



# The Greek Referendum on the Euro: Options and Implications

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## Policy Recommendations

1. The 'yes' vote should be encouraged, but discreetly.
2. The Greek crisis can only be overcome if political and historical parameters are also taken into account.
3. European leaders need to maintain an open mind while continuing to pursue the ideal of a united Europe.

## Abstract

The Greek government decided to call a referendum on the creditors' 25 June 2015 proposals. It is effectively a crucial referendum that will influence Greece's future in the Eurozone. The referendum suffers from a number of important problems, but the government is reluc-

tant to back down. The policy brief discusses the three possible options and their implications: no referendum, the 'yes' vote prevails, the 'no' vote prevails. The author argues that the implications affect all Europe, and that the Greek problem needs to be studied in a new light.



# The Greek Referendum on the Euro: Options and Implications

In the early hours of Saturday 27 June the Prime Minister (PM) of Greece, Mr. Alexis Tsipras, announced live on the Greek state television, ERT, that he is calling a referendum<sup>1</sup> on the economic proposals of the European Commission, the ECB and the IMF (troika). Ever since, the country has been in turmoil European leaders and citizens have been wondering how to deal with the Greek crisis. But the current circumstances open a totally new chapter in the history of the European Union. In the present policy brief I sketch what is really at stake for Greece and the EU in the 5 July referendum, and why it is important for all Europeans to take the Greek referendum very seriously, irrespective if it takes place or not and regardless of its outcome.

For the sceptics and the opposition the reasons behind the referendum are the result of political calculations<sup>3</sup>. SYRIZA is composed of diverse political groupings, some further to the left and more hostile to Europe and the EU than others. As a result, the cohesion of SYRIZA's parliamentary group is fragile. The PM and the leading team surrounding him cannot drag the party any deal they wish. Eurosceptics and hardcore leftists have to be accommodated. Hence, as soon as it became clear that the deal offered by the troika would not be approved by the coalition majority in the parliament, and that the government would collapse, the PM and his cabinet decided to call a referendum, to save party unity and the SYRIZA-ANEL government.

## The motives

The explanations why the Greek government called for a referendum to deal with the troika's proposals of 25 June vary. The Greek government argued, that its representation was faced with an unacceptable ultimatum after months of unfruitful negotiations with the troika (Commission, ECB, IMF). It was impossible for Greece to accept once more painful austerity measures without addressing the problem of the unsustainable debt. After more than five years of austerity, the daily life of Greeks deteriorated dramatically. Furthermore, SYRIZA has been open about its preferences regarding more direct democracy. Given that committing to another round of austerity measures is a grave political decision with far-reaching and painful consequences, enabling the citizens to have a say was meant to boost democracy, as the Greek finance minister, Mr. Yanis Varoufakis, said.<sup>2</sup>

1) <http://www.referendum2015gov.gr/en/why-a-referendum/greek-prime-minister-alexis-tsipras-addresses-the-nation-concerning-the-referendum-to-be-held-on-the-5th-of-july/>

2) <https://twitter.com/yanisvaroufakis/status/614567635108405248>

## The credentials

Although strictly speaking there is nothing unconstitutional<sup>4</sup> about calling this particular referendum, its functionality is questionable and its democratic credentials problematic, to say the least. Here is why:

- The referendum refers the voters to a deal that formally no longer exists.
- The question is long. In addition, it refers to two documents<sup>5</sup> containing highly complex text comprehensible only to professional economists and policy experts.

3) <http://www.capital.gr/arthra/3039406/arthro-uparxei-pleon-zitima-dimokratias>

4) [https://www.academia.edu/13371255/Q\\_and\\_A\\_on\\_the\\_Greek\\_Referendum\\_of\\_5\\_July\\_2015](https://www.academia.edu/13371255/Q_and_A_on_the_Greek_Referendum_of_5_July_2015)

5) <http://www.referendum2015gov.gr/en/why-a-referendum/proposal-of-the-institutions-to-the-greek-government-full-text/>



- It is impossible to give a plain 'yes' or 'no' answer. The two documents contain a long list of technical proposals. One may agree with some of them, but not with others.
- The question is inherently biased toward the 'no' answer. It is ridiculous to expect a fair outcome if the citizens are asked whether they support painful fiscal measures.
- The citizens have been given eight days to decide how to vote, and only five days to study the mindboggling proposals.
- The citizens are asked to vote 'no' or 'yes' without being clearly informed what either choice means. Worse, the government is deliberately concealing that a 'no' vote is likely to lead to a Grexit from the Eurozone. If the government has a plan for the day after, it refuses to reveal it. In a televised interview the PM insinuated that he would resign if the 'yes' votes are more, but again he failed to give an unambiguous answer.
- Referendums tend to be divisive, and it is unwise to conduct them under conditions of social turmoil. Having closed all the banks and financial institutions in Greece (including the courts and the parliament) for over a week is bound to promote distress. The government's insistence to call the 'no' camp for large-scale demonstrations in front of the parliament, only to be followed by counter-demonstrations the next day, does not promote national unity either.

### The possibilities

So what are the options now regarding the Greek referendum? There can be only three: (1) the referendum is cancelled, (2) the referendum proceeds as planned and 'no' prevails, (3) the referendum proceeds and 'yes' prevails.

Given the criticism I just raised about the flaws of the possible Greek referendum, its cancellation might seem like the best available option, but I have

my reservations. No matter if the creditors accept Mr. Tsipras' latest proposal, and no matter what they may counter-propose, cancelling the referendum a few days after it was announced and only a few days away from the vote, would be hugely embarrassing for the Greek government. Consequently, it would undermine everybody's trust towards the government and the pressure to resign will be immense. Should this be the case, it is uncertain what will happen the day after. Each political party will try to weigh its chances, and because of the increased uncertainty, the fragmentation of the Greek party system and the volatility of the electorate, forming a national unity government or a new one after snap elections will take time. With capital controls in place, Greece will require a lease of time (and liquidity) to resume negotiations.

In the case of no referendum, the long-term damage of trust toward the Greek and EU institutions has also to be taken into account. It will be the second time since 2011 that Greece will be backing away from the intention to hold a referendum, and citizens across Europe will inevitably hold not only the Greek but also the other European leaders responsible. Consequently, democracy will receive a blow in Greece and concerns about the EU's democratic deficit will grow further. As a result, Euroscepticism will grow even more and European integration will stall.

If the Greek referendum takes place, in spite of the domestic and international reservations, and the 'no' vote prevails, developments are by and large unpredictable, but Greece will certainly be a short step away from the Eurozone exit. Naturally, the government denies this, but its credibility is already damaged. In all likelihood it will be only a matter of time before the Greek government finds itself compelled to issue a new currency, or before it resorts to other radical measures such as bank deposits trimming.

The financial consequences for the other Eurozone members and for the EMU in general are probably going to be limited. The Eurozone has had



enough time to brace itself against such a development, and it is hard to believe that if Greece falls it will drag the whole European economy with it. However, this is no reason for letting Greece leave the EMU. The precedence of abandoning the EMU will signal that the whole EU is a fragile construct. Moreover, it will encourage populist and extremist political forces throughout Europe. We know that moderate political parties (centre-right or centre-left) are not immune from populist influences. We also know that they cannot resist populist pressures forever. Consequently, the rise of anti-European populism in Europe will move closer to the mainstream threatening the long-term prospects not only of the EMU, but of all European integration edifices. Taking into account that the possibility of a Brexit<sup>6</sup> is also looming, the EU's future is far from rosy. As a result, a Grexit is the last thing the EU needs right now.

For some observers, the best option would be if the referendum went ahead on Sunday and the 'yes' camp prevailed. The defeat of the government's proposal would force the SYRIZA-led government to resign and a new one to come in power. On the one hand, this means elections and the waste of precious time and money. On the other, it will allow Greece to return to the negotiations table and start afresh. This is probably the most promising scenario, but it has its pitfalls. In order to avoid them, a change of course is needed.

6) [https://www.academia.edu/12362798/The\\_UK\\_and\\_the\\_EU\\_The\\_Implications\\_of\\_a\\_Brexit\\_for\\_Europe](https://www.academia.edu/12362798/The_UK_and_the_EU_The_Implications_of_a_Brexit_for_Europe)

## The proposals

As already explained elsewhere<sup>7</sup>, the economic crisis left Greece's political system in a very vulnerable position. It cannot take another blow. Greece needs to find the way out of the ongoing economic crisis, and it needs clever ideas that take all relevant parameters into account. These parameters include not only the country's fiscal or economic profile, but its political and historical as well. Choices and their implementation are dependent on institutions and institutions do not change from one day to the next.

There is no denying that responsibility for Greece's failures lies primarily on the Greek side. But there is also no doubt, that the solutions that have been proposed so far were counterproductive, if not disastrous. There have been mistakes on both sides. Now it is the time to learn from past mistakes. For Greek citizens this means voting 'yes' on Sunday's referendum. For the other European citizens it means showing sympathy and solidarity to the Greek cause. For the policy-makers it means studying the Greek problems carefully and moving beyond proposals that have not worked in the past. For Europe's leaders it means maintaining an open mind while continuing to pursue the ideal of a united Europe.

If Greece is denied the hope for a genuinely better future on Monday July 6, disaster is likely to follow.

7) [https://www.academia.edu/11530686/The\\_Impact\\_of\\_the\\_Financial\\_Crisis\\_on\\_the\\_Legitimacy\\_and\\_Autonomy\\_of\\_the\\_Greek\\_Parliament](https://www.academia.edu/11530686/The_Impact_of_the_Financial_Crisis_on_the_Legitimacy_and_Autonomy_of_the_Greek_Parliament)



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