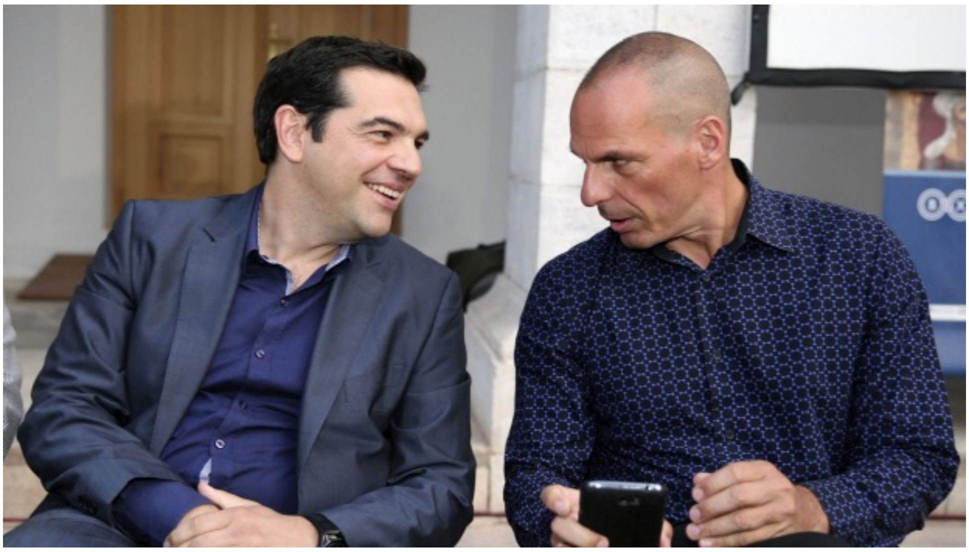
# Greece debt crisis: Alex Tsipras and Yanis Varoufakis to blame for Greek tragedy



Alex Tsipras and Yanis Varoufakis: to blame for the current crsis. **Giannis Liakos**



by **Richard Holden**

The Greek economy is right at the brink. The banks remain closed, ATMs are running out of cash, capital controls have shut down international trade, and economic activity is grinding to a halt. Negotiations between Greece and its European partners ended Sunday night without an agreement.

Europe is demanding credible commitment to reform from Greece—not just more words—and Greece has already offered up more concessions than their parliament and populace seem willing to really go along with. Greece's banks are expected to collapse early this week. Indeed, the only thing that has prevented this from happening sooner is that more cash seems to have been stuffed under Greek mattresses than previously thought.

Meanwhile, the world is rotating rapidly on its axis. How did it come to this?

Mr Tsipras's bizarre move on June 25 to call a referendum on the European/IMF proposals on July 5 made an already dire situation materially worse, using up valuable negotiating time. Calling the referendum immediately shut off negotiations,

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meanwhile liquidity continued to be drained from the Greek economy. It also put Mr Tsipras in an even worse bargaining position. When he returned to the negotiating table he had almost no time to cut a deal, and all he had gained was ballot-box confirmation of what everyone already knew: that most people don't like a dysfunctional economy.

Only Mr Tsipras knows what on earth he was thinking in calling the referendum, but when the history of this episode is written, it will go down as an amateur move that probably marked the moment at which Greece's exit from the Euro went from likely to inevitable.

Then there's Greece's negotiating posture, and team. Former finance minister Yanis Varoufakis, who conducted much of the negotiating since January, managed to offend and antagonise his European partners. Many were reportedly left wondering if he understood the situation at all. Whatever the case, calling people who one needs favours from "terrorists" is not a recipe for getting to yes. His replacement, Euclid Tsakalotos, began his tenure by being woefully unprepared for a crucial meeting with European finance ministers, walking in with a handwritten note on hotel stationary reminding himself "no triumphalism". Well, indeed.

Where to now in the Greek farcedgy? Germany, facing its own elections and internal political constraints, needs to extract some credible commitments from Greece. They are joined by other elements with Europe, including Finland and Slovakia. France and Italy seem more amenable to just getting a deal done, but Germany remains pivotal.

It is unclear what additional measures Mr Tsipras can get his far-left Syriza party, or the Greek parliament to agree to. Their credibility with Europe is shot—not helped by asking for €53.5 billion a few days ago when the real number required to get them through the next 6 months is north of €80 billion. They need to do something decisively, and do it fast.

As American baseball legend Yogi Berra and Europe physicist Niels Bohr both said, "it's tough to make predictions, especially about the future." And so it is with the current Greek situation.

But I venture that one of three things needs to happen if Greece is to be bailed out, for a third time. Germany and its allies need to back down and offer a deal based on the current Greek proposal; Mr Tsipras needs to capitulate completely to the current demands, probably assuring his exit from Greek politics; or third way needs to be found.

What might this look like? As I wrote in this paper last week, it could involve incentivised debt restructuring. The first step is to unconditionally lower the interest rate and extend the maturity of existing loans. This solves the immediate crisis. Step two involves reduction of the principal of the debt when certain pre-agreed targets are met. These might involve specific legislative measures, such as broadening VAT and pension reforms, and actual policy performance like tax collection as a percentage of GDP and budget balance.

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This incentivised debt restructuring should give Germany the credibility it is looking for, and offers Greece a face-saving win on the restricting, and some feasible way out of the horrible mess it is in. It may, however, be too late for any new deal to be brokered. And for that, Mr Tsipras, his quixotic referendum, and his inept former finance minister are largely to blame.

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***AFR Contributor***