

We should welcome a Greek referendum

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Published on 27/6/2015 on *Politico*.

Greece is stuck in the past. It needs to look into the future. A couple of weeks ago I went for the first time to Athens. I tried to keep my eyes and ears open and talk to as many people as possible, both from the pro- and the anti-Syriza camp. This is what I saw:

- Athens feels like a city that has been thrown back to the late 1980s, or early 1990s. The streets are full of graffiti and tags, people still ride their motorbikes without helmets, and there is a flavour of militant unionism in the air. I was not in the UK during the poll tax riots in 1989-90, but from what I read, the atmosphere in Greece today is very similar. The country faces a watershed moment in how its society, and therefore its model of capitalism, is organised. The unions have a lot of power, but many people despise them.
- **The stakes are high.** After 5 years of recession, Greek society is at a crossroads. There are three possible paths ahead. The far left, the far right and the middle way. **Greece's far left wants to go back to an era before Thatcher and neoliberalism.** They want to leave the euro and introduce a socialist state in which the banking system and the main industries are nationalized. They think that Mitterrand's 1981 project of establishing socialism in one country was the right thing to do, and they want to give it a second try in Greece. They seem to forget the reasons for Mitterrand's U-turn in 1983.
- The far right is also stuck in the past. Many want to go back to the beautiful days of the drachma when a lot of money could be made. This illusion was described by a taxi driver. I asked: "Do you want to stay in the euro or go back to the drachma?" He answered: "Leaving the euro will be extremely painful, but staying will be worse. **We need to go back to the drachma when this country was rich...** We should leave Europe. Europe is dominated by Germany, and Germany is a bad leader. We need to go back to the US." I told him that the US is now looking to Asia. He gave me the usual answer that Greece is a NATO country with geostrategic value and thus the Americans will continue to support it.
- The thinking of this taxi driver reflects Greece's history. Since its successful war of independence from the Ottoman Empire in 1821 **Greece** has defaulted 6 times (1826, 1843, 1860, 1894, 1932 and 2012), which means that it **has been in default roughly 50% of its modern history**. There was no default in between 1932 and 2012 because three powers: first the British, then Americans and then the EU provided financial assistance. People forget that already in the 1970s and 1980s (way before entering the euro), Greece had constant balance of payments problems and was under painful structural adjustment programmes by the European Economic Community. Surprisingly, even today a lot of Greeks (even young ones) call the EU the "European Community" — another indication that Greece is stuck in

the 1980s and that **the Europeanization process is weaker than in other Eurozone countries**. (In this regard, Greece is similar to the UK).

- This history of permanent financial dependence is one of the reasons why the creditors led by Germany have been so harsh with Greece, and especially with Syriza. However, the emphasis of their demands is misplaced. There is too much focus on fiscal matters. Syriza demands debt relief, and the creditors demand further cuts. Right now the problem of Greece is not on the fiscal side. The Greek government is already running a primary surplus. What is the point in cutting further? To get the money back quickly? This is short-sighted. Equally, what is the point of asking for debt relief if Greece has no sustainable growth strategy, hence whenever there is growth it runs a current account deficit which needs to be externally financed? **Forget about the fiscal side: It is all about structural reforms, stupid!**
- Greece is a rentier state without oil or gas. The main pillars of its economy are tourism, shipping, the public sector (which through wages has stimulated internal demand, and through the clientelistic adjudication of contracts has fed the private sector), and real estate. The last two are now threatened. Real estate has collapsed and the public sector is shrinking in size and wages. This is the reason why the public sector unions and the pensioners are supportive of Syriza's hard stance toward the creditors. They are fighting for their financial lifeline. This is especially true for pensioners. In a country where the average retirement age is 59 years, unemployment is over 25% and there is no other social support by the state. Hence, many families depend on this regular income: if the government cuts pensions further, as demanded by the creditors, **the longstanding social contract will be broken**. This is the reason why Tsipras has called the referendum.
- Fortunately many Greeks (it is difficult to say whether they are the silent majority) realise that Greece needs to change. It has to forget the two extreme paths of the past and embrace a third, middle way in order to transform itself from a rentier state of the 20th century to a modern economy of the 21st. They also recognise that this will be extremely painful. They broadly agree, however, on two things. First, they know this transformation is easier done **inside the Euro**. **Many fear that outside the single currency Greece will become like Montenegro, or Bulgaria, at best**. The spectrum of becoming Argentina, as advanced by some Syriza supporters, scares them. Second, they agree that Tsipras remains the most legitimised leader to undertake the structural reforms needed. There is just no one else to do it.

This last is the main reason why Brussels should welcome Tsipras' referendum. **The Greek population is right now screaming, from all sides, to have the choice to decide its future**. They want to settle the Grexit question, the source of so much instability, once and for all. Brussels should welcome this exercise of democracy. Naturally, it should also make sure that this referendum is about "in" or "out" of the Euro, about being part of the Eurozone club or going back to the past. The Greeks should have no illusion. "In" means abiding by the memorandum of understanding between the Eurogroup and Greece, and consequently

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submitting to the tough implementation requirements and monitoring exercised by the institutions.

It is clear that many in Brussels and the rest of the capitals of the Eurozone are scared of Grexit. This is understandable, but ultimately referendums focus minds. This is true for the Greeks who will decide about the future of their country, and for the rest of the Europeans. Strategic thinking is now required. If they want the yes to win, Brussels and Berlin have two weeks to present a plan that goes beyond mere fiscal cuts, paying the IMF and capital controls. They need to change the narrative. They must convince the Greeks that if they stay and partly relinquish their sovereignty (which is what all this is about), there is a big chance that after the pain they will live in a modern, prosperous, European economy.