiably argued that it was an essential condition for the country to avoid bankruptcy.<sup>19</sup> At the same time though, their constant use of mixed signals, internal splits and, above all, public awareness of the fact that their past conduct was, to a very large extent, the cause of the country's economic woes overwhelmingly crowded out this half-hearted defence as well as whatever reasonable proposals they managed to put forward for its future amendment. In addition, public statements made by various officials<sup>20</sup> further underlined the key link between ND and PASOK on the one hand, and the severity, unfairness and, ultimately, ineffective nature of key elements of the austerity measures, on the other. What these officials publicly acknowledged was that – in an overtly neo-liberal package of measures that seeks to improve the country's competitiveness – horizontal, as opposed to targeted cuts in wages and pensions implemented since 2010 had been more severe than was originally planned *because of lack of progress in terms of structural reforms*. The latter were bound to affect

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<sup>16</sup> Public Issue, Greek elections 2012 – voter demographics (Athens: Public Issue, 2012) <http://www.publicissue.gr/en/1673/greek-elections-2012-voter-demographics/view/print/>

<sup>17</sup> These two parties have combined outstanding debts of more than 220 million euros, mainly from state-owned banks.

<sup>18</sup> Peer Steinbrück (the leading German social democrat and former finance minister) indicates in his book that when he met Mr Papandreou in Berlin nine months before the Greek elections of 2009, the then leader of the Greek opposition had no illusions about the perilous state of Greece's finances. Indeed, after seeking Steinbrück's advice, Papandreou responded that he was not sure he wanted to win the 2009 election. See Peer Steinbrück, *Unterm Strich* (Hamburg: Hoffmann und Campe, 2010), 121-2. As the governor of the Bank of Greece stated in public (To Vima, 15 March 2012, in Greek), he too had informed Mr Papandreou (and his team) about the state of the nation's finances before the election. Nevertheless, Mr Papandreou chose to ignore these clear warnings and whipped up the populist rhetoric, arguing that the country had the money it needed.

<sup>19</sup> The two small neo-liberal parties (Drassi and Democratic Alliance) were more supportive. Indeed, the latter was created by right-wing MPs who were expelled from ND after voting in parliament in support of the first bailout and the concomitant austerity measures.

<sup>20</sup> Two examples are E. Venizelos (in.gr, 27 March 2012, in Greek, <http://news.in.gr/greece/article/?aid=1231188453>) and Matthias Mors, the representative of the European Commission in the 'troika' that also includes representatives of the IMF and the European Central Bank (Kathimerini, 13 October 2011, in Greek).

directly core supporters of ND and PASOK in the run-up to the election and this explains the lack of progress in that front.<sup>21</sup> However, this political decision speaks directly to the core issue of institutional capacities that will be discussed in the next section because it has clear implications for the country's membership of the Eurozone.

The final but by far most significant loser of this electoral result was the notion that *exit from the Eurozone* would help Greece prosper. Since the onset of the crisis, an assortment of commentators – the overwhelming majority of whom do not actually live in Greece<sup>22</sup> – and politicians, many of whom have always opposed the very principle of the single currency, have advocated Greece's withdrawal from the Eurozone as a way of restoring a modicum of policy autonomy, through the establishment of the new drachma. The quick devaluation of the new drachma, so the *economic* argument goes, would allow the country to improve its competitiveness and export its way out of its current predicament.<sup>23</sup>

However, the Greek citizens have overwhelmingly rejected this 'solution'. Indeed, before the elections several opinion polls indicated that approximately 75 per cent of Greeks support the country's membership of the

Eurozone. In May's election the parties that explicitly advocated withdrawal<sup>24</sup> received a total of less than 17 per cent of the votes – a resounding rejection of their central proposal. But since the Greeks have rejected the exit route *and* protest against the austerity that is part of the concerted effort to keep the country inside the Eurozone, what does the result of the elections of May 2012 mean for the country and the Eurozone?

### Does Greece have a future in the Eurozone?

Greece's accession to and participation in the Eurozone has demonstrated all the key *domestic*<sup>25</sup> issues that need to be tackled so that its economy, and not just its public finances, is modernized. It qualified for membership of the Eurozone on the basis of an assessment using 1999 as the base year. Greece met the criteria for accession as these were interpreted<sup>26</sup> at the point when the decision was made but prior to that decision successive Greek governments had made major and successful efforts during the best part of the 1990s.<sup>27</sup> However, enduring change did not occur, at least to the required extent.

First, there is evidence of the country's shallow 'Europeanness'. When the conservative ND took office in 2004 it faced the impossible task of making good electoral promises that it could not possibly honour.<sup>28</sup> Instead of continuing the reforms that the

<sup>21</sup> Between the elections of 6 May and 17 June 2012, the leader of PASOK tellingly spoke publicly about his party's 'close, enduring, brotherly association with public sector workers' and opposed redundancies in the public sector over and above the agreement reached with the Troika which foresees the replacement of one civil servant for every seven who retire (up from 1:5 which had been agreed but not carried out under the first bailout arrangement).

<sup>22</sup> Three good examples are Costas Lapavistas, a Greek London-based Marxist economist who specializes in Japanese economics, Larry Elliott (the economics editor of *The Guardian*) and Nouriel Roubini. See Costas Lapavistas, "Greece Must Default and Quit the Euro. The Real Debate Is How," *The Guardian*, 20 September 2011. Nouriel Roubini, "Greece Must Exit," *Project Syndicate*, <http://www.project-syndicate.org/commentary/greece-must-exit>.

<sup>23</sup> For a response pointing out the ultimately self-defeating nature of this strategy and, above all, the fact that it does not address the real causes of Greece's long-term problems see Dionyssis G. Dimitrakopoulos, "Leaving the Eurozone Would Be a Disaster for Greece," *The Guardian*, 22 September 2011. In particular, it is worth pointing out that Greece imports most of the energy that it uses (a fact that proves the absence of long-term thinking which would allow the country to utilize its abundant solar and wind power resources). Its price would increase dramatically thus wiping out most of the competitiveness gained as a result of the introduction of the drastically devalued new drachma (this would also affect one of the country's 'heavy industries', i.e. tourism where the cost of energy is a significant determinant of holiday packages). In addition, as analysts of the National Bank of Greece have correctly pointed out, between 1975 and 1994 the drachma had devalued by 85 per cent vis-à-vis the currency of Greece's main trading partners but exports of goods and services grew by only 3 percentage points as part of the country's GDP (from 13 to 16 per cent) during the same period. This is due to the fact that the average annual rate of inflation was 17 per cent. Crucially, exit from the euro would do nothing to a) resolve key weaknesses of the Greek state apparatus, some of which are discussed in the next section, b) remove the incentives for tax evasion or (c) eliminate the primary deficit.

<sup>24</sup> These are the Communist Party, the fascists of Golden Dawn and the extreme left, anti-capitalist grouping ANTARSYA.

<sup>25</sup> The point is that many of Greece's current problems would have existed (indeed, have existed) irrespective of the country's membership of the Eurozone. Of course, this does not mean that the design of the Eurozone is either complete or perfect – far from it, as a very long list of academics, politicians, other officials and commentators (such as Sebastian Dullien, Paul Krugman, Kenneth Rogoff, Helmut Schmidt, Jean-Claude Juncker, Jean-Claude Trichet, Wolfgang Münchau and many others) have pointed out, underlining not only the lacunas, some of which are currently being attended to, but also the fact that many of the Eurozone's current problems have to do with internal imbalances that need addressing (after all, if trade surpluses are a virtue, how can they exist in the absence of trade deficits?) which basically means that Greece can be seen as a mere canary in the proverbial mine.

<sup>26</sup> The point about interpretation concerns the public debt figure on which Greece (and other countries) was deemed to have demonstrated significant sustainable progress towards the formal criterion.

<sup>27</sup> Costas Simitis and Yannis Stournaras, "Greece Did Not Cause the Euro Crisis," *The Guardian*, 27 April 2012.

<sup>28</sup> Farmers – a group that had benefited enormously from Greece's membership of the then EC in the 1980s – were a partial exception in the sense that they received various forms of illegal subsidies (especially in the run-up to the 2007 and 2009 elections) that led to significant fines being imposed by the EU. The deficit of the Greek agency that administers farm payments jumped from 700 million euros in 2003 to 4 billion euros in 2010 thus increasing the country's overall deficit by 1.6 percentage points of GDP (Ta Nea, 20 October 2010, in Greek).

previous government had commenced (but not always completed) in line with the exigencies of membership of the Eurozone and, often, common sense, it argued that the Simitis government had ‘cooked the books’<sup>29</sup> in order to secure the country’s entry to the final stage of EMU and that the nation’s finances were not in good shape.<sup>30</sup> In the meantime, the subsequent placement of Greece under the constraints of EMU’s excessive deficit procedure had given the conservative government a shortcut to avoiding some of its pre-electoral pledges.<sup>31</sup> Crucially, though, it had allowed one of the country’s core choices (membership of the Eurozone) over which the then two main parties were in complete agreement, to be turned into a pawn used for short-term, party political advantage in a way that produced lasting damage. ND opted for the easy way out.

The shallow nature of much of the Greek political *élite*’s much-vaunted pro-Europeanism is also<sup>32</sup> demonstrated by the use of half-truths by several Greek politicians before and after the recent elections. A prominent example concerns the concept of ‘Eurobonds’ which has widespread support among Greek parties. While the rhetoric of many of these parties is couched in notions such as ‘national sovereignty’, ‘independence’ and ‘self-reliance’,<sup>33</sup> they also place significant emphasis on the usefulness of Eurobonds. However, they refrain from stating the rather obvious facts that a) issuing these bonds would be the result of *collective* decisions taken at the European level (since these would be forms of collective borrowing) and b) this would happen only *after* participating countries had

created credible mechanisms of *collective* monitoring of national budgets.<sup>34</sup> This lacuna underlines both the strength of populism and the equally enduring inability and unwillingness of Greek political parties to engage in credible policy making,<sup>35</sup> preferring instead to resort to slogans.<sup>36</sup>

The same weakness is encountered in the civil service.<sup>37</sup> The known<sup>38</sup> inability of the Greek civil service to plan and carry out targeted reforms has exacerbated the IMF/EU/ECB adjustment programme’s reliance on horizontal measures, such as cuts in wages and pensions. This, in turn, has had two negative implications. First, it has undermined the legitimacy of the adjustment programme by not distinguishing – or not doing so clearly enough – between various categories of the Greek population, e.g. weaker strata and the better off, or those who have been paying their taxes. For example, distinctions have not been drawn between those who pay income tax through payroll deductions, and those who do not (e.g. many self-employed professionals, such as lawyers, medical doctors in private practices, etc.). As a result, the feeling of externally-imposed injustice has been allowed to take root amongst the Greek population in the midst of a very ambitious adjustment programme.

Second, excessive reliance on horizontal measures has undermined the effectiveness of the adjustment programme because the capacity of the corresponding social groups to pay more tax (or live off a shrinking income) is not unlimited: increased taxation, especially when it relies on one-off measures, reduces purchasing

<sup>29</sup> The other example used to show that Greece cheated its way into the Eurozone is the debt swap deal concluded between the Greek government and Goldman Sachs. This argument is false since a) such deals were both quite common forms of debt management across the EU at the time and b) it occurred at the end of 2001, i.e. approximately 18 months after Greece had been admitted to the Eurozone.

<sup>30</sup> In reality ND’s re-calculation made only marginal difference to the deficit figures, increasing it from 2.5 to 3.07 per cent of GDP, i.e. just above the Maastricht criterion and below, for example, France’s deficit figure of 3.3 per cent. The relevant figures are available via the web site of the European Commission’s Directorate-General for economic and financial affairs: [http://ec.europa.eu/economy\\_finance/db\\_indicators/ameco/index\\_en.htm](http://ec.europa.eu/economy_finance/db_indicators/ameco/index_en.htm)

<sup>31</sup> This did not prevent them from making several thousands of appointments to public sector posts, especially temporary ones in various bodies that are under the umbrella of the public sector without, at that time, necessarily being included in the government’s deficit figures. One such example was the state company that runs the Athens underground.

<sup>32</sup> After it became clear that the 6 May election had not led to the appointment of a government, thus increasing fears regarding Greece’s position in the Eurozone, several politicians called for the creation of a ‘pro-European’ bloc as if there were only one way to be ‘pro-European’.

<sup>33</sup> This is, at least in part, a clumsy effort (in addition to the frequent assimilation by segments of both the Greek Left and Right of the adjustment programme to a form of foreign occupation and Greece’s creditors as neo-colonialists) to respond to even clumsier and often downright insulting comments made by some European politicians about the honesty of Greeks, their alleged propensity to laziness etc. The latest example of the latter is Christine Lagarde’s interview published in *The Guardian* on 26 May 2012.

<sup>34</sup> This is a key feature that could convince investors against the risk of losing their money.

<sup>35</sup> This is the result of cultural traits rather than material constraints since Greek political parties that are represented in parliament are funded very generously by the taxpayer.

<sup>36</sup> Another example concerns tax evasion. Virtually all parties promise to fight against it but they do not appear to have concrete plans for doing so.

<sup>37</sup> Greece does not have a complete and fully-functioning land registry and many parts of the public sector effectively allow corruption and fraud to flourish (e.g. in the form of pensions being paid even after a pensioner’s death) because modern IT systems are not being used, even when they are available.

<sup>38</sup> Vassilis Monastiriotes and Andreas Antoniadis, *Reform That! Greece’s Failing Reform Technology: Beyond ‘Vested Interests’ and ‘Political Exchange’*, Hellenic Observatory Papers on Greece and Southeast Europe, GreeSE Paper No 28 (London: LSE/Hellenic Observatory, 2009). The concrete manifestation of this awareness took the form of the creation of the European Commission’s task force for Greece whose objective is to co-ordinate the provision of the bi- and multi-lateral technical assistance that Greece needs to deliver on the IMF/EU adjustment programme and accelerate the deployment of EU funds.

power and produces less enduring results than, for example, the expansion of the tax base, a key reform that has not been pursued although its importance has been acknowledged in public even by the representatives of the 'Troika'. Another facet of the same problem is the inability of various independent authorities – prominent amongst which is the Greek competition authority – to intervene in the market and effectively fight against oligopolies and their practices that keep prices at artificially high (and often completely unchanged<sup>39</sup>) levels at a time when incomes have been cut by 20-40 per cent.

Despite these enduring weaknesses and the major errors committed by the Greek government, the IMF and the EU, when the first adjustment programme was devised,<sup>40</sup> progress has also been made in the terms in which the adjustment programme is couched. Greece a) has recovered nearly half of the competitiveness<sup>41</sup> it had lost since the introduction of the euro; b) had come (prior to the elections of May 2012) close to eliminating its *primary* deficit, after reducing its government deficit by approximately eight percentage points in the space of just two years; c) has had a large part of its privately-owned debt (approx. 107 billion euros) written off through the EU-engineered PSI (private sector involvement<sup>42</sup>) programme and d) Greek banks are in the process of being recapitalised. In addition, data from the Bank of International Settlements indicate that in 2010 the debt levels of Greek households (65 per cent) and businesses (65 per cent) were far below the OECD average (94 and 126 per cent respectively).

However, many problems remain. Even if one ignores rather ugly socio-economic realities, especially in large urban centres, and makes the optimistic assumption that the adjustment programme will be implemented to the letter from now on, in 2020 Greece's debt will still correspond to 120 per cent of GDP, even if the programme's excessively optimistic assumptions (e.g. 2.5 per cent average annual growth between 2013 and 2020) are met. So, what is to be done?

Greek citizens overwhelmingly demand that the country a) remain in the Eurozone<sup>43</sup> and b) be ruled by a coalition government. This means that the main parties will need to make compromises. There is some common ground between them. First, given the unpopularity and ineffectiveness of the adjustment programme (at least as regards the part that has been implemented), there is agreement between Greek political parties on the need for *more time* (from one to three years) so as to avoid choking off the Greek economy and society. Second, in the run-up to the election of 17 June, SYRIZA has been softening its rhetoric on the euro, with its leader publicly declaring that it would be foolish to take the exit route, though there is ambiguity as to their willingness to actually be part of a coalition government and refrain from a unilateral abrogation of the bailout agreement on which the adjustment programme is based. Third, they all acknowledge the urgent need for *growth-inducing measures*. Finally, there is agreement between the main Greek parties on the need to reverse the recent 22 per cent cut in the *minimum wage* and reinstate the primacy of collective bargaining. Of course, significant differences remain on key issues, e.g. with regard to ownership of the banks that have received public funding, the use of unilateral measures (such as the temporary non-payment of interest on existing loans) and the privatization programme.

### Conclusions and alternative scenarios

If a reasonable compromise is to be found so as to keep the country in the Eurozone whilst also promoting major needed reforms, there are two sets of conditions, one domestic and one European, that need to be met. First, a credible and stable government must take office in Athens. Second, willingness is required on the part of Greece's partners to address some legitimate concerns – especially with regards to the need for more time and growth-inducing measures – in a co-operative manner, i.e. as a result of an agreement.

The latter is likely to happen – if a credible and stable government is formed in Athens – not least because of

<sup>39</sup> IMF official Mark Flanagan has pointed out that it is noteworthy that after five years of contraction in Greece and a formal target of price reduction of 1 per cent, inflation in 2011 was at 2 per cent. (Proto Thema, 21 May 2012, online edition, available, in Greek, at <http://www.protothema.gr/economy/article/?aid=198856> accessed on 31 May 2012)

<sup>40</sup> The grand bargain that permeates the two adjustment programmes is reasonable (in the sense that the Greek side is meant to deal with the budget deficit while its international partners deal with the mountain of Greek debt, including via the huge haircut agreed with private bondholders in November 2011). However, the terms (especially of the first programme) were too punitive (largely on Germany's insistence in a failed effort to avoid setting a precedent within the Eurozone) and short-sighted in the sense that it compressed into a very tight time frame reforms that even in normal circumstances would need many years to produce enduring results). Critics of the Merkel-inspired method also include several prominent Germans, including her predecessor, Gerhard Schröder. See, for example, his interview with *Corriere della Serra*, published on 31 May 2012.

<sup>41</sup> Defined in unit labour costs.

<sup>42</sup> This element of the adjustment programme has been criticized by banking specialists as well as some politicians but, given the 'popularity' of the banking sector in Europe, its political logic is clear: since Greece borrowed irresponsibly, capitalizing on market failure that awarded it interest rates comparable to Germany's, shouldn't its creditors also take part of the blame and suffer the corresponding losses?

<sup>43</sup> Opinion polls conducted between the elections of May and June 2012 indicate that between 69.5 and 72.9 per cent of Greeks prefer this even if it also entails the implementation of the deeply unpopular adjustment programme (in.gr, 1 June 2012, in Greek, <http://news.in.gr/greece/article/?aid=1231198534>)

the impact of François Hollande's electoral victory and the growing awareness and acceptance, even by credit-rating agencies, of the fact that austerity alone cannot resolve Greece's or Europe's problems. This view is based on the ongoing negotiations on a) the European policy mix and the reforms that the Eurozone itself needs and the b) the EU budget, as well as the prospect of further changes in the balance of power between the Left and the Right at the European level (e.g. through the likely return of the German social democrats to power in 2013, perhaps in another grand coalition with the CDU/CSU). These developments – coupled with growing awareness of the fact that other countries of the Eurozone's periphery have not made enough progress despite sticking more closely to their reform programmes – offer Greece an excellent opportunity; but will it have a credible and stable government capable of actively participating in these negotiations whilst also carrying out necessary (and often unpopular) domestic reforms?<sup>44</sup>

In that respect, three scenarios can be envisaged on the basis of the results of the recent elections, the debate and opinion polls published<sup>45</sup> two weeks before the elections of 17 June. All involve coalition governments and several new faces given that most of the old Greek political *élite* has been discredited in the eyes of both Greek citizens and European partners; in any case, it is impossible – largely due to the electoral system – to create a government without the support of the largest party.

The *first* scenario involves a broad coalition in a government of national unity involving ND (which leads in most opinion polls), SYRIZA (which in most opinion polls comes a close second but its vote dynamic is rising), PASOK and the Democratic Left. The *second* scenario would entail a narrower coalition government involving the same parties except SYRIZA, which would prefer to lead the opposition. Both scenarios would entail a lengthening of the adjustment period and growth-promoting measures<sup>46</sup>, probably as part of a broader change in the policy mix that is applied to several Eurozone countries, including Germany where above-average wage increases are already being granted and the Bundesbank has already indicated that it could tolerate higher inflation.

Whether SYRIZA will agree to participate in a coalition government or opt for the cosy opposition benches is unclear as is the rhetoric of its leading team.<sup>47</sup> Given the history of the Left in Greece, where division and bitter infighting is the norm coupled with the pursuit of ideological purity and hegemony within the Left trumping all other considerations, SYRIZA's cohesion and willingness (and ability) to compromise will be bitterly tested – especially if it has a relative majority in parliament (*third* scenario) – largely because there are internal disagreements on major issues, including the euro. Of course, as François Mitterrand rightly said, between the period before and after the elections, an important event occurs: elections themselves.

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<sup>44</sup> Much of Greece's debt is currently in the hands of the public sector (central banks of other member states, the ECB etc.). Several economists and politicians in Europe have already argued that part of it will need to be written off because it is simply not viable. This, however, can only happen if the leaders of the relevant member states can show to their domestic audience that Greece has made real and sustained progress, e.g. by running primary surpluses, irrespective of how small they are.

<sup>45</sup> Greek legislation prohibits the publication of opinion polls during the last two weeks of the campaign.

<sup>46</sup> This is more likely to be geared towards attracting foreign direct investment due to known the historically-defined absence of a Greek middle class capable of and willing to make medium- or long-term productive investments in Greece, opting instead for rent-seeking facilitated by collusion with ruling politicians. There is growing consensus on the view that renewable energy, tourism and agriculture could spearhead growth but it is also likely that major public works projects (for which EU funds have already been earmarked but not utilized) will be re-launched.

<sup>47</sup> While some promise to do everything they can to form a coalition government of the Left, others are scathing about their potential government partners.