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## The June 17 Elections in Greece: Domestic and European Implications

On Sunday, June 17, 2012 parliamentary elections were held in Greece. As a result of the ballot the centre-right Nea Demokratia (ND) won 29.66% of the votes and 129 seats (out of 300) in the Greek Parliament. The coalition of radical-left, SYRIZA, received 26,89% of the overall support and 71 seats. The socialist PASOK won 12.28% of the votes and 33 seats, followed by the Independent Greeks (7,51 % and 20 seats), the Golden Dawn (6,92% and 18 seats), the Democratic Left (6,26% and 17 seats) and the Communist Party of Greece (4,50% and 12 seats).<sup>1</sup> The results of this election, although marred by uncertainty as to whether it will be feasible to form a stable coalition, constitute an important step for Greece to escape the danger of descending into political and economic turmoil, and possibly a drift away from the Eurozone and the EU. In a similar manner, the Sunday's vote induces hope that more accurate solutions to the diversity of problems tearing Europe apart these days will be found and a prospect of stability will be created across the Eurozone and the EU. By offering an insight into the developments that have led to the political gridlock in Greece, the objective of this paper is to discuss the implications of the June 17 elections for Greece and for its partners in the Eurozone and in the EU. Importantly, as at this stage it is hardly possible to separate the developments in Greece from the wider Eurozone crisis--with Greece being in its epicentre--it is necessary to view the implications of Greek elections in terms of challenges and opportunities. Finally, given the fact that the winner of the elections, ND, has always declared its reformist and European orientation, it will be the new Greek government that will face the majority of the challenges, and it will be Greece's European partners that will be offered several opportunities.

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<sup>1</sup> As reported on June 18, 2012 by the Greek Ministry of Internal Affairs, with 100% of all votes counted.

### **The political gridlock of May 6 and the uncertainty surrounding the June 17 elections**

The elections of May 6, 2012 left the Greek political scene highly fragmented with deep cleavages running across the diversity of political parties. Although the winner of the elections, the centre-right Nea Demokratia won 18.85% of votes and 108 seats (out of 300) in the Parliament, it was impossible for ND to form a government. The mission to form the government was automatically ceded to the radical left Syriza (16.78% and 52 seats). Also this was impossible as neither the Democratic Left (6.1% and 19 seats) nor the Communist Party of Greece (8.48% and 26 seats) agreed to form a coalition with SYRIZA. Finally, PASOK (13.18% and 41 seats) was unable to build a viable coalition. As a result of the gridlock an interim government was formed under the leadership of P. Pikramenos. The objective of that government was to prepare the elections of June 17. Against this background the outcome of the election on June 17, 2012 was by no means certain. Several additional factors contributed to that.

In the dominant discourse surrounding the electoral campaign, the centre-right Nea Demokratia was held liable--undeservingly so--for the economic and political situation in Greece that led to the sovereign debt crisis in the first place. In addition, ND was blamed, in the same way as PASOK was, for consenting to the Memorandum of Understanding (MoU) signed between the Greek government and the Troika in May 2010. The truth is, however, that ND rejected the first MoU of May 2010, criticising the economic policy-mix agreed at that time. ND consented to the debt-restructuring programme from November 2011 that foresaw another financial facility worth €130 billion and a second MoU consistent mostly with structural reforms of the economy.

The result of May 6 election suggested that Greek voters turned away from the two major political parties in Greece, considering them liable for the desolate economic condition of the country and for the creation of a clientelist system of power. SYRIZA presented itself as an alternative. With less than 17% of votes won in the May 6 elections, it assumed the role of a self-proclaimed representative of the Greek society. SYRIZA has been attracting young, inexperienced voters who have no clue of how the economy works, what it means that a state has commitments towards its foreign partners and what the European integration process is about. SYRIZA has also attracted many of those that used to form the old clientelist system of power. The paradox is, therefore, that even if SYRIZA claimed to 'pave the way for hope', its rise in popularity, to a large extent has been driven by the remnants of the dysfunctional system that growing slowly since 1981 has led to a total paralysis of Greek politics and economy. Many have called SYRIZA's leader, Alexis Tsipras, a demagogue. Clearly, his personal charisma has had an appeal to a large part of the society which has become highly vulnerable to manipulation.

From a different perspective, many young people of those who are inclined to learn and understand, as opposed to those that uncritically accepted Tsipras' populist rhetoric, once faced with the voting decision, came to a conclusion that there was no alternative. The

young generation, due to a lack of historical memory of the political life in Greece and an inability to see the bigger picture, disrespecting the danger of the radical-left rise to power, did not feel inclined to vote for either of the “traditional” parties, i.e. ND or PASOK. At the same time, SYRIZA was not an option for these young people. In practical terms, this dilemma meant that many young voters were more likely to vote for small parties. Due to the specificities of the Greek electoral law, the problem here was that, given the enduring fragmentation of the Greek political scene, a vote cast in favour of a small party, e.g. a liberal one, would not necessarily support the liberal stand in the Parliament. That is, if that small party did not succeed in entering the Parliament, and yet it was close to reach the 3% threshold, the votes cast in its favour would be automatically added to the winning party’s overall electoral score. If, on the other hand, the small party succeeded in passing the 3% threshold, it would only work to the detriment of the bigger like-minded party.

For these reasons, the outcome of the June 17 election could not have been taken for granted. This was evident in the unpublicised opinion polls that offered an inconclusive picture of who the winner of the election might be, i.e. ND or SYRIZA. On the one hand, none of the two parties enjoyed a clear lead in the opinion polls. On the other hand, there was a huge migration of voters from one party to another, coupled with 30% of undecided voters.

A very important dimension of the electoral campaign was defined by the stance of SYRIZA’s leader that claimed that he would cancel the MoU, while insisting that “Europe would keep Greece in Eurozone no matter what”.<sup>2</sup> In no time, Tsipras has become one of the most popular political figures in Europe, with media competing for an interview with him. Interestingly, SYRIZA’s leader employed different rhetoric and different arguments when speaking in the foreign media and when speaking to the domestic audience. More specifically when Tsipras spoke to foreign media, he pretended that he was pro-European and that he supported Greece’s European vocation. He did so only in order to maintain a good image abroad and thus possibly to gain support of other radical left parties across Europe. On the other hand, when addressing the Greek society, he openly declared his intent to cancel the MoU immediately after what he believed would be successful elections of June 17. Thus he indicated clearly that he would not shy away from removing Greece from the Eurozone and from the EU. Tsipras convinced his audience that the leaders of the Eurozone were bluffing when talking about Greece’s possible exit from the Eurozone. Clearly, SYRIZA’s confrontational stance on the issue of membership in the Eurozone has deeply affected Greece’s already shattered credibility and created a wave of a new anti-Greek sentiment across the EU.

It is in this most unwelcoming atmosphere that that the leader of ND, Antonis Samaras had to form a government following the elections. Talks were held with the presidents of PASOK, Evangelos Venizelos and of the Democratic Left, Fotis Kouvelis, to form a coalition

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<sup>2</sup> Alexis Tsipras, „I will keep Greece in the eurozone and restore growth”, *Financial Times*, 12 June 2012.

government. Talks were also held with the Independent Greeks party, yet their leader Panagiotis Kamenos in essence rejected the possibility of cooperation. It is important to note that already during the evening following the elections SYRIZA's leader excluded the possibility of his party's participation in any coalition government. The day after, during a meeting with Samaras, Tsipras reiterated his anti-coalition stance. Nevertheless, a breaking point was reached among ND, PASOK and the Democratic Left by the end of Tuesday, June 19, Greece has established a coalition government with Samaras as its Prime Minister. In view of the above two broad and interrelated questions emerge. First, what are the challenges that the new government is facing domestically and at the European level? Second, what kind of opportunities for the EU and the Eurozone does the electoral success of the centre-right ND create?

#### **Four major challenges for the new government**

The new government faces a number of challenges. The most important of them includes the need to restore growth of the economy so that the social sentiments improve and the new government wins social mandate and an approval for the reform process. However, in order to restore growth the new government will have to renegotiate the economic policy-mix underlying the Memorandum of Understanding (MoU). The greatest challenge here is that serious miscommunication has taken place as regards this particular plea of the centre-right ND with Greece's European partners becoming increasingly suspicious to any attempt to amend the financial assistance programme that Greece received. From a different angle, the new governments' attempts to govern will be torpedoed by the opposition, i.e. by the radical-left SYRIZA. Finally, the new government will have to restore Greece's credibility and its image on European and international scene. The following paragraphs elaborate on these challenges.

##### *The challenge of restoring growth*

The question of economic growth, an issue repeatedly emphasized by ND since 2010, is a rather complex one. The good news is that ways of addressing it exist. The question is how much time there is to implement the necessary reforms. In order to realize what the Greek government will have to do in order to restore growth, one has to take into account the following points. First, Greece's economy is in a deep recession and the political system is in a crisis. Second, to a large extent, both crises are the result of the fiscal adjustment programme defined in the MoU accompanying the financial assistance package that Greece received in May 2010. The programme, did not address the major problems of the Greek economy. That is, rather than limiting the size of the public sector and introducing reforms aimed at withdrawing of the state from the economy (via privatization and liberalization), the entire burden of fiscal adjustment was channelled via the private sector through continuous increases in taxation and an through an introduction of several new tax measures. Several of these measures have been totally detached from income and thus from the ability to pay. What follows is that an overgrown, highly inefficient, and very expensive

public sector, excessive taxation and overregulation, continue to squeeze out the private sector from the economy and render economic growth impossible.

Accordingly, the new Greek government faces a multifaceted challenge. It has to re-launch the privatization process. Here it has to be noted that privatization should not be conceived of as fire-selling in order to generate one-shot revenue. Rather, privatization should be seen as a process that will allow for deregulating the economy, downsizing the public sector, and limiting the general government expenditure. The bonus of privatizing the state-owned enterprises is that it may contribute to breaking the monopoly of the trade unions that hold Greece in a grip. The process of privatization needs to be accompanied by a reduction of taxes so that running a business becomes profitable again and by scaling down of non-wage labour cost<sup>3</sup> so that hiring becomes affordable.

By decreasing the tax burden and the non-wage cost of labour, the Greek government will be able to increase the general government revenue and thus an opportunity will emerge to regain control over public finances. In addition, by means of the three measures described above, the government will be able to create incentives for growth. If coupled with political stability and a climate of economic predictability, the government may also succeed in attracting foreign direct investment. The Greek harbours and countless marinas, as well as several airports have already attracted the attention of several investors. In this context, it should also be possible for Greece, provided that the EU competition authorities would allow it, to establish several 'Special Economic Zones' (SEZ) where investors would receive tax breaks, say for the first 5-10 years of operation. This model had worked successfully, e.g. in Poland, offering employment to large groups of population and creating incentives for the development of industrial clusters.

To a careful observer, what has been just described above bears resemblance to the process of economic reforms implemented in Poland in the early 1990s. Although it may be hard to believe, the Greek economy, due to the pervasive and abusive role that the state has played in the economy, resembles the transition economies in the early years of moving away from the centrally planned economy. The challenge here is, however, that contrary to the Polish experience, the Greek authorities will have little or no social support for the reform process. It is in this sense that the challenge of restoring growth is the most difficult one of all.

In sum, restoring growth will require a complex set of economic policy measures. These measures resemble the process of economic transition as experienced by the countries of Central and Eastern Europe in the 1990s, and include: decreasing taxation, privatization, downsizing of the public sector, deregulation and liberalization, and creation of incentives for the inflow of FDI. However, this process will be taking place in a climate of

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<sup>3</sup> According to OECD data, Greece has the highest tax wedges on salaries that in combination with the obligatory contributions of the employed on account of social insurance of the employee reach 50% of employing a single person.

social dissatisfaction, disenchantment with the so far fruitless reform process, and severe opposition from specific stake-holders that seek to protect their vested interests.

*The challenge of renegotiating the policy-mix underlying the MoU*

For more than two years now, the centre-right Nea Demokratia has been emphasising the need to renegotiate the MoU. In its three declarations from July 2010, May 2011 and April 2012, ND has laid down a road-map and has defined a set of specific measures aimed at restoring growth in Greece. In line with these declarations and as repeatedly stressed by ND, the general goals and objectives of the MoU do not need to be changed. These include fiscal consolidation, and this is exactly what Greece needs. What has to be changed in the MoU, however, is the way of attaining these goals. That is to say, rather than focusing on increasing the government revenue (via taxation), the MoU should emphasise the need to decrease the general government expenditure, for instance by reducing the general government salaries bill. In other words, the MoU needs to be renegotiated in a way that will enable the burden of fiscal consolidation to be channelled via the public sector rather than via the already squeezed private sector. The paradox is that any discussion on downsizing the public sector<sup>4</sup> stumbles on the argument that the public sector employees will be sacked. At the same time, it seems that everybody is willing to come to terms with the 1 million-plus unemployed that lost their jobs in the private sector. The new government will have to build a broader consensus and a popular understanding that by decreasing taxation and the non-salary labour cost, followed by deregulation and liberalization, the private sector will be able to absorb the unemployed, including the former public sector employees.

Another challenge related to the issue of the possible renegotiation of the terms of the MoU has to do with communication. Attempts to open discussions on changing some provisions of the MoU will not be welcomed by Greece's European and international partners. There has been a lot of confusion and misunderstanding as regards this issue. One of the most important misunderstood terms of reference that will weigh heavily on the future talks is the meaning of austerity. The German press in particular emphasizes the notion of a "savings programme" (*Sparprogramm*) implying at the same time that a relaxation of this programme is not possible. The problem is that when ND, and for that matter also other members of the would-be coalition government, talks about renegotiating the terms of the MoU they only mean changing the policy-mix designed to attain savings.

All in all, the lines between what is being said for domestic and external purposes have become blurred in the EU discourse. In particular, Western leaders have not quite understood the power and the impact that several of their statements have on the Greek political scene. Greece is a small country, with half of its population living in Athens. The

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<sup>4</sup> Notably, the way the public sector in Greece functions, the clientelist connections that it nourishes, and the functional spill-overs that it generates for the entire economy, bears great resemblance to the communist bureaucratic public sectors.

entire political life takes place in the capital. Accordingly, what is being said abroad and concerns Greece resonates in Athens with a force at least ten times larger than it would have elsewhere. Many of these statements tend to be employed instrumentally--though in a different context and thus acquiring different meaning – at the Greek domestic level. This is a communication challenge that the Western opinion makers should be aware of.

What follows is that more than two years after the launch of the €110 billion financial assistance package for Greece, followed by a debt-restructuring programme, and another assistance facility of €130 billion, there is a need to reset and to re-establish the modes and rules of communication between the Greek authorities and its foreign partners. Due to the variety of misconceptions about the nature of the crisis in Greece, several events of miscommunication, instances of grave faux pas by the socialist government of PASOK, the danger is that the new government will be blamed for all wrongdoings of the previous cabinet. In other words, it is plausible that Western leaders will be suspicious towards anything that the Greek authorities might suggest. It is thus necessary that both the Greek government and Greece's European and international partners to remain cautious when employing specific communication strategies to the benefit of Greece, Eurozone and the EU.

#### *The challenge of domestic turbulence*

Several sources of domestic instability exist in Greece. Having declared its position as an active opposition, SYRIZA is one of the most likely sources of political turbulence. On the one hand, the 71 parliamentarians of SYRIZA will seek to block any law proposal by the new government. On the other hand, given their electoral base, SYRIZA is likely to organize massive protests, demonstrations and strikes which could once more paralyze the country. In a similar way, the Independent Greeks party that only recently separated from ND, due to a dynamic characteristic of new spontaneously formed groupings and due to the anti-bail-out rhetoric that they employ, is likely to stir the waters of the political debate in Greece too. Although the ultra-right Golden Dawn party declares itself as anti-MoU, it is unlikely that they will be able to significantly influence the reform drive. The specific agenda of the party and the spectacular electoral success expose this party's lack of expertise and of political experience of the majority of its parliamentarians. It is also to be expected that due to the characteristics of this party, other members of the parliament will seek to contain them. Finally, the question is of how stable, how consistent and how effective the would-be coalition government will be. ND will be an undeniable leader of this coalition with Samaras having the vision, the knowledge and the experience necessary to avoid mistakes. It is uncertain, however, how the remaining coalition partners will behave in the long-run. For Venizelos, the leader of PASOK, the decision to join the government represents a choice of responsibility for the country. At the same time, Venizelos faces the challenge consolidating and possibly reviving his party. Following the 2009 parliamentary elections, PASOK had 44% of popular support. This stands in stark contrast to today's daunting 12.28%. By joining the government as a junior partner, PASOK risks dissolving in the greater government, while at

the same it risks being exposed to the critique of the opposition. In some ways, it would have been easier for PASOK to stay outside the government and to rebuild its influence by criticising the government. It is from this perspective that one should interpret PASOK's insistence to include in the coalition government the Democratic Left party led by Kouvelis. By incorporating a third-partner in the coalition the previously described risks become a shared burden of PASOK and the Democratic Left. Although Kouvelis has declared his support for Greece's European vocation, as a party of leftist orientation, by joining the coalition government the Democratic Left becomes particularly vulnerable to attacks and critique from SYRIZA.

### *The challenge of restoring Greece's credibility on European and international scene*

Since late 2009 Greece's image and its credibility have been affected by two issues. On the one hand, the deteriorating fiscal position of Greece and thus its inability to fulfil its commitments towards its creditors shattered the credibility of the Greek state. In addition, the voluntary bond-exchange programme, underlying the debt-restructuring scheme, unofficially ranked Greece among countries that experienced a default. On the other hand, Greece's credibility and image were ruined by purposeful statements by several politicians in line with which Greece – inaccurately so – has been touted a country of tax dodgers, with tax evasion being presented as the main culprit behind Greece's economic crisis. The truth is that while tax evasion does exist in Greece, using the tax revenue ratio as a % of GDP measure, Greece fares comparably to other EU countries of which nobody would dare to say that they are corrupt. Thus, the challenge for the new government is to reverse the tides of Greece's negative publicity.

From a different angle, the priority assigned to the challenge of growth, to the communication challenge and the challenge of domestic instability, other issues that the new Greek government will have to deal with are of secondary importance. Clearly, also here different ranks could be ascribed to different issues. These issues include: the problem of massive illegal immigration that Greece faces in connection with the operation of FRONTEX and the Dublin II convention; the question of declaring the Special Economic Zones in the Mediterranean in view of acquiring the right under international public law to launch investigative process regarding the availability of hydrocarbons, and finally the thorny issue of the name of FYROM.

### **Two major opportunities for Greece's European partners**

Obviously, the electoral campaign in Greece raised serious questions about the sustainability of the Eurozone itself with the possibility of Greece exiting the Eurozone being openly debated across Europe and elsewhere. The Grexit notwithstanding, one of the prevalent issues in the EU-level discourse on the crisis is the question of how to spur growth in Europe. In other words, the results of the parliamentary elections of Greece create a number of opportunities for the Eurozone and for the EU. One of them includes the question



of growth. Another opportunity that has been created following the Sunday's election is that a dose of predictability and stability will prevail in the Eurozone. This in turn will create the opportunity to return to the discussions on the Eurobonds, the banking union, and the quality and effectiveness of the EU economic governance. Eventually, given the overall positive spill-over effects, the possibility will be created for the EU to regain its active interest in its close abroad with its direct implications for the EU foreign policy.

### **The question of growth**

While any discussions on growth in the EU have to take into account the Europe2020 agenda, it is necessary that new ideas and alternative solutions are sought after so that a feasible growth agenda can be followed by the EU member-states. The electoral success of ND brings a very welcome component to the discussion in that ND has a very clear stance to the question of growth. Apart from that, ND's leader, Samaras has been in the front-line of seeking communication and consensus with other countries of the European South, including Spain, Portugal and Italy. In Spring 2012, in a series of visits to Portugal and Spain, Samaras discussed the common challenges that these countries are facing, the similarities and differences behind their economic problems, and opportunities that these countries can exploit. Samaras' visit to Italy following the elections of May 6 had a somewhat different tone. In the common statement following Samaras' meeting with Italy's Prime Minister Mario Monti, both leaders emphasised the need to work together towards growth. The atmosphere of the meeting, at least as seen in the media, was very positive, both leaders seemed to share mutual respect, they communicated very well, and Monti has openly expressed his support both to Samaras personally and his programme. It is important to stress the imminent implications of this meeting though. Following this meeting, Monti declared his intention to hold a multilateral summit in Rome. Its participants would include Italy, Germany, Spain and France. Indeed, the summit will take place on June 22, Friday, in Rome. Its basic objective is to discuss questions of growth in Europe, possibly in view of the forthcoming EU Summit to take place on June 28-29. It should be noted that Monti's initiative cuts into the core of Europe's problems. It could be argued that Mr. Monti seeks to build a new coalition for Europe beyond the somewhat weakened Franco-German tandem. By so doing, Monti in a strategic manner, on the one hand, builds a consensus for the future of the Eurozone and deepened European integration, and on the other hand, opens up the space for alternative solutions and positions (as compared to German and French views) as presented by Spain and Italy. That Monti's initiative can succeed is related to the fact that he was the most successful EU commissioner for competition ever. His diplomatic skills, wisdom and experience make him one of the most capable politicians in the EU these days. Following the Sunday's elections in Greece, Monti's ideas on growth will be turned into viable opportunities.

## **Predictability and stability as an opportunity for the Eurozone**

It can be argued that following a lengthy period of political instability in Greece<sup>5</sup>, with the establishment of the coalition government under Samaras, the climate of relative stability and economic and political predictability will return to the Eurozone. This in turn will have instant positive implications for the way the markets conceive of Spain and Italy and their economic position. Clearly, the prospect of stability and predictability returning to the Greek political scene will have direct positive implications for Cyprus. Cypriot banks have been downgraded by the credit agencies recently on the wave of speculations about Grexit. The stability that may prevail in Europe, could create the opportunity for the EU leaders to re-launch discussions on the future of the Eurobonds, on the banking union and on strengthening the EU economic governance. In this context, some commentators speculate that the EU will be heading towards a political union, which would in essence imply a return to the idea of a multi-speed Europe. Two points are in order in this respect. First, whichever claims about multi-speed Europe are raised it is necessary that they are communicated clearly and unequivocally so that no misunderstandings take place. Clearly, the question of EU economic governance and the whole spectre of decisions taken by the Eurozone member-states about the future of the EU without granting the right to participate in the discussions to countries outside the Eurozone gave rise to a serious debate on the legitimacy of such decisions. Second, the debate on the political union becomes increasingly blurry as different stake-holders define the very concept of political union in contradicting ways. If a possible future political union is to mean better quality of political cooperation based on improved communication and enhanced governance structures across the EU, then this is clearly where the EU leaders will be heading once stability and predictability will be re-established in the Eurozone.

## **Conclusions and recommendations**

The results of June 17 elections in Greece create a number of challenges for the would-be coalition government, as well as a number of opportunities for Greece's European partners. The major challenges that the Greek government will face include the challenge of restoring growth, the challenge of renegotiating the policy-mix underlying the MoU, and the challenge of domestic political instability. Other major challenge that the new government will face is consistent with restoring Greece's credibility and its image on European and international scene. The electoral success of the centre-right ND bears several opportunities for the EU and the Eurozone. These include first and foremost the opportunity to reinvigorate the discussion on growth in Europe with new ideas, incentives and alternatives and thus to build a broad EU-level consensus on the question of where the EU is heading and what it is for. The second, closely related opportunity is the possibility that stability and

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<sup>5</sup> The interim government under Lucas Papademos was established in November 2011, following the forced decision of George Papandreu to resign as Prime Minister, and the designation of Venizelos as Greece's temporary Prime Minister.

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predictability will be injected into the Eurozone, thus limiting the pressures of the markets on the troubled Eurozone member-states and allowing the EU leaders to re-launch discussions on how to make the EMU sustainable. Several other opportunities exist, e.g. in view of the EU's foreign policy.

Against this background, three general observations and guidelines for the period immediately after the creation of the new government come to mind.

First, the new Greek government, with Samaras at the helm, needs to be entrusted with the support of the EU-leaders so as to boost the government's credibility abroad, and to allow for a consolidation of the domestic popular support for the reforms.

Second, the economic policy-mix underlying the MoU between Greece and its partners needs to be renegotiated so as to allow for channelling of the fiscal consolidation effort via expenditure reduction rather than via revenue-enhancing measures.

Finally, a new communication strategy, based on respect, mutual understanding and clear definition of commonly employed terms of reference needs to be developed in order to avoid the communication gap between the Greek authorities and its European partners.