

THE POLITICAL RISK AND THE CONFLICT BETWEEN SYRIZA AND THE CREDITORS

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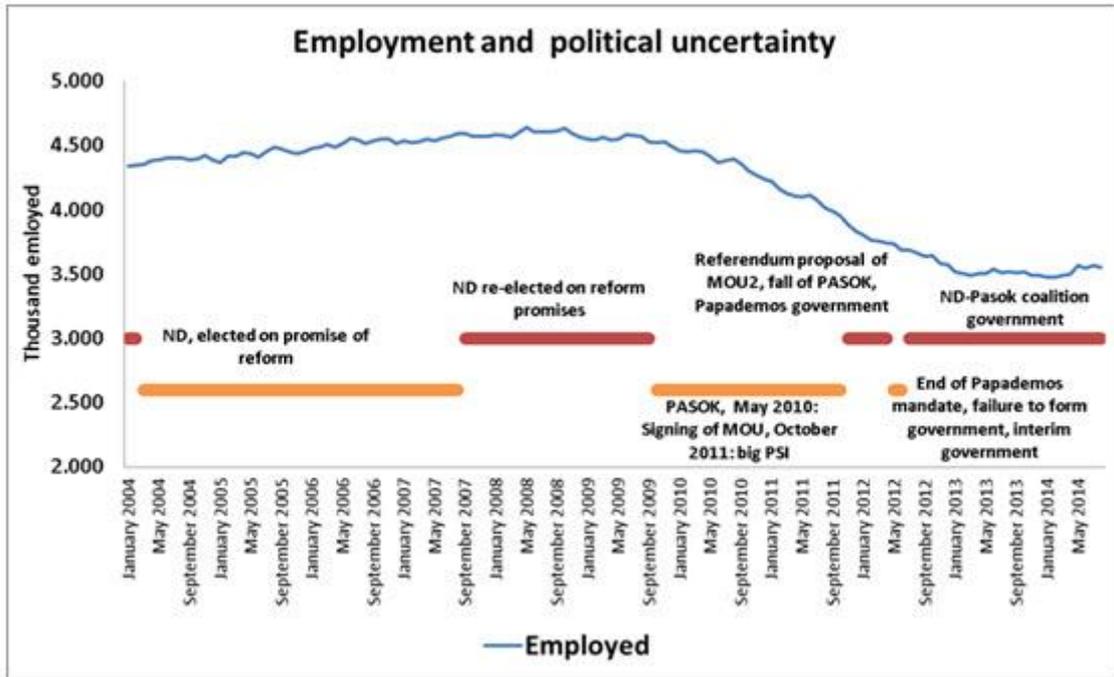
The troika, by enforcing wage cuts for everybody during the last four years and accepting “tax anything that moves policies¹,” has pushed even educated voters to the extremes of the political spectrum. The result is not only that a radical party of the left has taken over power but also that together with the communist party, the Independent Greeks, the Golden Dawn and some other smaller parties, an arrow of radical forces of 55% majority in the population vote has been gathered against the so-called austerity program.

It is somehow ironic that now that there are some “growth shoots” in the economy, to close the program the troika is again pushing for wage-restricting policies instead of pressing the government to continue to reform heavily on the product and political market fronts.

Today’s complicated situation has important repercussions on growth, incomes and employment in the short- and in the long-term, by increasing political uncertainty again by destabilizing the government and strengthening the arguments of an untried Syriza that has already taken over power. The creditors currently seem content to clash with Syriza, as a Syriza defeat by the creditors might be instructive for all of the eurozone.

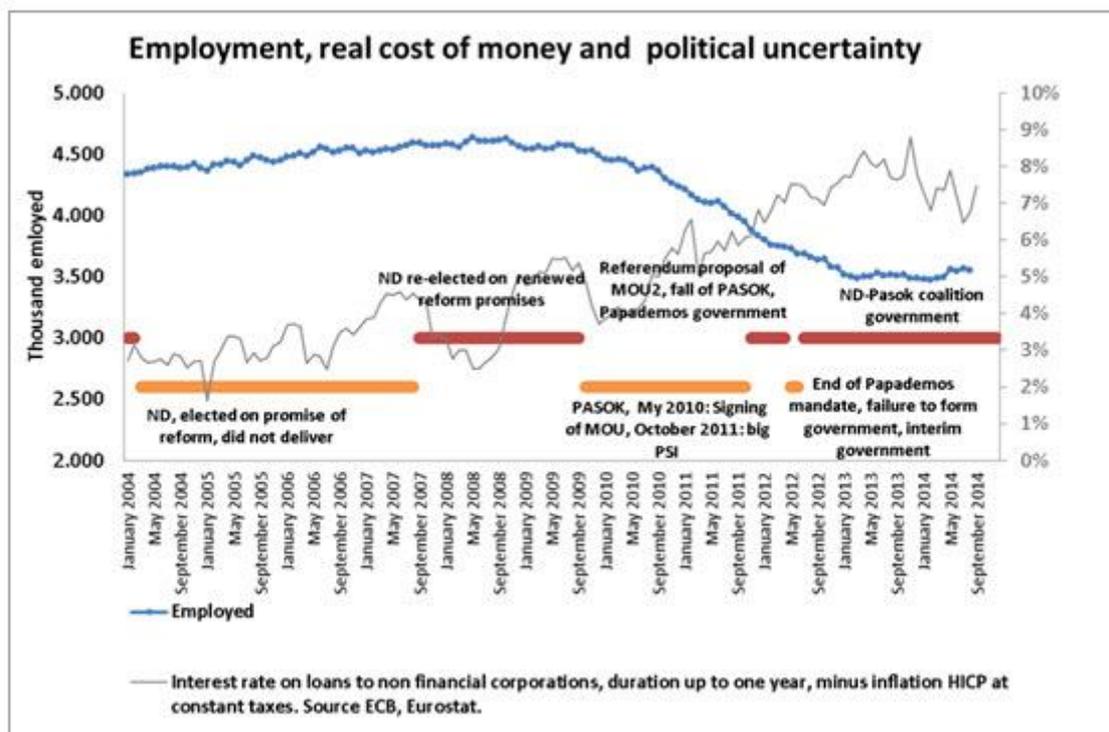
In the meantime, political risk is killing the economy (again). Need proof? Figure 1 correlates unemployment and political uncertainty. It shows a positive correlation meaning that when political risk is high, unemployment rises. While it is not the only reason, it certainly contributes to decreasing employment. Data from the last couple of months, during which time political risk skyrocketed, show that an increase in employment observed in the first two quarters of 2014 has now been reversed.

¹ See T. Pelagidis & M. Mitsopoulos, *Greece: From Exit to Recovery?*, Brookings 2014, June.



Source: Eurostat (employment)

Figure 2 adds the cost of money that is critical to the recovery of the economy. It shows again a positive correlation between interest rates and political uncertainty. Low interest rates are critical for the internal devaluation solution to succeed as exports are decisively helped by low financial costs, -along, of course, with low energy costs, low taxes and social security contributions. But, importantly, costs are currently exceedingly high for Greek exporters compared to their competitors. Now, add to all these impediments the Syriza advisers assertions in London that they intend to stop reforms, terminate the program and start a socialist transformation of both Greece and Europe with the help of Podemos and Die Linke. It's no laughing matter.



Source: ECB, Eurostat

So, is this a “2012 Grexit deja vu”? If, naively, both the creditors and the government believe that nothing will happen if we repeat the same mistakes again, the answer is yes.