The Greek referendum has generated unprecedented uncertainty over Greece’s future in the euro

blogs.lse.ac.uk/europpblog/2015/06/29/the-greek-referendum-has-generated-unprecedented-uncertainty-over-greeces-future-in-the

6/29/2015

Greek banks are expected to stay closed until 7 July, with capital controls being imposed, following the announcement by Alexis Tsipras on 27 June that the country will hold a referendum on the terms it has been offered by its creditors for receiving fresh financial assistance. **Effie G. H. Pedaliu** *writes that Greece is now facing unprecedented uncertainty. She argues that neither the Greek government nor its creditors have emerged from the negotiations with their credibility intact, and that it remains deeply unclear what the planned referendum will achieve in practice.*

The Greek financial crisis over the last six years has contributed many clumsy terms to the political and economic lexicon that jar with the elegant contribution of the Greek language to intellectual debate. *Grexit* came first, followed by *Graccident*. And in the last few days, when the Greek Prime Minister Alexis Tsipras called a referendum on the country’s bailout programme, we now have *Greferendum*.

These cacophonous words denote the dramatic dead-end that crisis-ridden Greece has had to live with over the last six years. The crisis has led to the pauperisation of huge sections of Greek society and an unstoppable brain drain. They also expose the inability of the Greek political system to find a safe harbour for its people. The state of Greece symbolises all that is wrong with the structural design of the Eurozone, but above all it signifies the failure of both the ‘institutions’/‘troika’ and the SYRIZA-led Greek government to reach a mutually acceptable agreement.

The chronicle of a referendum foretold

All the negotiating parties came out of the last Eurogroup and Euro Summit with their credibility reduced. They brought manageable crisis talks to the precipice of disaster. How could their actions foster trust among European peoples who have long been wary of the ‘democratic deficit’ embedded in European integration – the most magnificent and forward thinking political project that brought to a continent suffering serial fratricidal tendencies the longest period of peace in its history. To paraphrase St Francis of Assisi, the EEC, the EU and the Eurozone brought harmony to Europe when discord was the norm. The Union and its institutions helped heal the continent after WWII and the end of the Cold War and inspired it to work together towards a common future.

Yet just when the Union and its institutions needed enthusiasts for European integration of the calibre of Jacques Delors to galvanise it, the EU has become dominated by leaders who prioritise bean counting over bold reforms. The goals of European integration have been put on to the back-burner while European leaders inflame public opinion in their own countries by pursuing narrow personal and party political interests. Bean counting has brought short-termism to Europe.

The financial crisis of 2007/8 offered the Eurozone an opportunity to rid itself of some of its main structural faults – principally the fact that the integration process remains an intergovernmental rather than a supranational project. It continues to be a currency union of economically mismatched countries; such structures do not function effectively unless the necessary mechanisms that typify fiscal unions are in place, such as common budgets and common taxation policies, supported by extensive monitoring, auditing and redistribution mechanisms.

These features do not exist within the Eurozone and in their absence weaker members have stagnated. Meanwhile stronger members run surpluses. In this environment Greece suffers severe deflation, recession, unemployment and unprecedented levels of debt.

The entire system now has taken on the appearance of a device for making the strong stronger, with weaker states fed loans merely to meet their debt obligations, not to help their economies. The growth of anti-system parties in the last five years has been just one of the side effects of austerity. Yet it is easy to forget that this Athenian-Melian model, in which 'the strong do what they have the power to do and the weak accept what they have to accept', was not the basis on which the Eurozone was originally founded. At its launch the single currency project was replete with structural faults, but it was also based on mutual trust.

Alexis Tsipras, Credit: European Council (CC-BY-SA-ND-NC-3.0)

The foundations for this trust were, as with all trusting relationships, belief, obligation, responsibility, reliability and consistency: a trusting relationship being, in Jan Ruzicka and Nicholas Wheeler words, one which actors enter into knowingly and as a consequence increase their vulnerability to other actors whose behaviour they do not control, with potentially negative consequences for themselves. Such a relationship is, as Piotr Sztompka has suggested a 'bet about the future contingent on actions of others' – or as Aaron Hoffman puts it, a country's willingness to take risks tends to be concomitant to the 'expectation that others would honour particular obligations'.

These preconditions for trust were noticeably absent in the latest negotiations between Greece, its Eurozone allies and its creditors. The discussions were approached by both camps as a zero sum game: as an attempt to gain favourable terms over the other side rather than as an effort to reach a mutually beneficial agreement. The SYRIZA-led government adopted a speculative approach based on 'creative ambiguity' with no coherent negotiating position. It believed, seemingly, that all previous agreements Greek governments had signed up to could be waived away, apparently not realising that in doing so it was circumventing the fundamental principle of international relations – the continuity of decisions made by states.

The Greek government found itself caught between its own aims and manifesto pledges, with an election result that gave it a mandate to find a solution without risking the country's membership of the Eurozone. It was also saddled, by choice, with allies who hold an outwardly anti-Western orientation. This led to a great deal of wasted time and effort, ultimately culminating in a proposal by Greece's creditors that SYRIZA could neither accept nor reject without risking the loss of its governing majority. Hence the announcement of a referendum, despite the constitution prohibiting referendums from being held on economic policy.

On the other side, the creditors represented by the European Commission, ECB and IMF also failed to rise to the circumstances. In their efforts to reach a credible solution each of the three 'institutions' has emphasised different priorities, undermining each other's strengths in the process. The IMF's approach has largely overridden its own principles and research and operated from the standpoint that Greek debt is viable – thus removing the option of debt restructuring, one of the main avenues through which the impasse may have been overcome, from the negotiating table. In doing so any flicker of hope that Greece may have had about its future growth prospects, even in the long-term, were also pushed from view – and it is questionable what kind of agreement could have been reached when the debtor was not even afforded the possibility of economic recovery.

For all Greeks these are very difficult and worrying times. They are particularly traumatic for those Greeks who regard themselves as European first and foremost. Many have been appalled at the rise of anti-German sentiments, xenophobia and national division since the crisis began. The people of Greece know well enough that their country is located in a dangerous and unstable geopolitical neighbourhood. With the uncertainty of a referendum looming the country has shifted from ‘creative ambiguity’ to ‘constitutional ambiguity’. It is unclear precisely what the referendum will now entail or achieve. There remain more questions than answers as the Greek drama moves on to its next act.

Please read our comments policy before commenting.

Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

Shortened URL for this post: **http://bit.ly/1GH2zJa**

About the author

Effie G. H. Pedaliu – *LSE*
Effie G. H. Pedaliu is a Visiting Fellow at LSE IDEAS having previously held posts at LSE, KCL and UWE. Dr Pedaliu is a co-editor with John W. Young of the Palgrave/Macmillan book series, *Security Conflict and Cooperation in the Contemporary World;* a member of the AHRC peer review college, reviews editor for H-Diplo and co-convenor of the International History Seminar/Institute of Historical Research. The main themes of her work include American and British Cold War policy and strategy; Human Rights and European Integration; transatlantic relations since the Second World War; European and Mediterranean security and politics.

-