



## Europe after the Greek Election, Part I

*Jacob Funk Kirkegaard explains that Prime Minister Antonis Samaras may get some “wobble room” from European overseers but still faces a tough agenda of deregulation and austerity.*

*Transcript of interview recorded June 21, 2012. © Peterson Institute for International Economics.*

Steve Weisman: Greece has yet another new government. Can it step up to the plate and resolve its finances or stabilize them and will Europe exhibit some flexibility in helping Athens do that? Jacob Kirkegaard, research fellow at the Peterson Institute and expert on the Greek and European crises, welcome to Peterson Perspectives. This is Steve Weisman.

The new government in Greece results from an election that as you had suggested would install a pro bailout regime that did not want to exit the euro zone. What do they have to do now to bring that about?

Jacob Kirkegaard: As you said, I think the election in many ways was about as good an outcome as we could have hoped for. You now have a three-party government with the New Democracy, PASOK [Socialists] and another left wing party, the Democratic Left Party, which has a total of 179 out of 300 MPs, which is a fairly sizable majority, which should reduce the risk of independent MP defections and things like that, which should be quite good for overall stability. It also means that the government has a total of close to half the Greek electorate behind it. So again, this is about as good as it can get.

What do they need to do now? I think they first need to convince the Europeans that they're serious. The new Prime Minister, Antonis Samaras, needs to go to the EU Council, and basically tell or convince European leaders to give him a better deal. Antonis Samaras is not a person who has a great deal of credibility among European leaders, because of the rather recalcitrant behavior that he has exhibited over the crisis. He will have an uphill struggle in front of him.

Steve Weisman: He won the election on the basis of saying that Greece had to take some tough steps, so he does have that at his back.

Jacob Kirkegaard: Absolutely. The case he needs to make to the Europeans is that he's their best hope, that the alternative to him is chaos. In other words, a populist government will be even more difficult to deal with. I think the Europeans are wise enough to realize that. In that sense, I think they're quite happy with his outcome. So I believe they will give him some wobble room.

Steve Weisman: What form will that take?

Jacob Kirkegaard: I think it will be mostly focused on austerity targets...

Steve Weisman: Budget deficits?

Jacob Kirkegaard: Budget deficits, a postponement of the targets. Basically giving the Greek government more time to accomplish the longer term fiscal consolidation that it needs to do.

Steve Weisman: Greece has made considerable progress in reaching those goals, even though it's fallen short.

Jacob Kirkegaard: Yes. There's no doubt that a lot of cost cutting and government spending cuts have taken place in Greece. But they have in some ways been overtaken by the decline in the overall economy. They have cut a lot of the low-hanging fruit, of which it should be said, there wasn't a lot. So they may get a one- or two-year extension of these deficit targets. Where I don't think there will be much wiggle room, so to speak, is on the more structural reform deficits, the kind of service sector liberalizations that Greece has to do, the kind of removal of red tape that inevitably has to take place, the re-establishment or the establishment of a creditable tax revenue collection system. Those are not areas in which the Europeans or the IMF [International Monetary Fund] – which we should remember also has a stake – [it is] in many ways is much more rule bound than the Europeans.

Steve Weisman: Right.

Jacob Kirkegaard: The euro area can pretty much do whatever they find politically convenient, whereas the IMF obviously needs to have a position that is in accordance with the IMF founding charters. This is a rules bound organization. So it may be difficult, more difficult in fact, for the IMF to sign up to continued financial engagement with Greece.

Steve Weisman: What is Samaris's credibility?

Jacob Kirkegaard: I think his problem is that he has, over the last couple of years, I think domestically in Greece but certainly at the European level, been a very divisive figure. Remember back in late 2011, where everybody in the euro area was talking about, we need a government of national unity. Well, Samaras continuously refused to join then Prime Minister George Papandreou in such a national unity government. He wanted an election because he thought he would win and then become the elected Prime Minister.

Steve Weisman: So now he's a new fan of unity governments.

Jacob Kirkegaard: Initially, he gambled and lost. At the Cannes G-20 summit last year, he was presented with the infamous ultimatum: either you are in or you're out of the euro. This is what they told [Prime Minister] George Papandreou when he said he wanted to have a referendum. Very reluctantly, Samaras at that point agreed to provide the parliamentary support for this temporary government headed by the caretaker Prime Minister, Lucas Papademos. But only in return for relatively forthcoming new elections, which of course we had on May 6, which was the election that Samaras in fact lost. It was only after we had a new election that he has now managed to cobble together a governing majority. He has made the best out of a bad situation. But we have to recall that he had a very big share of the responsibility for making that situation that bad in the first place.

Steve Weisman: What will we see in terms of clear agenda of these deregulating steps?

Jacob Kirkegaard: They have a very large ongoing deregulation agenda with respect to opening up these sort of closed shop sectors, meaning that you cannot have a fixed number of trucking licenses. You cannot have a fixed number of pharmacies, et cetera. There needs to be opening up of competition in all of them. That's true for a lot sectors where the Greek government has a big backlog. In my opinion, there also needs to be movement on what I think will be a

very thorny issue, which is the cuts in actual public sector—the payrolls. That's one of these issues which you could say, "Well, is that an austerity measure or is that a structural reform measure?" Under the current memorandum, the Greek government has pledged to cut up to 150,000 public sector workers. I think they will be ultimately compelled to get rid of the vast majority of that number. But that will certainly be a very difficult political decision to take and implement for the new government.

Steve Weisman: And what are finally the steps that Germany, leading the European Union, can take to ease their pain here?

Jacob Kirkegaard: First of all, they will give them some wiggle room on these deficits.

Steve Weisman: What else?

Jacob Kirkegaard: The harshness. I think the other main element which is part of this broader package of agreements that I think will be negotiated or agreed at the upcoming EU Council next week on June 28-29. An element there will be this sort of pro-growth agenda of [President] *François Hollande* [of France], which is going to include things like a balance sheet expansion of the European Investment Bank, the so-called project bonds, which are essentially euro bonds only for infrastructure investments. Incidentally this is also what the European Investment Bank does.

There are several ways in which the euro area is going to make quite a lot of investment in infrastructure financing available to Greece, so that if there are any shovel-ready projects in Greece, the financing will be there. But of course as we know from our own experience in the United States, the number of shovel ready projects at any given time can be a lot lower than you might think. I don't think there's any doubt that a lot of Greek infrastructure needs to be or could be upgraded. But who's going to invest in the Greek railway system, for instance, unless you have an idea about how Greek railways are going to be regulated in the future?

So you need to have a significant improvement also in the broader regulatory environment in Greece in order to entice private investors to come in as partners for public investment money in these types of long term infrastructure investments. That is really another area where the new government has a big hill to climb.

Steve Weisman: Thank you, Jacob. In Part Two of this interview, we'll talk about the larger situation in Europe after the new Greek election.