

# EURO CRISIS | THE THREE SCENARIOS OF THE GREEK REFERENDUM AND THE FUTURE OF THE ECONOMIC AND MONETARY UNION



It will be left to historians to argue and determine the responsibilities in causing the Greek tragedy unfolding before our eyes. Three scenarios seem possible after the referendum on 5 June: a “No” victory, a “Yes” victory together with an agreement *a minima* between Greece and its creditors and a “Yes” victory accompanied by a deep reform of Economic and Monetary Union’s (EMU) institutional structure and governance.

It will be left to historians to argue and determine the responsibilities in causing the preordained (Greek) tragedy, the consequences of which remain largely unclear for the moment. What is certain, however, is that the crisis is unfolding inexorably on our media screens depriving both actors and spectators of the time necessary to assess the situation. Subjected to the immediacy of the events, decisions taken precipitously generate chain reactions which, more often than not, have uncontrollable self-fulfilling results.

Thus, the brutal announcement, on Friday, June 26, of a referendum aiming to reinforce the Greek government's negotiating position by having the elector condone the rejection of the financial stabilisation plan put forward by "creditors", has become, as emphasised by the President of the Commission, a consultation that will determine the possibility of keeping the country within the Eurozone or else the inevitability of a "Grexit".

Nobody is contesting the democratic legitimacy of a referendum as representing the expression of the free will of the elector; however, this legitimacy does not extend beyond the perimeter of those who are consulted. Therefore, the decision to leave EMU is clearly in the hands of the Greeks in case of a victory of the "No", while in case of a "Yes" vote, the conditions for keeping Greece within the Eurozone are equally dependant on an agreement with creditors, i.e. the other Member States.

## | Three scenarios for the immediate future

Three scenarios are therefore emerging, at this stage, for the immediate future.

### | A "No" victory

This entails the prolongation of the financial safeguard measures already in place (limitation of withdrawals and suspension of transfers abroad) and undoubtedly to their broadening and reinforcement. The promises by PM Tsypras ensuring the protection of salaries, pensions and savings will become untenable if, as is likely, the economy and the "new drachma" collapse.

Furthermore, one will most probably be facing chronic political instability and severe social unrest which. If it came to that, it would be the membership of Greece within the EU that would be in jeopardy and the consequences could go far beyond the initial purpose of the referendum.

### **| A “Yes” victory together with an agreement a minima between Greece and its creditors**

This scenario boils down to buying time – on the pattern of the Union’s bad habit to be satisfied by a weak compromise – and lighting candles in the hope that, for once, Greece will abide by the undertakings to which it has consented. This scenario would reduce considerably the hardship facing the Greek population, whatever the outcome. It would, nevertheless, at least temporarily, reach the overarching objective of maintaining the integrity of the Eurozone.

### **| A “Yes” victory accompanied by a deep reform of EMU’s institutional structure and governance**

It is this this third scenario that deserves to be explored further if one wishes to exit positively from the deep crisis in which we find ourselves.

## **| The heart of the problem: completing the Eurozone**

It should be quite apparent that the existential problems facing the EU in general and EMU in particular are by no means limited to the Greek saga. The EU as a whole is considerably lagging in exiting the financial crisis with record unemployment, low growth, excessive indebtedness, a lack of structural reforms and a dearth of investments in research, innovation and education. Whatever its intrinsic importance, the outcome of the Greek question does absolutely nothing to resolve the far deeper crisis of EMU itself, whose unfinished structure is the key element of its vulnerability and which the political class refuses to acknowledge, hiding behind the immediacy of the highly charged Greek drama.

With all the respect that the incessant efforts deployed par President Juncker deserves, amply exposed during his press conference last Monday together with a pertinent analysis of the lack of solidarity among Member States, one must, nevertheless conclude that the reform proposals concerning EMU, contained in the “Five President’s Report” discussed at the EU summit on June 26th, are thoroughly disappointing, showing actually less ambition than the proposals of President van Rompuy in 2013. If the “No” vote carries the day next Sunday, the perception of a risk of an implosion of the Euro would increase dramatically among actors, including ordinary citizens. If the second scenario is implemented, the immediate danger will possibly have been removed but it is foolhardy to believe that we have a 10 year window implicit in the reform program contained in the Report.

Is there not a compelling reason to take advantage of a moment where public opinion is focalising on the dramatic consequences that “Grexit” will entail for the Greeks, to launch an explanatory campaign aimed at informing the citizens more objectively? It is a unique opportunity – that could well never recur – to overcome national egoisms so rightly castigated by President Juncker and to undertake the rapid completion of EMU as originally laid out in the Maastricht Treaty. One needs to repeat constantly that, as was the case when “monetary” sovereignty was pooled, the sharing of “economic” sovereignty will not result in a loss but, on the contrary, in a substantial gain of sovereignty because the Union will be better prepared to defend the interests of its citizens in the multipolar world we live in and where our main trading partners are of “continental” dimension.

The realisation by Europeans and in the first place by the Greeks themselves (to be confirmed by the Referendum) of the dangers associated with an exit from EMU, constitutes – hopefully – the only positive fallout from the crisis capable of weakening the appeal of the extremist movements, whether on the “left” or the “right” of the political spectrum. To paraphrase Paul Henri Spaak: “It is not too late to save the Euro, but it is high time”...



**Paul GOLDSCHMIDT** | Graduated from the Free University of Brussels with an MBA and a degree in Commercial and Financial sciences, Paul GOLDSCHMIDT joined Goldman Sachs in New York (1962-69) then Goldman Sachs International in London, where he was made a Director (1970- 1985). After spending 7 years as a financial consultant in London and Monaco (1985- 1993), he was appointed Director of the “Financial Operations” Service within the “Economic and Financial Affairs” Directorate General of the European Commission (1993- 2002), where he played a central role in the harmonization and reform of European financial markets before and during the advent of the euro. He also sat on the Board of Directors to the European Investment Fund (2001- 2002). Since 2002, Paul GOLDSCHMIDT has been writing about current political and financial affairs and participating in numerous international symposia. He is also member of the Advisory Board of the Thomas More Institute.