

THE CONVERSATION

January poll puts Syriza in driving seat – and Greece on course for economic turmoil

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Syriza leader, Alexis Tsipras, is tipped to become the next prime minister. EPA/Orestis Panagiotou

Greece is set for a January 25 election after the national parliament failed to elect a new president and already there is an air of crisis in a country that after five years of instability and austerity measures has just posted its first primary budget surplus in six years of recession.

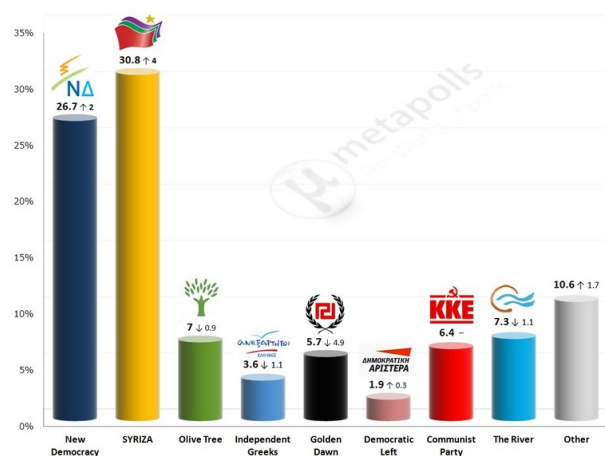
The most likely beneficiary of this development is Syriza, a populist left-wing party led by Alexis Tsipras that has been topping the polls – basically by saying yes to any public demand that may bring in more votes. Tsipras' economic plan is a hasty and ill-thought-out Keynesian program which aims at stimulating aggregate demand by increasing social welfare spending, public sector job creation and wage increases.

But Syriza represents the interests of the privileged classes of public employees, tax-evading professionals and state-nourished enterprises, the biggest losers over the past five

years of fiscal consolidation and economic rationalisation. For them, a Syriza win is a promise to return to the good old pre-crisis days. It is no accident that almost all the people responsible for Syriza's economic program are public employees and university professors, who were hired by the same system of nepotism which they themselves are currently criticising.

But is this possible? The answer is not now. Keynesian policies can be effective when an economy is entering a recession, as Greece did in 2010, but without a sovereign debt overhang. For massively indebted countries, finding loans at affordable borrowing rates is a Herculean task. Fiscal expansion is therefore out of the question. Syriza, like **George Papandreou** before the election of 2009, say they can fully finance their economic program without specifying who is going to pay or from whom they will borrow money. Even worse, they do not know how much money their promises would cost.

My conservative estimate would be a huge €30 billion – which amounts to more than 15% of GDP in just one year. The arithmetic is very simple. There are at least 2m people whose income depends on public finance. On average, during the crisis, they each lost €10,000. In order to fund a return to pre-crisis salaries, therefore, Syriza would need €20 billion.



Syriza is expected to win the January 25 election. Metapolls

On top of this, if Syriza proceeds with its other promises of re-nationalising privatised companies such as airlines, telecommunications, ports etc, then the cost becomes even higher. This might add another €10 billion. This adds up to €30 billion, an amount equal to the Greek public deficit of 2009. In 2014, Greece is expected to have a primary public budget surplus after five years of successful fiscal consolidation. Syriza's economic program would undermine this achievement.

Scylla and Charybdis

Is there any way of financing such a massive economic program of government spending? Borrowing is not an option. The other "solution" is a Grexit – return to a national currency and start printing inflationary money as has been done many times in the past. This would be a catastrophe for the Greek standards of living as measured in euro. Countries like Russia know very well what the markets can do to a national currency. In a few days, Greeks may lose half of their purchasing power. The great majority of Greeks know this and they want to stay in the Eurozone.

Syriza faces a dilemma similar to the one Odysseus was facing between Scylla and Charybdis (between a rock and a hard place). Either they continue to follow austerity measures – and lose many votes – or quit the euro and destroy Greece. Odysseus did the right thing and chose Scylla. He lost a few of his men but saved his ship. I believe that Syriza has no choice but to opt for Scylla – continuing austerity measures at the cost of some popularity. This, of course, assumes that the party can win the election on January 25, which,

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by itself, is another Herculean task, as the trends in the recent polls have shown.



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