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## **In the Shadow of Grexit: A Short Story of Long (and Failed) Negotiations, January-July 2015**

**Antonis Klapsis<sup>1</sup>**

**Abstract:** *The article gives an outline of the failed strategy followed by the Greek government under Alexis Tsipras during the six-month negotiations with Greece's creditors (January-July 2015). It is argued that Mr. Tsipras' government had no concrete plan during these negotiations and that its moves were largely based on a combination of ignorance, misconceptions, and wishful thinking. The prolongation of negotiations was made at the expense of creating huge problems for the Greek economy and making the Greek position worsen with each passing day. The final blow was the proclamation of the Greek referendum which was held on 5 July 2015. Because of this failed strategy, Greece was found at the edge of default and exit from the Eurozone, a development which was avoided literally at the last moment.*

**Keywords:** *Greece, Economic crisis, European Union, Eurozone, Grexit, Greek crisis, Greek referendum, SYRIZA, Alexis Tsipras*

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### **1. Introduction**

In the last few months, developments in Greece have attracted international attention. The victory of the Coalition of the Radical Left (better known by its acronym SYRIZA) in the elections held on the 25<sup>th</sup> of January 2015 led to the formation of a coalition government with its leader, Alexis Tsipras, as Prime Minister. This article tries to describe in a nutshell the challenges that the SYRIZA-led government faced in the months that followed the formation of Mr. Tsipras' cabinet especially in relation with the great economic and financial problems affecting the country. More specifically, it will be argued that in the first six months after its establishment, Mr. Tsipras' government failed to deliver its big promises, including the most important task it has given to itself: to successfully negotiate with Greece's creditors and to reach a favourable agreement with them for Greek's interests.

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## 2. The origins: Economic crisis and political upheaval

### *A crisis before the economic crisis*

Unlike all its Northern Balkan neighbours, during the Cold War, Greece remained an organic part of the Western world. In May 1979, Greece signed an Accession Agreement to the European Economic Community (i.e. the predecessor of the European Union). Less than two years later, on the 1<sup>st</sup> of January 1981, Greece officially became the 10<sup>th</sup> member state of the European Economic Community. Being a member of this Community and of the European Union starting 1993, Greece was immensely benefited. One of the most important benefits –yet not the only one– was the influx of money from European funds most of which were allocated for the improvement of the country's poor infrastructure. In the first three decades of Greece's participation in the European integration process, the standard of living of the Greek people improved immensely and Greece was among the 30 richest countries in the world.

Chart 1 – Greece, GDP (in billion euros)

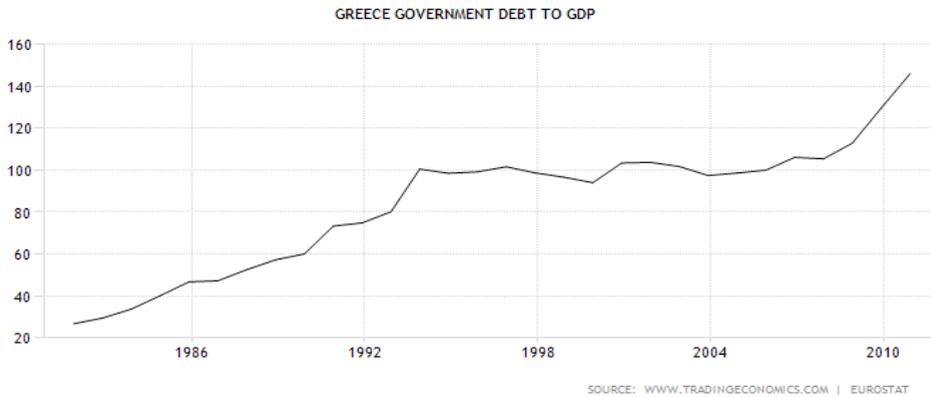


However, under the surface of prosperity, structural problems became bigger and bigger: the state expanded its economic activities (the phenomenon of economic statism became endemic) whereas the private sector of economy shrank, political clientelism and populism prevailed, public administration was ineffective, tax evasion became a menace for public revenues, productivity rates fell drastically, public debt grew immensely, the pension system gradually became unsustainable. These phenomena were the results of the establishment of 'a misleading model of political, economic and institutional development'<sup>2</sup>.

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<sup>2</sup> Pantelis Sklias, *The Deep Roots of the Crisis*, in: Vít Novotný (ed.), *From Reform to Growth. Managing the Economic Crisis in Europe* (Delft: Eburon, 2013), pp. 226-234.

Chart 2 – Greece, Government debt to GDP ratio, 1981-2010



### *The first bailout (2010)*

Because of the abovementioned structural inefficiencies, Greece was severely hit by the global financial crisis that started in 2007 after the bursting of the US housing bubble. In April 2010, facing the prospect of default, the socialist Prime Minister George Papandreou accepted a bailout package of roughly 110 billion euros. This financial assistance agreement (commonly known as the ‘first Memorandum’) was concluded between the Greek government on one hand, and the European Commission, the European Central Bank and the International Monetary Fund on the other hand. In exchange for this huge amount of money, the Greek government promised to undertake measures for Greece’s fiscal consolidation and to implement a series of deep and much-needed reforms.

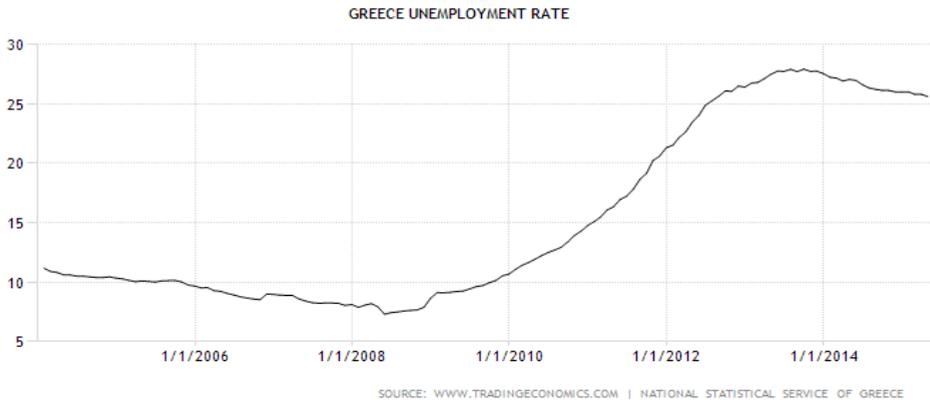
Mr. Papandreou’s government followed only the first part of the agreement. Harsh austerity measures were indeed implemented, including cuts in wages and pensions, which inevitably led to the decrease of the standard of living of many Greeks. However, structural reforms were never implemented in the way they should have; thus Greece was trapped in a vicious circle of recession and depression. To make a long story short, the medicine given (more accurately: imposed) to Greece by its creditors was not absolutely the right one to cure the illness – there were mistakes in the drafting of the program, and that was mainly the fault of Greece’s creditors. But on the other hand, the treatment was never fully implemented by the Greek side – and that was mainly the fault of the Greek government.

### *The second bailout (2012)*

Implementing an imperfect program in the wrong way was the recipe for failure. In November 2011, Mr. Papandreou’s single party government was replaced by a coalition government between the socialists (PASOK), the centre-right New Democracy, and the populist right-wing National Orthodox Rally (LAOS). Given the critical situation of the Greek economy, in March 2012, the coalition Greek government accepted the conclusion

of a second bailout agreement (i.e. the 'second Memorandum') which valued around 130 billion euros<sup>3</sup>. In the elections that took place the same year in May, the three parties involved in the coalition government paid a huge price: New Democracy took the first place but with a historic low percentage (18.85%), PASOK under a new leadership lost more than two thirds of its voters in relation to the elections of October 2009 (from 43.92% to 13.18%), and LAOS did not manage to reach the threshold of 3% and thus did not secure any seats in the Parliament even though it had withdrawn from the coalition government as early as February 2012. On the contrary, the parties that opposed the two memoranda were quite successful: for the first time in its history SYRIZA got the second place with 16.78% quadrupling its percentages in relation to the elections of 2009, whereas in its first appearance ever in elections the populist right wing party of Independent Greeks got 10.61%<sup>4</sup>. The inability to form a government led to new elections in June 2012 in which the new political landscape was confirmed: New Democracy was again first with 29.66%, SYRIZA was second with 26.89%, PASOK third with 12.28%, the Independent Greeks fourth with 7.51%; other parties followed, three of which managed to secure seats in the Parliament (the neo-Nazi Golden Dawn, the moderate Democratic Left, and the Communist Party)<sup>5</sup>.

Chart 3 – Greece, Unemployment rate



After the elections of June 2012 a coalition government composed of New Democracy, PASOK and the Democratic Left with the former's leader, Antonis Samaras, as the Prime Minister was formed<sup>6</sup>. The new government was more successful than its predecessors meaning that the number of reforms that were implemented was a bit higher, primary surpluses in the state budget were achieved, the economy was stabilized, and by the end

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<sup>3</sup> Stephen Castle, *With Details Settled, a 2nd Greek Bailout Is Formally Approved*, 14 March 2012, accessed at [http://www.nytimes.com/2012/03/15/business/global/greece-gets-formal-approval-for-second-bailout.html?\\_r=0](http://www.nytimes.com/2012/03/15/business/global/greece-gets-formal-approval-for-second-bailout.html?_r=0) on 30 July 2015.

<sup>4</sup> Ministry of Interior and Administrative Reconstruction, *Results of the General Elections of 6 May 2012* (in Greek), accessed at [http://ekloges-prev.singularlogic.eu/v2012a/public/index.html#{"cls":"main","params":{}}](http://ekloges-prev.singularlogic.eu/v2012a/public/index.html#{) on 28 July 2015.

<sup>5</sup> Ministry of Interior and Administrative Reconstruction, *Results of the General Elections of 17 June 2012* (in Greek), accessed at [http://ekloges-prev.singularlogic.eu/v2012b/public/#{"cls":"main","params":{}}](http://ekloges-prev.singularlogic.eu/v2012b/public/#{) on 28 July 2015.

<sup>6</sup> The Democratic Left withdrew from the coalition government in June 2013.

of 2014 the prospect of returning to economic growth after six years of recession became obvious. However, it did not manage to tackle the real sources of the problem. Thus, its achievements were far from enough to heal the deep wounds that the recession had caused which had led to a cumulative decrease of the Greek GDP by approximately 25% and to unemployment rates of over 25% (which was more than double for the young people).

From the very first day of the existence of Mr. Samaras' government, SYRIZA (as well as the Independent Greeks and the rest of the opposition parties) bitterly opposed the austerity policies which were associated with the implementation of the 'Memoranda'. In fact, SYRIZA was not only talking against the 'Memoranda' but went a step further: the 'pro-Memoranda' coalition government was described as *nothing more than a puppet in the hands of Greece's creditors*. According to the same analysis, the 'Memoranda' had imposed a sort of junta, a term with great historical significance in Greece as it is associated with the military dictatorship of 1967-1974. If –as SYRIZA was arguing– the 'Memoranda' were an instrument in the hands of Greece's creditors to impose their will on the Greek people, then it was no surprise that those who were implementing the 'Memoranda' were described as Quislings and German collaborators: again the symbolism was profound given the suffering of the Greek people during the period of the Nazi occupation of Greece (1941-1944) and the fact that in the public mindset, Germany was now thought to be the main driving force behind the austerity policy. SYRIZA's officials often described Greece as a debt colony and the Greek public debt as unsustainable: the latter would become sustainable only after a deep haircut. Some even talked openly about the prospect of Greece stopping from paying its debts even if that meant that it would have to exit the Eurozone. In the same context, Mr. Tsipras himself repeatedly stated that the decisions taken by Mr. Samaras' government (e.g. concerning privatizations of state property) were not binding for Greece and that any new government (i.e. a government of SYRIZA) would not feel obliged to fulfil any agreements associated with the policies of its predecessors.

### 3. The SYRIZA-led government

#### *January 2015 elections*

Only a few months after the June 2012 elections, SYRIZA asked for new elections claiming that Mr. Samaras' government no longer had the support of the majority among Greek people. For some time, SYRIZA's tactics did not seem to pay off. When, in March 2013, the crisis hit Cyprus, a country closely related to Greece, SYRIZA received a severe blow in its popularity. However, not only that it quickly managed to recover but by the end of 2013 it was firmly established in first place of the polls, ahead of New Democracy<sup>7</sup>. The results of the May 2014 European Parliament elections confirmed the predictions. For the first time ever SYRIZA took the first place in a major election with a lead of approximately 3.8% from New Democracy<sup>8</sup>. It was not a triumph, but it was a clear victory. The demand for national elections was once again put forward, now with even more emphasis.

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<sup>7</sup> Yiannis Mavris, *The Fluctuation of SYRIZA's Post-Electoral Influence (2012-2014)* (in Greek), 25 January 2014, accessed at <http://www.mavris.gr/3843/syriza-vote-share-2012-14/> on 31 May 2015.

<sup>8</sup> Ministry of Interior and Administrative Reconstruction, *Results of the European Parliament Elections of 25 May 2014* (in Greek), accessed at [http://ekloges-prev.singularlogic.eu/may2014/e/public/index.html#{"cls":"main","params":{}}](http://ekloges-prev.singularlogic.eu/may2014/e/public/index.html#{) on 29 July 2015.

Mr. Tsipras had a weapon in his hands: the election of the new President of the Hellenic Republic. By not giving his consent to the government, the election by the Parliament was almost impossible to happen. As a result of the Parliament's inability to elect a new President of the Republic, national elections were proclaimed for 25 January 2015. Even though all the polls agreed that SYRIZA would easily win the elections, Mr. Tsipras and other party officials and leading personalities did not refrain from giving great promises to the Greek electorate which were included in the so-called 'Thessaloniki Programme'<sup>9</sup>: end of the 'Memoranda' and the austerity policies related to them, immediate increase in public investments, increase in salaries and pensions, decrease in taxes for the vast majority of the Greek population, immediate relief measures for those in need. The Greek voters were eager to accept SYRIZA's proposals: in the elections SYRIZA got 36.34% and thus secured first place, 7.5 points ahead of New Democracy which came second<sup>10</sup>.

### *The left-right coalition government*

Despite its big victory, SYRIZA did not manage to secure an absolute parliamentary majority: it needed at least 151 seats and it had only 149. The solution was given in a seemingly surprising and paradoxical way: a coalition government between SYRIZA and the Independent Greeks was formed. The new government, with Mr. Tsipras in the position of Prime Minister, was self-described as a 'government of social salvation'. From the very first days of its formation, the new government announced an anti-austerity programme, including a freeze on pension cuts, a property tax overhaul, free electricity to those who have been cut off, reinstating jobs and raising the minimum wage. In his first speech before the Parliament, Mr. Tsipras said that his government did not have the right to prolong the five-year bailout agreement as this had foisted austerity on Greece, and felt a duty 'not to disappoint' those who had voted him into power<sup>11</sup>.

The new Prime Minister set as the first priority of the coalition government between SYRIZA and the Independent Greeks the healing of the 'big wounds' that the bailout had caused to the Greek economy and to the Greek society. He also reaffirmed the promises given before the elections about tackling the 'humanitarian crisis'. 'We see hope, dignity and pride returning to Greek citizens. Our obligation and duty is not to disappoint them', he told in his inaugural speech before the Parliament. 'We realise that negotiations [with Greece's creditors] won't be easy ... but we have faith in our struggle, because justice is on our side'. In this context, the new government refused to accept the prospect of the extension of the bailout agreement and set as a goal the conclusion of some kind of bridging loan with Greece's creditors to tide the country over<sup>12</sup>.

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<sup>9</sup> SYRIZA, *The Thessaloniki Programme*, accessed at [http://www.syriza.gr/article/SYRIZA--THE-THESSALONIKI-PROGRAMME.html#.VW7Sbs\\_tmko](http://www.syriza.gr/article/SYRIZA--THE-THESSALONIKI-PROGRAMME.html#.VW7Sbs_tmko) on 29 May 2015.

<sup>10</sup> Ministry of Interior and Administrative Reconstruction, *Results of the General Elections of 25 January 2015* (in Greek), accessed at [http://ekloges-prev.singularlogic.eu/v2015a/v/public/index.html#{"cls":"main","params":{}}](http://ekloges-prev.singularlogic.eu/v2015a/v/public/index.html#{) on 29 July 2015.

<sup>11</sup> Helena Smith, *Tsipras Favours Greek Jobless over Creditors in Defiant Policy Speech*, 8 February 2015, accessed at <http://www.theguardian.com/world/2015/feb/08/greece-prime-minister-alexis-tsipras-unveil-anti-austerity-plan-parliament> on 30 May 2015.

<sup>12</sup> *Ibid.*

### *A populist hybrid*

The formation of the government between SYRIZA and the Independent Greeks appeared to be strange. The coalition between a radical leftist with a nationalist right-wing party seemed to be rather incongruous. However, in reality they weren't representing such an unlikely political couple as there was a strong uniting force: their common fierce 'anti-Memoranda' rhetoric and, most importantly, their populist background. They both blamed the bailout agreements for all the malice affecting Greece ever since 2010, forgetting that the bailout was not the cause but rather the symptom of the economic crisis. For those who deeply understood the power of populism in Greek politics<sup>13</sup>, the pairing between SYRIZA and the Independent Greeks came as no big surprise. After all, the cooperation between them had been often discussed long before the elections held in January 2015.

This populist hybrid was also fuelled by the power of voluntarism. The partners were absolutely convinced that they could almost immediately reverse the negative effects of the crisis, and at the same time secure a much better deal with Greece's creditors including a haircut of the Greek public debt. Their reasoning was breathtakingly simplistic: with their vote the Greek people had decided so – and since the Greek people had decided so it would miraculously happen no matter what the others (including the creditors themselves) thought. The establishment of a special Audit Committee of Public Debt by the SYRIZA-Independent Greeks majority in the Greek Parliament was a typical example proving its mission was to examine what proportion of Greece's public debt could be unilaterally considered 'odious' and therefore 'illegitimate'<sup>14</sup>: it was no surprise that in mid-June 2015, the Audit Committee announced that according to its preliminary findings the Greek debt was 'illegal, illegitimate and odious'<sup>15</sup>.

## **4. A negotiating fiasco**

### *Dealing with Greece's creditors*

It was in this context that Mr. Tsipras' government started negotiations with Greece's creditors. What the newly formed government wanted was a 'bridge programme' that would give them the 'fiscal space' a 'sincere negotiation' was required<sup>16</sup>. The flamboyant new Minister of Finance, Yanis Varoufakis, went a step further: 'All we're asking is for', he announced, 'an opportunity to put together a proposal that will minimize the costs of Greece's loan agreement and give this country a chance to breathe again after policies that

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<sup>13</sup> See for example Takis S. Pappas, *Populism and crisis politics in Greece* (Houndmills: Palgrave Macmillan, 2014).

<sup>14</sup> *The Press Project, Greece Establishes Audit Committee of Public Debt*, 18 March 2015, accessed at <http://www.thepressproject.net/article/74607/Greece-establishes-Audit-Committee-of-Public-Debt> on 30 July 2015.

<sup>15</sup> A. Makris, *Audit Committee: Greece's Debt "Illegal, Illegitimate and Odious*, 17 June 2015, accessed at <http://greece.greekreporter.com/2015/06/17/audit-committee-greeces-debt-illegal-illegitimate-and-odious/> on 30 July 2015.

<sup>16</sup> Helena Smith, *Tsipras Favours Greek Jobless over Creditors in Defiant Policy Speech*, 8 February 2015, accessed at <http://www.theguardian.com/world/2015/feb/08/greece-prime-minister-alexis-tsipras-unveil-anti-austerity-plan-parliament> on 30 May 2015

created massive social depravity<sup>17</sup>. Mr. Tsipras' government was not asking for money but for time.

However, it very soon became obvious the Greek government lacked any serious preparation in order to present coherent proposals during the negotiations with the creditors. On top of that, the people of SYRIZA showed total ignorance and disrespect for any kind of procedures to be followed in the European Union. On the contrary, they remained trapped in the catastrophic misconception that a discussion on technical matters was of minimal importance, and that a solution at the top political level would be found and would be enough to overshadow any other technical details. This was one of the reasons why Mr. Tsipras and his Ministers repeatedly misinterpreted the intentions of Greece's creditors and time after time falsely prophesied the conclusion of a final agreement with the European Union, the European Central Bank and the International Monetary Fund. The only agreement that Mr. Tsipras secured was the one concluded in the Euro group at February the 20<sup>th</sup>, 2015 which, in fact, foresaw nothing more than the extension of the – much-hated by SYRIZA– 'second Memorandum' (which was now referred officially as the Master Financial Assistance Facility Agreement) for another four months<sup>18</sup>. The negotiating tactics of the newly-formed Greek government were not only inefficient, but it also blew its credibility: Mr. Varoufakis' inappropriate and provocative behaviour, exhibited when secretly recording his fellow Finance Ministers during the Eurogroup meetings<sup>19</sup>, among others, proved to be an additional heavy burden for Greece's position.

### *Alternative solutions?*

Mr. Tsipras' strategy was based on the assumption that SYRIZA's victory in the Greek elections would not be an isolated incident in European politics, but rather just the first step towards a radical change in the political scene at a pan-European level. SYRIZA's leaders were convinced that their success would create a left-wing political avalanche that would sweep away many of the pro-austerity governments in other European countries. According to the same analysis, even if this left political turn did not take place immediately in Europe, Greece could still count on the creation of an 'alliance' of the Southern European countries, like Italy, Spain, Portugal and Cyprus, which all faced similar economic difficulties and thus had every reason to form a common front against the Germans and the other members of the 'inflexible' Northern bloc within the European Union. And even if this did not happen, then Athens had other alternative solutions in order to secure diplomatic and financial backing: Russia was the first option, while China followed.

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<sup>17</sup> Liz Alderman, *Greece's Feisty Finance Minister Tries a More Moderate Message*, 29 January 2015, accessed at [http://www.nytimes.com/2015/01/30/business/international/greeces-feisty-finance-minister-tries-a-more-moderate-message.html?\\_r=0&module=ArrowsNav&contentCollection=International%20Business&action=keypress&regi on=FixedLeft&pgtype=article](http://www.nytimes.com/2015/01/30/business/international/greeces-feisty-finance-minister-tries-a-more-moderate-message.html?_r=0&module=ArrowsNav&contentCollection=International%20Business&action=keypress&regi on=FixedLeft&pgtype=article) on 25 May 2015.

<sup>18</sup> Council of the European Union, *Eurogroup Statement on Greece*, 20 February 2015, accessed at <http://www.consilium.europa.eu/el/press/press-releases/2015/02/150220-eurogroup-statement-greece/> on 28 May 2015.

<sup>19</sup> George Georgiopoulos, 'Greece's Varoufakis Admits to Taping Eurogroup Meeting', 24 May 2015, accessed at <http://www.reuters.com/article/2015/05/24/eurozone-greece-varoufakis-idUSL5N0YF0CG20150524> on 25 July 2015.

In reality all these were nothing more than products of wishful thinking. Despite SYRIZA's victory, the political landscape over the rest of Europe remained rather stable and even if it changed, it was in the opposite direction than SYRIZA hoped (see for example the results in the recent parliamentary elections in Great Britain and the even more recent presidential elections in Poland). Similarly, no 'alliance of the South' was ever created. On the contrary, Greece was repeatedly found completely isolated at the European level, as no South European country ever supported any of the Greek positions. The concept of the Russian or the Chinese alternative proved to be equally illusory. Despite the efforts of Athens, neither Moscow nor Beijing appeared willing to provide any real help. Once more, Mr. Tsipras' strategy was absolutely unsuccessful as it became clear that the only real alternative for Greece was a deal with the 'bad guys': the European Union, the European Central Bank and the International Monetary Fund. The problem was that a lot of time had been wasted and the agreement would become even more painful for the Greek side with each passing day. To make matters worse, even within SYRIZA there was not an absolute consensus as to whether Greece's participation in the Eurozone was preferable or not: many prominent members of the party (including Members of the Parliament or even acting Ministers) seemed to prefer a Grexit and a return to the national currency.

#### *External and internal enemies*

SYRIZA's inability to deliver its great promises concerning a favourable compromise with Greece's creditors, plunged the country into deep recession. A general feeling of uncertainty prevailed. As a result, the Greek economy faced a tremendous lack of liquidity as billions of euros were withdrawn from banks and deposits were drastically diminished. After a very long time the discussion about the possibility of Greece exiting the Eurozone and returning to the drachma became once again a matter of international concern. For the people of SYRIZA the explanation for this dramatic situation was utterly simplistic and conspiracy based: it was part of a plot of Greece's debtors to overthrow the newly elected Greek government. This approach was consistent with the populist naïveté of a great part of SYRIZA's leaders. Since Greece's creditors wanted to continue the implementation of the old 'Memoranda' and to impose new harsh austerity measures to the Greek people, it was only natural that they wanted to get rid of Mr. Tsipras and his government.

Moreover, Mr. Tsipras publicly stated that the creditors had deliberately deceived his government as far as the real meaning of the agreement of 20 February 2015 was concerned<sup>20</sup>.

SYRIZA's narrative was founded on the existence of an external enemy. It was a convenient solution for the Greek government not to undertake any responsibility for its inability to secure a viable agreement. However, the external enemy alone was not enough. It had to be connected with an internal one which, equally convenient for Mr. Tsipras's government, was to be impersonated anyone who criticized its tactics: those who did not support the government were 'evidently' not behaving in a patriotic way and on

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<sup>20</sup> *Enikos.gr*, Full Transcript of Alexis Tsipras Interview to *enikos.gr*, 28 April 2015, accessed at <http://en.enikos.gr/politics/28061,Full-transcript-of-Alexis-Tsipras-interview-to-enikosgr.html> on 30 July 2015.

the contrary they undermined the 'national effort'. The 'Troika of the exterior' supposedly had an equivalent 'Troika of the interior' which was comprised by the three pro-European parties of the Greek Parliament, i.e. New Democracy, PASOK and the moderate centre-left To Potami (The River). The Quislings' theory, which had been very popular among SYRIZA members in the past, was once again openly used.

## 5. Anomalous landing

### *Promises and reality*

No matter what the explanation given by SYRIZA was, the truth was that they could not deliver the unrealistic promises that they had given the previous years and most importantly right before the elections of 25 January 2015. SYRIZA members had to learn the hard way that money did not grow on trees. In the meantime the situation of the public treasury was becoming hopeless as a result of the collapse of public revenues and of the deficits created by the economic uncertainty caused by the prolonged negotiations. In order to secure payments of pensions and salaries of public servants, Mr. Tsipras' government resorted to desperate measures such as sequestering the reserves of public bodies, raiding the reserves of the pension funds, seizing EU subsidies destined for farmers, and postponing all payments for state supplies<sup>21</sup>. For the same reason, the Greek government was forced not to abolish the existing property tax which, its most prominent members were describing as socially unjust only a few months before. .

Little by little, the Greek government found itself with the back against the wall. Mr. Varoufakis' game theory was not enough to bring cash to the public treasury. The real economy went from bad to worse and the government found it more and more difficult to pay wages and pensions. Serious doubts were raised as to whether Greece would be in a position to fulfil its obligations towards its creditors, such as the International Monetary Fund in the months to follow. With no real prospects of securing some sort of funding without concluding an agreement with Greece's creditors, Mr. Tsipras' government gradually reached a final turning point at which it would have to decide which way to go.

### *Dead end*

Despite the prolonged negotiations between Greece and its creditors, by the end of June no agreement was reached. As a result, practically with no money left, Greece was found at the edge of default and on 30 June 2015 it became the first developed country in history to fail to make an International Monetary Fund loan repayment<sup>22</sup>. Three days earlier the Greek Prime Minister had taken an even worse decision: since he was in a stalemate position, he

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<sup>21</sup> Helena Smith, *Greek Government Takes Desperate Measures in Battle to Stay Afloat*, 25 March 2015, accessed at <http://www.theguardian.com/business/2015/mar/25/greek-government-takes-desperate-measures-in-battle-to-stay-afloat> on 15 July 2015.

<sup>22</sup> Mehreen Khan & Matthew Holehouse, *Greece Defaults on the International Monetary Fund after Launching 11<sup>th</sup> Hour Attempt to Agree New Rescue Deal*, 30 June 2015, accessed at <http://www.telegraph.co.uk/finance/economics/11709473/Greece-defaults-on-the-International-Monetary-Fund-after-launching-11th-hour-attempt-to-agree-new-rescue-deal.html> on 15 July 2015.

thought it was a good idea to overthrow the chessboard. Without any previous consultation with the other Eurozone members, he announced the organization of a referendum on the 5<sup>th</sup> of July concerning the acceptance or the rejection of a draft bailout proposal made to the Greek government by the European Commission, the European Central Bank and the International Monetary Fund<sup>23</sup>. Negotiations with Greece's creditors halted and the Greek government openly supported the rejection of the bailout proposal in the referendum.

It was a catastrophic decision. The referendum had no practical value since the draft bailout proposal was not a final one; on the contrary, it was absolutely certain that it would not even be valid by the time the referendum would take place. To make matters worse, immediately after announcing the referendum, fearing a huge bank run which would result the collapse of the Greek banking system within a matter of hours, the Greek government was forced to shut all Greek banks and to impose capital controls: only 60 euros per day could be withdrawn from each bank account and only through ATMs; payments and transfers abroad were banned<sup>24</sup>. The effect on the Greek economy was disastrous. However, the referendum was held and resulted in a clear rejection of the draft bailout proposal by the Greek people (61.31%)<sup>25</sup>.

Contrary to what Mr. Tsipras was publicly stating, the referendum's result was not an asset for his government. On the contrary, the referendum made Greece's position even worse. From the EU point of view the referendum was seen as a question as to whether Greece wanted to stay in the Eurozone or not. This had been repeatedly made clear by many European leaders in the week before the 5<sup>th</sup> of July<sup>26</sup>. With no money, Greece was now facing the prospect of an uncontrollable default which consequently would lead to Greece's exit from the Eurozone. Grexit had become a real possibility which was openly discussed.

### *U-turn*

Greece's position had become hopeless. In the Euro summit of July the 7<sup>th</sup>, Mr. Tsipras was given an ultimatum by the other Eurozone leaders according to which Greece would either reach an agreement with its creditors within five days or it would have to exit the Eurozone. For the first time ever Grexit was presented as a real possibility in the most open and official way. The European Commission had even drafted a detailed plan concerning the prospect of a Grexit and its implications. In case no agreement was reached, then the

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<sup>23</sup> *Ekathimerini.com*, *Tsipras Announces Referendum on Lenders' Proposals*, 27 June 2015, accessed at <http://www.ekathimerini.com/198431/article/ekathimerini/news/tsipras-announces-referendum-on-lenders-proposals> on 15 July 2015.

<sup>24</sup> Christos Ziotis, Paul Tugwell & Nikos Chrysoloras, *Greece Imposes Capital Controls as Fears of Grexit Grow*, 29 June 2015, accessed at <http://www.bloomberg.com/news/articles/2015-06-29/greece-imposes-capital-controls-banks-close-to-contain-fallout-ibh78tb7> on 17 July 2015.

<sup>25</sup> Ministry of Interior and Administrative Reconstruction, *Results of the Referendum of 5 July 2015* (in Greek), accessed at [http://ekloges.ypes.gr/current/e/public/#{"cls":"main","params":{}}](http://ekloges.ypes.gr/current/e/public/#{) on 17 July 2015.

<sup>26</sup> BBC.com, *Greece Crisis: No Vote Would Mean Euro Exit, Leaders Warn*, 29 June 2015, accessed at <http://www.bbc.com/news/world-europe-33319917> on 29 July 2015.

European Union would be willing to offer Greece humanitarian aid<sup>27</sup>: within five days one of the 30 richest countries in the world would be about to become a third world economy.

The amateur negotiating tactics followed by the Greek government for six months collapsed within a matter of seconds – Mr. Varoufakis, one of the main founders of this strategy, had already resigned from Minister of Finance on the 6<sup>th</sup> of July. Finding himself in the worst negotiating position possible, Mr. Tsipras was obliged to make a u-turn. In the early hours of Monday, the 13<sup>th</sup> of July he accepted the prospect of a bailout deal of about 85 billion euros; the terms of this deal would be way worse than those rejected in the Greek referendum<sup>28</sup>: strangely enough, within a matter of a week the ‘No’ vote of the Greek people in the referendum (a vote which was supported by the Mr. Tsipras’ cabinet) was turned by the Greek government into a ‘Yes’. As a result, in the next few days the Greek Parliament adopted a number of harsh economic measures as well as structural reforms only to secure the beginning of negotiations which would lead to the conclusion of a new bailout deal in mid-August 2015. More than one fourth of the Members of Parliament belonging to SYRIZA did not vote in favour of this package of measures and reforms which were only adopted because of the support of the pro-European opposition parties<sup>29</sup> – those which in the recent past Mr. Tsipras was accusing as undermining his negotiating efforts...

## 6. Conclusions

Six months after its establishment, the SYRIZA-led government has failed in delivering its biggest promises: to get rid of the ‘evil Memoranda’ and to reach an agreement with Greece’s neighbours that would be way better than those of 2010 and 2012. In early July 2015, Mr. Tsipras understood the hard way what had been obvious for months to all Greek and international political analysts: in reality he had only two options. The first was to reach an agreement with Greece’s creditors which in practice would mean a ‘third Memorandum’ entailing the adoption of new austerity measures and the implementation of a series of deep reforms in the Greek economy. The second option was default, Grexit, chaos for the Greek economy and despair for the Greek people: in this case the consequences would be irreversible. Facing this dilemma, Mr. Tsipras chose wisely, but unfortunately too late and after causing severe damage to the Greek economy.

Before the elections of January 2015 one of the most common questions posed to SYRIZA members was if they had a plan B in case something went wrong with their initial plan. ‘What will happen if the creditors do not accept your positions?’, they were repeatedly

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<sup>27</sup> Andrew Higgins & James Kanter, *Greece Given Until Sunday to Settle Debt Crisis or Face Disaster*, 7 July 2015, accessed at [http://www.nytimes.com/2015/07/08/business/international/greece-debt-eurozone-meeting.html?\\_r=0](http://www.nytimes.com/2015/07/08/business/international/greece-debt-eurozone-meeting.html?_r=0) on 30 July 2015.

<sup>28</sup> BBC.com, *Greece Debt Crisis: Eurozone Summit Strikes Deal*, 13 July 2015, accessed at <http://www.bbc.com/news/world-europe-33503955> on 31 July 2015.

<sup>29</sup> Renee Maltezou & Angeliki Koutantou, ‘Greek Parliament Approves Bailout Measures as SYRIZA Fragments’, 16 July 2015, accessed at <http://www.ekathimerini.com/199593/article/ekathimerini/news/greek-parliament-approves-bailout-measures-as-syriza-fragments> on 31 July 2015; *Telegraph.co.uk*, ‘Greek Parliament Approves New Reforms, Clearing Way for Bailout Talks’, 23 July 2015, accessed at <http://www.telegraph.co.uk/news/worldnews/europe/greece/11757232/Greek-parliament-approves-new-reforms-clearing-way-for-bailout-talks.html> on 31 July 2015.

asked. 'We will keep on negotiating', was the stereotypical answer. In this context, negotiations were not the medium to reach a certain goal, but they were rather transformed to the goal themselves. What the first six months of SYRIZA in government proved was that the reason they did not have a concrete plan B was simply because they did not even have a concrete plan A. Even those members of Mr. Tsipras' cabinet who were in favour of Greece returning to its national currency had not figured out a realistic method on how to do so. Even after securing power, there remained something that had always been deep inside SYRIZA: a minor opposition party whose members had no experience in governance and were intrigued by marginal ideas which had no connection with the real world.

For five years Mr. Tsipras and his party were blaming the 'Memoranda' for all the malice of Greece, forgetting that the 'Memoranda' had not caused the economic crisis but that on the contrary, the crisis and the prospect of a Greek default in 2010 and in 2012 had made their conclusion unavoidable, just as it happened in July 2015. Now, if all goes well, Mr. Tsipras will be the one to conclude the third and possibly worst 'Memorandum' – whether he will implement it successfully is highly doubtful. Being of Marxist ideological origin, he should have known better Karl Marx's famous statement in *The Eighteenth Brumaire of Louis Napoleon* that history repeats itself, 'the first as tragedy, then as farce'.

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