

BARGAINING WITH THE TROIKA  
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Since the beginning of the crisis the Greek government had not openly disputed any of the proclamations of the IMF/ECB/EU troika. The record of seeming agreement was broken on February 11, twelve hours after representatives of the troika proclaimed that the Greek government should sell public property worth 50 billion euros by 2015. While the government's reaction was somewhat delayed – it came only after the public outrage was becoming apparent – it was vociferous and the Prime Minister personally complained to the IMF's Managing Director about the “unacceptable behavior” of the troika representatives during their February 11 press conference.

The style of the troika representatives might have been brusque, but it is evident that the core of their message was official troika policy, previously agreed upon by the Government.

However, it is doubtful that the sale of already diminished public assets would amount to anything close to 50 billion euros and, most important, it is far from clear that such a policy would be in the long-term interest of Greece.

The same comment applies to other aspects of the troika memoranda that the Greek Government has agreed to implement: it is far from clear that they serve the long-term interests of Greece. It is clear, though, that the policies implemented so far do serve the interests of bondholders that hold Greek government debt in France, Germany as well as Greece – although the value of outstanding bonds has fallen dramatically in expectation of default, maturing debt is fully paid back to bondholders and replaced with debt owed to the IMF and other eurozone countries. Legally, it would be nearly impossible, to default on this new debt, whereas it would be far easier to default on the old, existing debt.

The interests of the troika and those they represent are rather different from those of Greece. Roughly speaking, thus far on one side are the banks and the elites of France and Germany and on the other side are ordinary working Greeks. It has been unclear up to this point where the Greek elites and the Greek government stand. If they stand firmly on the side of the long-term interests of Greece, they have done a poor job of communicating it. Are they even aware that the game with the troika is now becoming close to a “zero-sum” one, where one side's gains are the other side's losses? Perhaps, despite outward appearances, the Greek government might be keenly aware of the real nature of the game and it is bargaining hard behind the scenes

Common Greeks should hope that its government is at least driving in private a hard bargain with the troika, Mr. Sarkozy, and Ms. Merkel. What would such a hard-driving bargaining attitude and practice involve? We cannot of course be cognizant of all the

possibilities that Mr. Papandreou and his Cabinet have at their disposal, but a humble outsider could think of at least the following steps in developing a bargaining position:

- Instill within the Cabinet and Ministry officials the idea that the troika and its representatives have very different objectives than those of Greece and its people. That might sound obvious to many outsiders but it is possible that some members of the Government and its officialdom might actually be unaware of the differing objectives and believe in rhetorical proclamations of “European solidarity” or “that we are all in this together.” Such proclamations do have their place but cannot be taken seriously in preparing one’s side. Without awareness of the different objectives, no further steps can be taken to create a strong Greek bargaining position. Instead of being an independent actor one becomes *cognitively captured* by the other side.
- With awareness of the differing objectives, the bureaucratic apparatus would be directed to produce data and arguments that would favor Greek interests. If IMF experts want to apply their cookie-cutter approach used in other countries, the Government should be able to come up with arguments about the harm that particular reforms could induce in Greece. Examples include the harm that some changes in the private labor market would bring about and the supposed 50 billion euros that privatization could yield. There is evidence that on some issues Greek officials were successful in changing the views of troika experts but it appears that those were on somewhat minor, narrowly technical issues. Countering the views of IMF officials is not an easy matter both because of the resources and aura of expertise that such officials may have. Doing so might require the advice of technical experts outside the Government.
- Developing alternative scenarios to the one the Government and the troika are following. The reason for alternative scenarios is that the current official one is simply not viable. If everything went well according to the current plan, the ratio of government debt to GDP would reach 160% in a few years, when Greece is supposed to go back to the bond markets. But if international bond markets were unwilling to lend at reasonable interest rates in 2010 or 2011, how could they change tack when the state of the Greek debt will have deteriorated? For Greece to have sustainable debt in the long-run, it would take a debt to GDP ratio of significantly below 100%.
- All realistic scenarios involve some form of reduction in debt regardless of what its name is: restructuring, lengthening of the bonds’ term, default. The *threat of default* is also the ultimate bargaining chip that the Government has at its disposal. Given that public debt is unsustainable, some form of friendly restructuring is considered inevitable by all parties. Doubling the term of existing debt at the original interest rates is one form of restructuring that has been discussed. Such an action can delay the need to go to the bond markets, but ultimately it will not solve the problem of continued austerity that Greece can

expect for years to come. For Greece to gain more than crumbs, the Greek Government should be willing to play hardball.

- Among the scenarios that need to be developed is the one that involves default on all existing debt that is subject to Greek law (which essentially involves all debt that was issued before the 2010 crisis). Argentina's 2001 default is a recent rather successful example, although Greece's situation is considerably more complex. The scenario does not have to be followed, but in order to be credible in negotiations it should also be seriously considered as a realistic alternative. Default has some clear implications. First, since Greek banks hold a considerable amount of public debt, the banking system will fail and be taken over by the government. Second, the only way for the government to pay off bank deposits would be to issue new currency, thus implying Greece's exit from the Eurozone, obviously a technically and geopolitically very difficult endeavor. Third, exit from the Eurozone would inevitably lead to devaluation of the new currency, with the possibility of the country becoming internationally more competitive than it could be within the Eurozone. Obviously, such a scenario is full of uncertainties and difficulties but that is the point of developing and thinking through scenarios, to find out what the difficulties are and how they can be overcome, if at all. The current trajectory of Greece, even with some debt restructuring, is rather grim with continued austerity, negative or low growth for a decade or more. In the meantime, as the old, "defaultable" debt keeps shrinking, Greece's greatest bargaining chip becomes less valuable. It is the responsibility of the Greek government to give it a consideration, at least as a bargaining tool.

The behavior of the troika's representative was a welcome wake-up call to Mr. Papandreou and his government that Greece's interests differ from those of the troika. While the IMF and the EU are obviously extremely powerful institutions Greece still has bargaining options and should not be timid in exercising them. It is likely that if Mr. Papandreou were to become more assertive in his exchanges with the EU and the troika and do that not just privately but also publicly the outlook for Greece could become considerably better than it now is. He could even borrow a bit from his father's repertoire of political techniques, by threatening outright default so as to drive the value of Greek bonds close to zero with the intention of buying them all up in the open market with the money obtained from the sale of just the few remaining *Xenia* hotels.

