

GREECE SITUATION REPORT FEBRUARY 2011

Political Outlook

The government of Prime Minister George Papandreou continues to retain a comfortable majority of 156 seats in parliament but it is increasingly buffeted by dissension and lack of coordination. As austerity bites deeper, and popular dissatisfaction rises, many ruling PASOK members of parliament have become fearful of their electoral fortunes and appear willing to challenge the PM and his handful of trusted ministers.

Following the most recent spat over proposed legislation, the PASOK parliamentary caucus secretary, Christos Protopappas, warned that if cabinet ministers continue their practice of “surprising” the caucus with proposed bills, the government should not expect its MPs to necessarily cast their vote in favor of such legislation. This is an unprecedented move by PASOK party practices and it appears to have jolted the Papandreou narrow entourage sufficiently for the PM’s office not to issue its usual reprimands to those who seem not entirely satisfied with the government’s actions.

The revelation by IMF chief Dominique Strauss-Khan that Papandreou was asking for an intervention by the IMF in Greece months before the country came under IMF/EU-demanded severe austerity, and against the background of Papandreou’s own public pronouncements *against* such a solution, has further eroded the legitimacy of the government. Although the PASOK administration will ward off easily any motion of no confidence thanks to its majority, PASOK’s re-election prospects are thinning toward the critical point.

The main opposition New Democracy (ND) party continues to follow a non-confrontational parliamentary strategy despite verbal attacks on the government, with critics highlighting the need for more aggressive tactics suited to the crisis at hand. Nevertheless, ND quietly offers to support key government-proposed legislation and has generally avoided a head-on collision with Papandreou. ND leader Andonis Samaras campaigns briskly around the country and seems to be gaining personal and political points. Published polls, however, do not discover any notable changes in voter mood toward ND following its walloping in the last general election of October 2009, when it

lost to PASOK by a margin of ten percentage points. That is no surprise though since both big parties have retreated in the preferences of the public in ways never seen during the years since the introduction of Gallup-style research in Greece in the mid-1980s. Away from solicited surveys, commissioned mainly by the media, in-house research by various entities, including the two big Greek political parties, shows serious cracks developing in the essentially two-party Greek political system that emerged after the fall of the junta in 1974.

This developing landscape seems to favor smaller opposition parties, including the Stalinist Communist Party of Greece (KKE). Both KKE and the extreme nationalist Popular Orthodox Rally (LA.OS) appear to have expanded their appeal, which, however, still remains in the single-digit figures. A left coalition party called “SYRIZA,” often cited by the media and PASOK as supporting street anarchists and, implicitly, the growth of a new wave of domestic terrorism, has been struggling recently because of in-party feuds and defections. Overall, the so-called “minor” opposition does deliver scathing language in parliament yet it does not possess either the numbers or the popular appeal to deliver body blows to the two bigger political parties.

Economic Outlook

Economic observers both in Greece and abroad are beginning to realize (or, rather, belatedly admit) that the austerity plan imposed by the European Union in collaboration with the International Monetary Fund upon Greece, and pushed through by the Papandreou government, has failed disastrously for the average Greek and the Greek economy as a whole.

Touted as the “only way” that could give Greece access to a EU-sponsored bailout, the austerity package, enshrined in a Memorandum of Understanding signed by the Papandreou government along with the EU, the IMF, and the European Central Bank, has sapped the last remaining dynamism of an already deflating economy and is causing economic malaise not seen in Greece since the aftermath of the Second World War.

Unemployment has already climbed to an official 13.5% and is expected to rise past 15% before the end of 2011; small-to-medium enterprises, traditionally recognized as the “locomotive” of the domestic market, are failing in their thousands, victims to

rapidly falling demand, ballooning taxation, and a generalized embargo upon business loans by the banks; repeated increases in indirect taxes since the beginning of 2010 have jacked up consumer prices steeply making family budgets untenable; construction, another “locomotive” of the economy, has all but expired leaving tens of thousands without jobs; and the oligopolistic organization of the Greek domestic market, always vigilant for opportunities, has found new avenues of increasing prices at a time of growing inability of large swaths of the population to meet even basic daily demands.

In the background, Greece’s enormous debt is estimated to rocket past 150% of GDP by 2014 and approach a total of €500 billion. Such levels of debt, most economists agree, are unsustainable even if the country could -- in some magic way -- grow annual budget surpluses of 10-12% throughout the foreseeable future. Hence, speculation about an imminent restructuring of the debt remains vibrant, with foreign media claiming the idea is shaping into a practical plan in Brussels.

The Papandreou government appears beleaguered by the impact of its own experimentations and continues to make key strategic as well as tactical mistakes in trying to deliver a meaningful blueprint for returning the economy to an even keel. Caught in the mentality of all-out assault on all of Greece’s ills simultaneously, Papandreou and his “reformists” have fallen into the proverbial trap of “shock therapy” long advocated by various foreign experts (who nevertheless have little clue of Greece’s ‘peculiarities’) and embraced by what is known in Greece as the “troika”-- i.e. the EU, the IMF and the ECB. The immediate net result of wrecker’s ball legislation, passed through parliament by an increasingly unnerved and confused government majority, has been to harden popular opposition to many of the deregulation measures demanded by the troika and still eagerly touted by Papandreou as the “only” way to “growth.”

It is now obvious that the Papandreou government had little idea on what to do past brutally slashing incomes and increasing taxation in ways that pauperize many Greeks in tune with the troika MOU’s terms -- widely recognized at present as “colonial” by both Greek and foreign observers. These one-sided fire-and-forget deficit-reducing measures, applied in broad arbitrary strokes with little idea of their medium and long term impact, have not only reduced an already misfiring economy to a standstill but have also spawned the firm conditions for a long-lasting super recession.

Social Outlook

So far, the Papandreou government has faced some violent demonstrations of smaller scale and persistent strike action from public sector unions. Professional groups, most notably lawyers, medical doctors, and pharmacists, have also joined the strike path. The strikes have had a deleterious effect on everyday life and continue to cause significant disruption and economic damage as in the case of strikes by mass transportation workers.

The government has scored some “victories” (for example, against truck owners resisting the opening of road haulage to anyone who may fulfill the criteria for a truck permit) but has failed to convince the broader public opinion as to the necessity of most of these measures despite propaganda tactics like “independent” opinion surveys commissioned by the Finance Ministry. The absence of Egypt-like unrest, and the depressed state of mind of the majorities of the population, has allowed both Papandreou and EU officials, like Olli Rehn, the commissioner for financial affairs, to claim that Greek society “understands” the necessity of measures that effectively put out the Greek economy for years to come. These claims do not benefit the government and only help to harden the popular belief that both government and EU are involved in a scheme to bamboozle the Greek people.

Against this background, a disobedience grass roots movement known as “I Won’t Pay, I Won’t Pay” has been gathering unexpected strength throughout the country. The movement focuses on encouraging citizens not to pay exorbitant road tolls in effect throughout Greece and refuse to pay mass transport tickets whose price has gone up by an average 40% as part of “cleansing” the perennially money-losing public transport sector. “I Won’t Pay, I Won’t Pay” has expanded fast enough to force the Papandreou government to pass legislation criminalizing toll-and-ticket disobedience. This action has played a key role in further strengthening the unpopularity of the government.

Local analysts are divided on the possibility of a major violent outburst against the Papandreou government. They note the tradition of non-violence among the country’s middle class but they also stress that driving Greece’s most productive strata to ruin through foreign-imposed personal bankruptcy, known in the troika’s vernacular as

“domestic devaluation,” will eventually have the minimum effect of sapping PASOK well into the future.

Illegal immigration

Illegal immigration, along with Greece’s precipitous economic disintegration under the IMF/EU/ECB MOU, has risen as the Number One national security threat. Fueled mainly by Turkey’s strategic decision to undermine its neighbor through allowing throngs of Asian and African Muslim economic migrants to pass through its territory and cross the Greek-Turkish frontier without interference, illegal immigration is filling Greece with unwanted masses of unskilled undocumented aliens, who, aside from destabilizing Greek cities and turning the center of Athens into a ghetto, also form the perfect pool for the development of an Islamic fundamentalist terrorist movement. Conservative estimates suggest that Greece is already home to 1.4 million mostly illegal aliens. Forming more than 10% of the population, and given their generalized alienation and marginalization, illegal immigrants comprise a group that could potentially impact domestic life in various harmful ways.

With Greece’s European partners offering only token support in combating this veritable invasion, the Papandreou administration has reacted spasmodically to the challenge. Like previous Greek governments, the present administration oscillates between fears of being branded a violator of “human rights” by the “international community” and an ever-present gathering of Non-Government Organizations and an almost instinctive tendency to offer indiscriminate legalization to these undocumented aliens irrespective of origin and security status.

Inability to deal with illegal immigrants in ways that would safeguard, first and foremost, internal security and the integrity of Greek cities is assuming dangerous proportions beyond the routine dysfunction of an outdated and morose Greek public sector. Recent announcements of the (proposed) building of a counter-immigrant fence along sections of the Greek-Turkish frontier, and the introduction of an electronic identification card for immigrants, can gain little traction within the limited practical capabilities of the Greek state.

Signs of Greek government inertia haven't gone unnoticed by an increasingly assertive Muslim illegal immigrant element. Muslims in Athens have already staged a distinct demonstration of strength by occupying a dozen city squares to pray while openly ignoring orders by the authorities prohibiting such gatherings in public places. Muslim clerics are making thinly-veiled threatening remarks to the media warning that the devout won't "tolerate" the Greek state's failure to build a mosque in Athens any longer. There is an increasing flow of information suggesting that these Muslim groupings in Greece are receiving financial aid from abroad, not to mention mentoring by fundamentalist instructors (during the recent open-air prayer in Athens, the leading figure making fiery statements to the devout was a well-known Egyptian religious teacher, who arrived in Athens on purpose).

Conclusion

Greece continues on a downward slope with no brakes in place. Economically, there is little that could offer even slim hope of a modest recovery. The government appears unable to either recognize the damage caused by its indiscriminate austerity policies or perceive the abject failure of the MOU as the "only solution" to the Greek crisis. The main opposition makes sounds about the MOU (ND has formally rejected the 'memorandum' as the vehicle to exit the crisis) but has itself failed to challenge the government on many of its ill-thought policies and the burgeoning internal security issue. The smaller parties of the "minor" opposition appear inconsequential to this present impasse despite the Communist Party's street tactics and its efforts to foment labor unrest.

The immediate outlook for Greece appears devoid of any real signs of either recovery or hope for reworking the perceived "solutions" in order to cross into more positive territory. Signs of the Greek administrative system cracking are increasing, with the government unable to patch the holes up or energize public servants, already in shock from the salaries and benefits cuts, "to put their shoulder to the wheel." A recent two-week strike by public sector hospital doctors, for example, has thrown the whole state-controlled health care system, creaky even at the best of times, into anarchy with no end in sight. Budget cuts have affected sectors like defense and law enforcement without the

slightest provision to secure the continuity of critical operations. Government officials at all levels find it beyond their reach to deliver even rudimentary action surrounded by confusion and lack of meaningful leadership. Ultimately, things stand to get a lot worse before they may get even a glimpse of a recovery.