POLICY VIEWPOINT

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National elections in Greece – A turning point in the Eurozone crisis?

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As it has been widely predicted, the conservative-led coalition government in Greece was not able to master the required 180 votes in order to have its presidency candidate elected by Parliament on 29th December 2014. Following the Greek constitution, this led to national elections, which were announced for 25th January 2015. In the short electoral period – less than one month – SYRIZA (acronym for the Coalition of the Radical Left) is steadily leading the opinion polls by a comfortable margin of 4%. This has caused a great deal of concern to the European leaders, as well as to the financial markets. Why is that? Why does a legitimate constitutional process cause concern outside national borders?

IMAGE 1: GREEK PARLIAMENT IN ATHENS(@EP)

This is because SYRIZA proposes a radical change of policy, aiming at getting the Greek economy off the ground and at helping large sections of the population to get back on their feet.

Brute austerity has been applied in Greece since early 2010, resulting in the shrinking of the economy by almost 30%, as consumption and investment, both private and public, continue to contract, while exports do not make up for the deepening gap in demand. Unemployment has almost trebled reaching 26% of the labour force, hitting especially hard women and the under-25s, while a brain-drain to the US, Canada, Australia, Germany and the UK is taking place, as young, qualified Greeks leave the country in large numbers. Long-term unemployment and poverty are on the rise, making for an explosive situation, as the public services – health and education – have deteriorated irrevocably due to spending cuts.

The prescription of the European Commission, the European Central Bank and the IMF (the Troika) for Greece has failed miserably even on its own terms. In particular, the public debt increased from 109.3% of GDP in 2008 to 174.9% in 2013, in spite of a debt restructuring exercise in 2012, which was however funded by new public borrowing.

SYRIZA advocates a National Reconstruction Plan to replace the present Troika-inspired (EU-ECB-IMF) Economic Adjustment Programme. This consists of 4 pillars (1) confronting the humanitarian crisis; (2) restarting the economy and promoting tax justice; (3) increasing employment and (4) transforming the political system in order to deepen the democratic process. Each of these pillars consists of detailed and costed policy measures . Further, the growth initiatives proposed by SYRIZA include a 2-year job creation programme, the establishment of a public investment bank and two state lenders that would focus on providing liquidity to farmers and to small and medium-sized enterprises.

With regards to Greece's public debt, SYRIZA proposes a European Debt Conference to discuss the issue of over-indebtedness and seek solutions along the lines of the 1953 London conference convened to deal with Germany's war debt. The party's goal is to have a large part of the public debt written-off and for the repayments on the remainder to be indexed to the country's growth rate. On the European level, a SYRIZA government would favour quantitative easing and bond buying by the ECB, as well as

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the exclusion of public investment programmes from the rigours of the Stability and Growth Pact.

The reaction of the EU and IMF officials to the likelihood of a SYRIZA-led government has been to deny that anything might change! The head of the European Commission, Jean-Claude Juncker, has stated that any new Greek government would have to deliver on the commitments of its predecessors and continue reforms. Similarly, the head of the International Monetary Fund, Christine Lagarde, warned Greece that there would be consequences to restructuring its debt. Such comments raise the question of whether the electoral process in a representative democracy actually means anything in a debt-ridden and finance-dominated Europe? SYRIZA's lead implies that it does. Hence, the fear of political contagion, more than that of Greece leaving the Eurozone, which is discounted even by Moody's.

In particular, if SYRIZA succeeds in forming a government and implementing its programme, it will have shown that austerity is futile and that there is another way out of the crisis. If it fails in convincing its European partners that debt relief is a necessary requirement for Greece to return to the path of growth, a Grexit may materialize. Should this happen, it will demonstrate that the Eurozone is an unfinished project, an unsustainable construction that cannot take the strain of a member State in difficulty, even if this represents hardly more than 1% of the Eurozone GDP.

Not only Greece, but also the EU and especially the Eurozone, are at the crossroads. Five years of dire austerity have shown how futile and dangerous such a policy is at a time of crisis. The asymmetrical creditor-debtor relationships within the EU, whereby the European debtor countries are made to bear the full brunt of economic adjustment, while the creditor states bail out their banks, is being rejected by increasing sections of the population in Greece and elsewhere. It is the likelihood of political contagion, more than the economic one, that is a cause for concern for the European leaders.

It remains to be seen whether such concern will lead to a restructuring of EU policy away from austerity and towards socially and ecologically sustainable development, or to a hardening of the prevalent policy line in Europe. A crucial turning point in the current crisis has been reached.