



# Opinion Article

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## The final mistake in a bad negotiation

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The decision to hold a referendum on the creditors' proposal is the final act in a drama that started five months ago, when the new Greek government initiated a new round of negotiations with the country's creditors.

Although the negotiation may have not come to an end yet, the rapid and dramatic developments of the past days, which have already caused significant changes, some of which might not be easily reversible, makes it imperative to take a stand on the current state of affairs.

In my view, the decision to hold a referendum is a mistake, maybe the last one, in an overall bad negotiation. The Greek government made three key negotiating mistakes. Someone with basic knowledge of the history and theory of international relations can easily identify them. More specifically:

- 1)** The government delayed for too long the conclusion of the negotiations. It is common knowledge that time always runs in favour of the more powerful party in a negotiation. This is even truer when the position of the weaker party is weakened day by day, thus reducing the prospects of achieving a good deal. Obviously, the weak party in this negotiation is Greece. Given that throughout the negotiation period there has been increased uncertainty as to its outcome, the real economy has stalled, as investment and consumption decisions have been suspended, while Greek citizens began to withdraw their deposits from the banks effectively causing a "slow" bank run. Under these circumstances, the Greek banks started to depend on the emergency liquidity assistance mechanism (ELA) for their liquidity and ultimately for their survival, whereas the Greek government became increasingly dependent on the disbursement of funding by the creditors. In other words, with every additional day of delay the Greek government was becoming more dependent on those it was negotiating with! The fact that the first months of negotiations were wasted on purely symbolic issues (such as the new name of the Troika or the place of meeting of the technocrats) resulted in a prolongation of negotiations, which undermined the Greek side's bargaining power, while at the same time increased the cost of any agreement, due to the increasing recession, uncertainty and the resulting decline in government revenue.
- 2)** The government adopted the strategy of "creative ambiguity". Again, it is well known that ambiguity always favours the more powerful party in a negotiation, while explicit and stringent rules favour less powerful parties.

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After all, this is the reason why the poorest countries are always trying to resolve their problems in international fora rather than through bilateral agreements with developed countries when the power asymmetry is maximised. For several months, the Greek side refrained from submitting concrete proposals in the negotiation and pursued a “political” solution to the problem. Even the much debated agreement of February 20, contained so many ambiguities that led to totally different interpretations by the creditors and the Greek side; as a result, negotiations from that day onwards have largely turned into a *dialogue of the deaf*. As already mentioned, specific commitments at the very beginning of the negotiation, by a government with a fresh popular mandate for renegotiation, could have been the basis of a fair agreement, especially since external conditions (QE programme, Juncker investment plan and economic recovery in the Eurozone) left considerable room for optimism that the implementation of the agreement would be more easily achieved in the medium term, since the above conditions would facilitate a return to growth.

- 3) The Greek government lost its credibility. Traditionally, and especially after the onset of the crisis and the revelation of the “creative ambiguity” of Greek statistics, the credibility of Greek governments has been low. Nevertheless, the new Greek government was given the benefit of the doubt, due to the fact that it had not exercised power in the past, which was taken as evidence of its independence from vested interests, and its distance from the practices of ruling parties of the past, which had undermined the country’s credibility. This “stock” of credibility was quickly depleted, however, as a series of actions gave rise to doubts about the intentions of the Greek government: declarations by leading ministers who expressed their opposition -often with harsh wording- to the content and direction of ongoing negotiations, at the same time that the finance minister and the prime minister himself, were declaring progress in the negotiations and an imminent agreement; double-talk, with statements of utterly different content and style when addressed to domestic audiences and when abroad; implementation of unilateral actions, such as the reinstatement of civil servants, although the government had committed to abandon such plans based on the agreement of February 20; delay in the submission of specific proposals as described above, and so on. All these actions have undermined the government’s credibility in the context of the negotiations.

It seems that this attitude has not been accidental – after all, since the very beginning of the negotiations the Greek side has conceived the negotiation as a “game of chicken”, i.e. a negotiation where both sides appear unyielding until someone succumbs. However, this approach is highly problematic. First, even assuming that this particular game correctly reflects the dynamics of the negotiation, according to what has been said above, it is obvious that the one to succumb first could not be any other than the Greek side. Moreover, it is not at all certain that we should view the negotiation in this way. Negotiations like these, which take place between the Greek government and its European partners, are “repeated games”, where ex ante knowledge that the same parties will have to negotiate again in the future makes the issue of credibility a top priority, as well as a requirement to achieve better results for everyone. The adoption of tactics that reduce credibility inexorably leads to negative results.

As a result of these negotiation practices, we have been led to an impasse in the negotiation and hence the decision to hold a referendum. One could reasonably wonder, however: is it only the Greek side to blame for this conclusion? We ought to remember that the institutions had already demonstrated substantial flexibility, by having accepted a significant reduction of the primary surplus, not only for 2015 but also for the years to come, a success that should be attributed to the government. Nevertheless, it is obvious that the European partners did not demonstrate the necessary adaptability and flexibility during the past week, when the government tabled a substantial proposal with measures approximately worth €8 bn. Despite the significant inadequacies of the Greek proposal (some of its provisions were not particularly realistic as to their performance, whereas the proposed mix of

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measures was highly recessionary), the reaction of the other side was unexpected and did not facilitate a quick and unimpeded agreement. According to available sources, however, until the evening of June 27 the negotiation was continuing and a more favourable proposal was on the table – the remaining differences were very small. Why, then, was the decision to hold a referendum made? Several government officials have already admitted that this was a move of negotiation tactics, in an attempt to elicit a better agreement from the creditors.

The decision to hold a referendum cannot be easily understood. The decision is problematic because it entails all three negotiating mistakes: it is unclear, it came at the wrong time and exhausted completely the credibility of the government. As far as ambiguity is concerned, it is not clear what the referendum would offer the government from a bargaining perspective, given that the problem of the government does not lie in its democratic legitimacy as it has a fresh mandate. In fact, in view of the very problematic referendum question, which relates to a draft proposal (not even the final one), and the government's unwillingness to clarify what each answer (Yes or No) would exactly mean for the day after (thus the citizens are literally asked to vote blindfolded), the response to the referendum would not offer a definite solution to the impasse. Even a "No" answer -which is promoted by the government- would have an unclear impact, as it concerns a specific proposal. If the creditors table a slightly better proposal, changing for example two or three paragraphs, will it be accepted? In other words, did we walk into this unprecedented adventure for a few hundred million? If this is the case, the referendum process, which constitutes a quintessential democratic procedure, has been completely abused. Moreover, contrary to the government's intentions, the reactions of the European partners reveal that a "No" answer would minimize the chances of a new agreement.

In addition, the timing of the referendum is totally incorrect. If it is part of the negotiation tactics, then why did it come at the last moment, when it is known in advance that the programme is coming to an end and that the banking system of Greece will have no access to liquidity from the European Central Bank? In other words, why is the referendum held at a time when both the Greek state (which failed to repay the IMF on June 30) and the banking system are on the verge of collapse? Does this situation enhance the bargaining power of the country? Why did the referendum not take place earlier, without the country being in such a state of vulnerability?

Finally, this development has exhausted the remaining "stock" of credibility of the government. The complete loss of trust, which is now reflected in the latest statements of foreign officials, was sealed with the decision to hold a referendum, which surprised the creditors as it was announced a few hours before the convening of a Eurogroup programmed to work out at the final agreement.

In my opinion, this latest negotiating maneuver can only yield worse results. After the closure of banks, the economy is now in a dramatic situation. Transactions have been frozen *de facto*, whereas uncertainty hinders both investment and consumption decisions, since everyone wants to hold their euros in cash as a safeguard against unforeseen developments in the near future. The deterioration of the economic situation is bound to further raise the cost of any agreement, which will in turn make a new compromise even more difficult. The more this situation continues, the more the economy will be immersed in uncertainty and a complete standstill, thus resulting in a further increase in unemployment and the collapse of the living standards of Greek citizens. On the other hand, the dangers that stem from a possible discontinuation of ELA funding, given that the country is no longer in a programme, are incalculable for the banking system and have extremely unpleasant potential effects – even more unpleasant than the ones we are faced with today. Moreover, those who respond to all these developments with lightheartedness, saying that our possible return to the drachma would not be a big deal, I would say that such a stance reveals a complete ignorance of history and economics. Greece is not the first country to undergo such a crisis; we have several examples of countries that went through similar crises in the past and thus we know the

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consequences – disastrous in the short-term and at best uncertain and risky in the medium-term, since Greece would be deprived of its strategic European orientation with incalculable consequences at both the economic and geopolitical level.

Unfortunately, we have reached the point -admittedly with the responsibility of all governments following the regime change in Greece in 1974 (*metapolitefsi*)- where our options are extremely limited: either a bad agreement that keeps us alive and offers hope for a better future in Europe, or a certain economic disaster in the short term, combined with an extremely uncertain, dangerous and definitely poorer future for the coming generations.

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