agree to new PM to resign

create a new unity government that will not be led by Mr. Papandreou, according to a statement released Sunday night by Greek President Karolos Papoulias, who mediated the talks.

Mr. Papandreou and the opposition leader Antonis Samaras agreed to meet again today to hammer out the details of the agreement. The name of the new prime minister is not expected until then.

The new government is intended to govern for several months to put in place a debt agreement with the European Union, a step European leaders consider crucial to shoring up the euro. Then it is to hold a general election and dissolve.

Mr. Papandreou has faced mounting pressure to resign, including from within his own party the Socialists.

Before the meeting with the president, Mr. Samaras had repeated that he would enter talks on a unity government only if Mr. Papandreou resigned.

Mr. Papandreou himself has repeatedly said he would be willing to step aside for the deal to go through.

But after meeting with his cabinet in the afternoon, Mr. Papandreou said Mr. Samaras would first have to agree to a seven-point plan of priorities that would essentially commit the new government to the terms of the debt deal. The priorities include securing the release of European rescue funds, meeting fiscal targets imposed by foreign creditors, and passing the 2012 budget by the end of the year.

Mr. Papandreou also insisted that the composition of a unity government must be agreed to before he stepped down. It was not clear Sunday night whether the opposition had agreed to the seven-point plan. European leaders want the Greek Parliament to pass the new debt deal worked out in Brussels on Oct. 26 and have urged Greek leaders to forge broader consensus.

The deal would have banks write down 50 percent of the face value of some private Greek debt to help reduce the country's public debt to 120 percent of gross domestic product by 2020. But it requires the approval of a series of deeply unpopular austerity measures the government has already committed to and imposes a permanent foreign monitoring presence, a development many Greeks see as a loss of sovereignty.

U of S economists watching trouble in native Greece

BY DAVID FALCHEK
STAFF WRITER

Two University of Scranton professors specializing in economics and global finance have watched the crisis unfolding a world away in Greece with unique interest.

Iordanis Petsas, Ph.D., and Ioannis Kallianiotis, Ph.D., are both natives of Greece and have family in the small nation whose debt crisis has rattled European and international financial markets.

The markets

Both professors feel markets are being hypersensitive. Dr. Petsas wondered how the words of the prime minister of a nation of 11 million people moves world markets. Dr. Kallianiotis noted that the Greek economy is just 1.9 percent of the eurozone's gross domestic product and that the crisis is more "political" than economic.

There are rumblings of Greece leaving the euro zone, ceding from the European Monetary Union and starting a wave of sovereign debt defaults. Leaving the European Union would be a bad option for Greece, Dr. Petsas said, since the "new" drachma would be so severely devalued against the euro, that it would more than double the nation's debt. Default would be almost unavoidable. It would prompt massive inflation in a nation that imports nearly all its goods. Leaving the union could cause a "contagion," with other countries leaving the union and walking away from their debt. Then, real shockwaves would circle the globe.

"Exit is not a solution," Dr. Petsas said. "I wrote a paper in 2001, before the euro adoption, saying entry into the eurozone was one way if they allow Greece to go back, every other country will exit."

Tools lacking

European banks ought to take a greater "haircut" on the debt owned by Greece, Mr. Petsas said, pointing out that they, as lenders, share some of the responsibility for the debt problem. Greece also should curtail its social programs, which some consider lavish. For example, Greek citizens earn a pension even when unemployed, Dr. Petsas said.

Both professors seem stung about the criticism heaped on their native country by other European nations, which have come to refer to the homeland as among "PIGS" nation: Portugal, Italy, Greece and Spain, all of which have high debt levels.

Dr. Kallianiotis highlighted the seemingly intractable position Greece is in. The nation now pays a whopping 24 percent interest on its debt, so much that nearly all revenue goes to pay interest. As part of the European Union, Greece has little control over its monetary policy. Typically, a nation with its own currency can devalue it, making their exports more attractive to the rest of the world and bringing money into the country. But the euro is strong and that is hurting Greek exports, Dr. Kallianiotis explained.

"The Greeks have no tools to deal with this recession and austerity measures have caused unrest," he said. "My family complains about salary reductions and inflation."

Plus, the uncertainty and drama is prompting people to take money out of Greece, Dr. Petsas said, which makes matters even worse.

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