Elections in Greece, Part I: Greek Voters Say 'No' to Their Bailout

Jacob Funk Kirkegaard suggests that after the principal Greek parties fail to form a governing coalition, new elections will be needed to clear the air.

Transcript of interview recorded May 7, 2012.

Steve Weisman: What do the confusing election results in Greece portend for Greece's future in the euro area and for stability in Europe? Jacob Kirkegaard of the Peterson Institute for International Economics has been watching Greece and this is Steve Weisman. First, what happened in Greece? It appears that the voters want a better deal in their bailout from the euro area and the IMF?

Jacob Kirkegaard: I think we need to be a little careful with trying to interpret what exactly this result means.

Steve Weisman: Let's just look at the voting results first.

Jacob Kirkegaard: Yes. What happened in this election was that the two establishments – the two parties that have defined the Greek political system back to when Greece became a democracy again in the 1970s – PASOK, the Socialist Party and New Democracy, the center-right party -- they failed between them to get a majority of the votes in the Greek parliament. They only got a 148 or 149 out of a possible 300. What that means is that in the new Greek parliament, there is no longer a majority of support for the current IMF program negotiated by the previous technocratic government under [Prime Minister] Lucas Papademos.

This of course, puts Greece, I think quite potentially on a direct collision course with the IMF and the other euro area countries, provided that a new government can even be founded and a governing coalition can be assembled, because I don't think that that's clear at all.

Steve Weisman: A day after the election results, the trouble of forming a party is evident. The minor parties on the fringes of the left and right don't want to join in.

Jacob Kirkegaard: No, I mean, it's not really clear what they want, quite frankly. I mean, they are opposed to the IMF austerity packages and several of them, not least the main victor party, the leftist SYRIZA party, have campaigned on a platform which basically says, "We are pro-European. We want to remain in the euro. But we also are opposed to austerity and we want a better deal from the IMF."

Steve Weisman: Is it possible to, that the IMF could now give them a better deal?

Jacob Kirkegaard: No, I think that that is extremely unlikely. I would also say that I don't think that it would be totally inappropriate for the IMF to do so. It would basically be giving in to blackmail —giving Greece money, even though it has not adhered to the IMF program, negotiated and agreed by the previous Greek government. I think it would be a terrible thing for the IMF to do it and I certainly don't think the IMF, or for that matter, the euro area countries would agree to this.

The Austrian Chancellor was very categorical in his statement today when he said basically that it's up to each individual country in the euro area to choose to leave the euro area, clearly signaling in my opinion, that unless the Greek government, or the new Greek political system finds a way to legislate and implement something that is very close to the existing IMF program, we may be in a situation where this program will end and Greece will have to make the fundamental decision whether or not it wants to be in the euro area.

Steve Weisman: What consequences flow from a Greek decision at this point to leave the euro area?

Jacob Kirkegaard: I think first and foremost -- and this is quite unlike the situation earlier in this crisis where a sudden Greek announcement of departure for the euro area I think would have been very destabilizing for the Euro area as a whole, and not least the European banking system. I think the nuclear threat, if you like, from this Greek option, has really become a lot less credible because we already have had a Greek debt restructuring, which means that most of the private sector losses associated with a Greek default and a Greek economic collapse, if you like, have actually already been realized.

And the European banking system, at least from a liquidity point of view is much more well equipped today because of the ECB's 3-year LTROs [long-term refinancing operations] than it was just a few months ago. So the immediate contagion from this to the rest of the euro area, I don't think it's going to be that great. It means that if Greece decides to do this, it will first and foremost, in my opinion, be an economic disaster for Greece.

Whereas the market impact and the spillover, at least in the short run, is going to be relatively limited.

Steve Weisman: Let's stop there Jacob for part one of this conversation, and we'll resume for part two in a moment.