

CHARLES UNIVERSITY
FACULTY OF SOCIAL SCIENCES

Institute of Political Studies
Department of International Relations

Master's Thesis

2020

Jakub Kult

CHARLES UNIVERSITY
FACULTY OF SOCIAL SCIENCES

Institute of Political Studies
Department of International Relations

**Negotiation analysis of the third economic adjustment
program for Greece: Greek strategy explained**

Master's thesis

Author: Bc. Jakub Kult

Study programme: International Relations

Supervisor: Dr. rer. pol. Michal Parízek, M.Sc., Ph.D.

Year of the defence: 2020

Declaration

1. I hereby declare that I have compiled this thesis using the listed literature and resources only.
2. I hereby declare that my thesis has not been used to gain any other academic title.
3. I fully agree to my work being used for study and scientific purposes.

In Prague on 31.07.2020

Jakub Kult

References

KULT, Jakub. *Negotiation analysis of the third economic adjustment program for Greece: Greek strategy explained*. Praha, 2020. 68 pages. Master's thesis (Mgr.). Charles University, Faculty of Social Sciences, Institute of Political Studies. Department of International Relations. Supervisor Dr. rer. pol. Michal Parízek, M.Sc., Ph.D.

Length of the thesis: 121 737 characters

Abstract

Thesis title reveals a lot about its intentions and objectives. Its research target is to explain the behavior and strategy of Greece in negotiations prior to agreement on the third economic adjustment program. Thesis asks what the key characteristic of the Greek bargaining strategy was. Negotiation analysis approach is employed as the theoretical/methodological framework. It leads us to examination of following factors. Actors' interests and preferences have to be understood and distinguished from positions. Next, alternatives to negotiated agreement, creating and claiming value techniques, and actions to change the game constitute the remaining basis of negotiation analysis. Moreover, the element of bargaining power is added as a relevant concept to research bargaining strategy. That leads us also to commitment tactic, use of threats, and commitment through domestic audiences and audience costs. Last but not least, two-level games factor is considered as well.

Hypothesis and further explanation of analytical technique is followed by three chapters that provide historical context of the negotiations. Then finally empirical analysis is done based on theoretical framework mentioned above. My research shows mixed results. Greek strategy was significantly inconsistent and therefore I cannot consider my hypothesis confirmed. The effort to enhance credibility of the commitment to end austerity was most successfully represented by the tactic of public commitment to domestic audiences. The use of threatening tactic reveals some potential; the rest of the factors do not indicate any credibility enhancement effect

Abstrakt

Název práce prozrazuje její záměry a cíle. Výzkumným cílem je vysvětlit chování a strategii Řecka při jednáních o dohodě o třetím programu finanční pomoci. Diplomová práce se zabývá klíčovými charakteristikami řecké strategie vyjednávání. Jako teoreticko-metodologický rámec je použita negociační analýza. Ta nás vede ke zkoumání následujících faktorů. Zájmy a preference aktérů musí být odkryty a odlišeny od pozic. Dalšími důležitými elementy negociační analýzy jsou alternativy k dohodě, vytváření a uzurpování hodnoty a snahy o změnu hry. K tomuto je přidán jako relevantní koncept také

prvek vyjednávací síly. To nás vede ke zkoumání závazku jako vyjednávací taktiky, dále faktoru využívání hrozeb a faktoru závazku prostřednictvím domácího publika a s tím spojených nákladů. V neposlední řadě je také zahrnut faktor dvouúrovňových her.

Po hypotéze a podrobnějším vysvětlení analytické techniky následují tři kapitoly, které poskytují historický kontext vyjednávání. Nakonec je provedena empirická analýza na základě výše uvedeného teoretického rámce. Můj výzkum přinesl smíšené výsledky. Řecká strategie byla výrazně nekonzistentní, a proto nemohu považovat svou hypotézu za potvrzenou. Úsilí o zvýšení důvěryhodnosti závazku ukončit úsporné opatření bylo nejlépe provedeno v případě taktiky závazku k domácímu publiku. Použití hrozeb mělo určitý potenciál ke zlepšení řecké pozice; zbytek faktorů nenaznačuje žádný účinek na zvýšení důvěryhodnosti.

Keywords

Greece, negotiation analysis, the third economic adjustment programme, strategy, commitment tactic

Klíčová slova

Řecko, negociační analýza, třetí program finanční pomoci pro Řecko, strategie, závazek

Title

Negotiation analysis of the third economic adjustment program for Greece: Greek strategy explained

Název práce

Negociační analýza třetího programu finanční pomoci pro Řecko: Vysvětlení řecké strategie

Acknowledgement

I would like to express my gratitude to Dr. Michal Parízek for his support and valuable recommendations. Thank you for your professional and friendly approach. Outside of academic sphere I owe great gratitude to my partner Aneta, and my parents Rosvita and Jaroslav for their endless encouragement.

Table of Contents

| | |
|---|-----------|
| TABLE OF CONTENTS..... | 1 |
| INTRODUCTION..... | 2 |
| 1 THEORETICAL / METHODOLOGICAL FRAMEWORK..... | 3 |
| 1.1 Negotiation Analysis Approach..... | 4 |
| 1.2 Interests, Issue, Positions, and Preferences | 5 |
| 1.3 Alternatives to Negotiated Agreement..... | 7 |
| 1.4 Creating and Claiming Value | 7 |
| 1.5 Changing the Game | 9 |
| 1.6 Bargaining Power | 9 |
| 1.6.1 Commitment Tactic..... | 11 |
| 1.6.2 Threats..... | 11 |
| 1.6.3 Domestic Audiences and Audience Costs..... | 12 |
| 1.7 Two-Level Games..... | 13 |
| 1.8 Hypothesis and Analytical Technique | 14 |
| 2 HISTORICAL CONTEXT | 16 |
| 2.1 First Bailout Program Characteristics and Greece's Road to It | 17 |
| 2.2 Second Bailout Program Characteristics..... | 20 |
| 2.3 Third Bailout Program Characteristics | 22 |
| 3 EMPIRICAL ANALYSIS OF THE THIRD BAILOUT PROGRAM NEGOTIATION..... | 24 |
| 3.1 Interests, Issues, Positions, and Preferences | 25 |
| 3.2 Alternatives, BATNAs, and ZOPA | 28 |
| 3.3 Actions to Change the Game..... | 31 |
| 3.4 Use of Threats..... | 32 |
| 3.5 Public Commitment to Domestic Audiences | 37 |
| 3.6 Two-Level Games..... | 45 |
| CONCLUSION..... | 46 |
| LIST OF REFERENCES | 49 |

Introduction

In 2010 Greece found itself at the peak of its long-term financial problems. To avoid default it was provided the first bailout package via bilateral loans from the euro-area member states and the International Monetary Fund. The second economic adjustment program was necessary and further funds exceeding €150 billion were granted to Greece. Needless to say that both financial programs came with attached conditionality that required implantation of often harsh austerity measures and reforms. In this political climate radical left-wing party Syriza won the snap elections on January 25, 2015 with its anti-austerity program. It vowed to renegotiate bailout terms and debt sustainability. This is where negotiations between Greece and its creditors entered a new phase.

The date when Syriza came to power and formed a new government also roughly delimits the beginning of our research time period. The renegotiation of the second bailout gradually evolved into a new round of talks that resulted in the agreement on the third economic adjustment program for Greece that was fully ratified in August 2015. To simplify the title of the thesis this period is approached as ‘negotiations of the third economic adjustment program for Greece’ although there were various phases. This negotiation process was the most remarkable one from the whole saga of financial assistance to Greece which sparked my interest to research it. I also believe that social and political relevance of this topic is indisputable. From broader perspective it is a part of global financial crisis issue that included immensely important topics like the mere existence of the eurozone.

There is certain amount of existing academic research on the third bailout negotiations. Pitsoulis and Schwuchow (2017) develop a game-theoretic model and with its help they argue that steps of the Greek government including the decision to hold a referendum can be rationally explained by the logic of brinkmanship. Hennessy (2017) chooses to model the economic assistance programs as a costly signaling game. Her main aim is to understand a relationship between costly exchange of information and compliance with conditionality. Lim, Moutselos and McKenna (2018) analyze the sources of bargaining strength in all three bailout negotiations. They claim that the most influential factor was the ability to withstand non-agreement. At the same time, they argue that the compromise steps towards Greece were not driven by the domestic constraints but by IMF’s signaling of Greek economic weakness. Zahariadis (2017) applies to the case of Greece bargaining

power model in the two-level games context that is based on the assumption that power resources, alternatives and domestic constraints affect governments' choice of either soft or hard bargaining strategy. Wolf (2018) argues that rational choice explanations are not sufficient in the case of the third Greek bailout. He rejects arguments that Greek negotiation tactics could be economically rational or driven by domestic constraints. He provides an explanation by moral emotions and status sentiments instead. Zahariadis (2016) comes to similar conclusions when he shows how the bailout negotiations turned into an ideologically based dispute. Lakhani (2015) provides a summary of negotiation styles, strategies, principles, and tactics that were applied and she thoroughly analyses various aspects of power and leverage. Tsebelis (2016) aims to derive lessons from the Greek crisis for both Greece and the EU. By employing logic of the nested games and incomplete information he explains why Greece was unsuccessful in the prolonged negotiation process.

We can see that research design of most of the papers is very specific; analyzing either quite particular explanatory factors or approaching the negotiations from theoretically narrow perspective. I implement theoretical/methodological framework of negotiation analysis that allows holistic approach and helps to identify all possibly important research variables. The empirical endeavor, however, requires more carefully directed scrutiny in order to be meaningful. Thesis therefore focuses on the Greek strategy in the bargaining process with its creditors. The analysis aims to provide description and explanation of the strategy by employing concepts of negotiation analysis as they will be outlined below. In other words, research target is to clarify the choice of the strategy and the behavior of the Greek side. More specifically, thesis will ask what the driving force behind the strategy was; i.e. what was the key characteristic of the Greek bargaining strategy?

1 Theoretical / Methodological Framework

In this case theoretical framework merges with methodological as negotiation analysis approach encompasses both. Negotiation analysis offers another or simply different conceptual and theoretical framework to analyze international relations topics next to the classical theories. As the name suggests, it is a method developed to analyze negotiations¹

¹ I use words 'negotiation' and 'bargaining' interchangeably in the text.

in a broad sense. That makes it relevant to the thesis' research intentions although it has to be applied in a way that respects political context of the examined negotiation and that reflects the fact that thesis is in the realm of international relations field. Stated in general terms bargaining situation can be defined as a situation in which "two or more players have a common interest to co-operate, but have conflicting interests over exactly how to co-operate" (Muthoo, 2000, 146).

1.1 Negotiation Analysis Approach

James K. Sebenius provides clear delimitation of negotiation analysis research framework therefore I use his work to describe its fundamentals and logic. Negotiation analysis stems from intellectual and methodological background of statistical decision theory, decision analysis, and game theory; however it differs in a number of following aspects. Sebenius sees it as a hybrid approach that adopted integrative perspective on negotiation that is asymmetrically prescriptive / descriptive². That means it is "advising one side what it should do – conditional on what the other side is most likely in fact to do" (Sebenius, 2009, p. 455). Elsewhere he continues "in developing prescriptions for one side, negotiation analysts typically assume intelligent, goal-seeking action by the other parties, but not full game-theoretic (interactive) rationality" (Sebenius, 1992, p. 20). This relaxed assumption of rationality made negotiation analysts open to the findings of behavioral scientists and experimental economists (Sebenius, 2009, p. 456). Another important characteristic of negotiation analysis is the focus on subjective perceptions of the zone of possible agreement (ZOPA), and on changes of those perceptions. Negotiation analysts "presume that each party can at least roughly assess and reassess the attractiveness of its no-agreement alternatives. The set of possible agreements that, from the standpoint of each involved party, is better in value or utility terms than no agreement comprises the zone of possible agreement" (Sebenius, 1992, p. 21). Further distinctive features of a negotiation analysis approach include its radically subjective perspective, sensitivity to "value left on the table", refused assumption of notion that all aspects of the negotiation are common knowledge, and acceptance of widely scattered negotiated outcomes in practice (Sebenius, 1992, p. 20-26).

² According to Sebenius it was Howard Raiffa who developed negotiation analysis approach in this manner in his 1982 book *The Art and Science of Negotiation*.

In more practical terms Sebenius points out four basic elements of negotiation analysis approach theory; those can be found and analyzed in all possible settings regardless of the negotiation structure and process. Those are interests, alternatives, creating and claiming value, and changing the game (Sebenius, 1992, p. 26). Thesis will present in following chapters more detailed insight into those elements and some additional ones that are essential and relevant for our research direction. A good point to remember is that to analyze complex negotiations well and to provide the foundation for more advanced levels of negotiation analysis it is also highly beneficial to consider following essentials: identification of the negotiation architecture, analysis of context, analysis of structure and relationships, analysis of process, and analysis of decision making (Crump, 2015, p. 138). The stage of descriptive understanding cannot be omitted; it has to be a part of planned empirical analysis.

1.2 Interests, Issue, Positions, and Preferences

Sebenius argues that parties' interests are the measure of negotiation and that "in virtually all cases, an important first analytic step is to probe deeply for interests, distinguish them from issues and positions, and to carefully assess tradeoffs" (1992, p. 26). He also rightly notifies us that it is usually hard to understand the connection among positions on issues and interests. Some authors propose to focus on interests, not positions to reach wise solutions because "the basic problem in a negotiation lies not in conflicting positions, but in the conflict between each side's needs, desires, concerns and fears" (Fisher, Ury, Patton, 2011, p. 42). On the other hand, Sebenius writes that this question is case related and in certain cases "emphasizing interests will only generate hopeless conflict when mutually beneficial agreement on certain overt issues could be reached" (1992, p. 26). It is not within scope of this text to arbitrate this matter, but it is good to be aware of variances in negotiation analysis literature that indeed exists way beyond this particular example.

Although decision to build this thesis primarily around negotiation analysis approach instead of one of the classical international relations theories is deliberate, it can and it should employ pieces of knowledge and analytical means of such a comprehensive theory to better conceive the examined situation. At this point we see that negotiation analysis' advice to identify actors' interests is very technical and it does not direct us to more comprehensive understanding of negotiation's state of affairs, and of parties' interests as such. Considering the nature of thesis' research the most suitable candidate that ought to

enlighten the context of the negotiation is a liberal theory of international politics as formulated by Andrew Moravcsik. Its core premise is that “state-society relations—the relationship of states to the domestic and transnational social context in which they are embedded—have a fundamental impact on state behavior in world politics. Societal ideas, interests, and institutions influence state behavior by shaping state preferences, that is, the fundamental social purposes underlying the strategic calculations of governments” (Moravcsik, 1997, p. 513). This insight is further developed in three following assumptions that specify the nature of societal actors, the state, and the international system.

First assumption is the primacy of societal actors - individuals and private groups - in international politics who seek to promote their interests under various constraints. Actors define their interests independently of politics and then advance them through political exchange and collective action in, on the average, rational and risk-averse manner (Moravcsik, 1997, p. 516-517). Second assumption is about representation and state preferences. It maintains that “government policy is constrained by the underlying identities, interests, and power of individuals and groups (inside and outside state apparatus) who constantly pressure the central decision makers to pursue policies consistent with their preferences” (Moravcsik, 1997, p. 518). In other words, states act purposively in world politics and their actions are based on certain preferences that are translated into state policies. Importantly, states may act in either ‘unitary’ or ‘disaggregated’ way. In the latter case, different elements like executives, courts, central banks, regulatory bureaucracies, and ruling parties are “conducting semiautonomous foreign policies in the service of disparate societal interests” (Moravcsik, 1997, p. 519). Third assumption concerns interdependence and the international system where “the configuration of interdependent state preferences determinates state behavior” (Moravcsik, 1997, p. 520). This means that other states’ preferences impose constraints to each state’s effort to put into effect its own distinctive preferences. Interdependence can be divided into three broad categories - naturally compatible, deadlocked, or mixed – where motives are mixed “such that an exchange of policy concessions through coordination or precommitment can improve the welfare of both parties relative to unilateral policy adjustment, states have an incentive to negotiate policy coordination” (Moravcsik, 1997, p. 521). Lessons from the liberal theory of international politics should help us to comprehend the overall situation in which the bargaining took place. That can be achieved

by examining actors' preferences formation, and by assessing how the interdependence influenced the negotiation process.

1.3 Alternatives to Negotiated Agreement

In every negotiation “one should analyze each party's perceptions of its own - and the others' evaluations of their - alternatives to negotiated agreement” (Sebenius, 1992, p. 27). Next step is to determine if ZOPA exists and, if so, where it lies. After that, one can consider enhancing her own alternatives and possibly worsening theirs (Sebenius, 2017, p. 97). It is perhaps obvious, but vital feature of a proposed joint agreement that it offers subjectively higher value for each side than that side's best course of action without agreement. In this regard alternatives set the limits of negotiation (Sebenius, 1992, p. 33). It was Fisher, Ury, and Patton (2011)³ who originated popular abbreviation for alternatives – BATNA – Best Alternative to a Negotiated Agreement. In their definition BATNA is “the standard against which any proposed agreement should be measured. That is the only standard that can protect you both from accepting terms that are too unfavorable and from rejecting terms it would be in your interest to accept” (p. 102). Hence it is not one's bottom line or the worst acceptable outcome. A useful clarification is that in negotiation “alternatives may change over time with new information, interpretations, competitive moves, or opportunities” (Sebenius, 1992, p. 27). The term BATNA has become wildly used outside academic sphere which can cause various misconceptions. One of them is that there exists such an option as ‘no BATNA’. There Sebenius argues that “if you refuse a deal, some active or passive course of action, desirable or not, is open to you. Nothing in the BATNA concept calls for it to be a good option” (2017, p. 97).

1.4 Creating and Claiming Value

The third element shifts our attention further towards joint decision-making. “In most negotiations, the potential value of joint action is not fully obvious at the outset.” (Sebenius, 1992, p. 28) Therefore actors engage themselves in complex process of creating and claiming value. Creating value (also labeled as ‘win-win’, ‘integrative’, or ‘variable sum’ approach) means reaching mutually beneficial agreements by improving them cooperatively and by avoiding conflict escalation. There are three classes of factors that

³ The first edition of the book was issued already in 1981

can facilitate value creation: cultivation of shared interests, exploitation of economies of scale, and utilization of differences (Sebenius, 1992). Claiming value (or 'win-lose', 'distributive', or 'constant sum' approach) is defined by the notion that "increased value claimed by one party implies less for others" (Sebenius, 1992, p. 29). Wheeler sums up the overall process; "it is possible to reach agreements that create gain for both parties. The creation of mutual gains does not necessarily mean they will be evenly divided. Expanding the pie and dividing it are part of the same process" (2000, p. 9). This dynamic, the unavoidable tension between creating and claiming value leads to a phenomenon known as 'negotiator's dilemma' that is in its structure and logic closely related to prisoner's dilemma. It teaches us that "competitive moves to claim value individually drive out cooperative moves to create it jointly" (Sebenius, 1992, p. 30).

Except negotiator's dilemma there is one more consideration that can help us better understand this part of negotiation analysis approach. Value-creating and value-claiming behavior can be in theory perceived as two polar ideal types on a strategy continuum. John S. Odell promotes this standpoint when he writes that "the strategy spectrum ranges theoretically from pure claiming, to claiming diluted by minor integrative moves, to a balanced mix, to mostly value-creative tactics intermingled with some mild claiming moves" (2002, p. 40). What remains is the puzzle of defining strategy; it is a term commonly used in various contexts and its meaning can differ in each field of study. Odell's definition seems appropriate for negotiation analysis research; in his words strategy means "a set of behaviors that are observable at least in principle, and associated with a plan to achieve some objective through bargaining. Strategies are part of the process of negotiation, which encompasses a sequence of actions in which parties address demands and proposals to one other for the ostensible purposes of reaching an agreement and changing the behavior of at least one actor. Tactics are particular actions that make up a strategy. A strategy may remain constant throughout a bargaining episode, or the party may alter its strategy along the way" (2002, p. 40).

It would be extremely space consuming to list here all particular actions and tactics that can be employed in negotiations to create and claim value so let us see only limited selection. Value-creating strategy is associated with actions such as public statements of common interests, express of concern for the other party, proposals aimed at mutual benefit, encouragement to reveal genuine objectives, or proposals of exchange of concessions (Odell, 2002, p. 49-50). Value-claiming strategy can be divided into two

variants where “offensive claiming tactics attempt to take value from the others, whereas defensive claiming tactics aim to prevent others from taking one’s own value” (Odell, 2002, p. 41). Both variants are represented by following actions: critique of the other party’s activities, attempts to exclude issues that would likely require concessions, rejection of demands for concessions, avoidance of any statements that admit partial responsibility, manipulation of information for one’s own advantage, establishment of a commitment to a particular outcome by means of a public action tied to that outcome, or claiming not to believe the other side’s commitments. Offensive claiming tactics include for example demand of concessions for the benefit of one’s own party, filing of a formal complaint against the other party, active steps to worsen the other party’s alternative to agreement and improve one’s own, or threats to take harmful actions unless others yield desired concessions. Defensive variant involves actions such as bringing the counter-complaint against the other party, or threatening and imposing counter-sanctions (Odell, 2002, p. 49).

1.5 Changing the Game

Fourth element clarifies that structure and configuration of negotiations can change. Sebenius argues that “the game is simply that which the parties act as if it is. There is no a priori reason why this or that issue or party should be included or why this or that interest should be excluded. If the parties deal with a particular set of issues, alternatives to agreement, and possible agreements, then those elements in fact make up part of that game” (1992, p. 31). Lax and Sebenius point out that negotiation literature often omits the role of negotiation setup, while focusing merely on tactics and deal design. To them this is unjust and incomplete. They argue that to achieve the desired outcome it is most desirable to reshape the scope and sequence of the game itself. That can be achieved by moves away from the table that ensure that “the right parties are approached in the right order to deal with the right issues, by the right means, at the right time, under the right set of expectations, and facing the right no-deal options” (2003, p. 66).

1.6 Bargaining Power

Above four elements provide solid foundation of negotiation analysis. They are employed because they are universal, and because they form a logically consistent framework. They

are not, however, completely sufficient to fully respect and reach the research target. Therefore following sections broaden theoretical foundations of the thesis.

Important factor that needs to be considered is bargaining power; despite its significance it lacks clear definition in negotiation analysis literature. Michael Wheeler (2000, p. 11) sees it in a broad sense as a question of party's ability to influence the negotiation process and its outcomes. That might perhaps be a little bit too vague interpretation; on the other hand it simply reflects a reality where more specific definition would be too narrow. That is why he refuses widely accepted assumption that bargaining power is simply the strength or weakness of one's BATNA (Wheeler, 2000, p. 11). That is not to say that BATNA is an irrelevant factor; it merely means that it is not necessarily always the most suitable measurement of bargaining power. From slightly different perspective Abhinay Muthoo argues that "a player's outside option will increase her bargaining power if and only if the outside option is sufficiently attractive" and therefore credible (2000, p. 155).

Both Wheeler and Muthoo offer more determinants of the bargaining outcome. To the list belongs e.g. ability to favorably change the architecture of a negotiation, influence of time, or possibility of attacking the other party's BATNA (Wheeler, 2000, p. 11-12). In regard to the role of impatience Muthoo concludes that a player's bargaining power "is greater the more patient she is relative to the other negotiator" (2000, p. 151). Related to the risk of possible breakdown of the negotiation he defines a principle that a player's bargaining power "is higher the less averse she is to risk relative to the other negotiator" (Muthoo, 2000, p. 149). He also provides a lesson on the subject of inside options – inside option is the negotiator's "payoff that she obtains during the bargaining process—that is, while the parties to the negotiations are in temporary disagreement" (Muthoo, 2000, p. 157). There he argues that "when both players' outside options are sufficiently unattractive, then a player's bargaining power is higher the more attractive is her inside option." However, when one player's outside option is sufficiently attractive then "the player with the attractive outside option gets the more favorable deal" (Muthoo, 2000, p. 158). Another interesting piece of information is about the role of asymmetric information in situations when at least one party does not know all that the other party does. The absence of complete information leads to inefficient outcomes – with disagreements and/or costly delayed agreements. At the same time, "an important role of costly delays is to act as a mechanism through which privately held information can be credibly communicated to the

uninformed party” (Muthoo, 2000, p. 162-163). In some bargaining situations costly delay might be the only way how to credibly communicate one’s determination.

It is needless to say that some factors of bargaining power overlap with the elements defined in previous chapters. Nonetheless, this section should be completed with following statement that is universal to all components: Bargaining power is also a matter of perception i.e. one’s actions have to be convincing and resolve clearly demonstrated to have any impact on the negotiation process (Wheeler, 2000, p. 12).

1.6.1 Commitment Tactic

It may come in useful for our research to develop the notion that “power sometimes turns upside down in negotiation” (Wheeler, 2000, p. 11). It was Thomas C. Schelling (1960) who first described the approach to bargaining power that teaches us that qualities like higher financial resources, physical and military strength, or ability to withstand losses do not automatically guarantee advantage in bargaining situations. Often the opposite is true in negotiations and weakness may be a source of bargaining strength. Following statement illustrates our case well, “the government that cannot control its balance of payments, or collect taxes, or muster the political unity to defend itself, may enjoy assistance that would be denied it if it could control its own resources” (Schelling, 1960, p. 23). In Schelling’s way of reasoning is bargaining power the power to bind oneself to certain position or outcome through self-commitment. A plausible purpose of one’s commitment is to convince the other player that the commitment cannot be reversed even if one wished to. He then reminds us that also in cases of the commitment tactic “communicating it persuasively to the other party” is crucial (Schelling, 1960, p. 28). Muthoo elaborates theory of bargaining situations where players take actions “that partially commit them to some strategically chosen bargaining positions” (2000, p. 160) in an important direction. Based on the assumption that such commitments are revocable and that such revocation can be costly he argues that “the deployment of such a commitment tactic will enhance player’s bargaining power if and only if the cost of backing down from one’s demand is sufficiently large” (Muthoo, 2000, p.161).

1.6.2 Threats

Threats can be characterized as a form of value-claiming tactic. Simultaneously, they can also be understood as a kind of commitment tactic. Odell argues that “with a threat, the claimer attempts to establish a commitment to a particular demand, in order to lower the

other's resistance point, shift the zone of agreement, and rule out certain points within it. Various ancillary tactics are used to increase threat credibility" (2002, p. 41). Indeed, threats must be credible to matter, too. In Schelling's game theoretic view, threat is more than a statement of an intention to take an action harmful to others. There threat is assumed to cause mutual harm if performed. However, the threatener has no incentive to carry it out. Instead "he does have an incentive to bind himself to fulfill the threat, if he thinks the threat may be successful, because the threat and not its fulfillment gains the end; and fulfillment is not required if the threat succeeds" (Schelling, 1960, p. 36). This perspective also takes us back again to commitment. How can one commit himself in order to possibly deter the other party by threats? One can bluff to persuade the other falsely that the cost to him would be minor. One may also pretend that he wrongly believes his own cost to be small, and therefore would fulfill the threat by mistake. Or perhaps one can pretend a revenge motivation so strong that it defeats the prospect of self-damage. If one does not want to pretend he may for example stake his reputation on fulfillment in a manner that impresses the threatened. Or one might try to arrange a legal commitment (Schelling, 1960, p. 36). Regardless whether commitment in general or commitment via threat, it can be described as "a device to leave the last clear chance to decide the outcome with the other party, in a manner that he fully appreciates; it is to relinquish further initiative, having rigged the incentives so that the other party must choose in one's favor" (Schelling, 1960, p. 37).

1.6.3 Domestic Audiences and Audience Costs

In his pioneering work Schelling also laid theoretical ground for usage of the commitment tactic in situations when national representatives intentionally address their constituents. In his words "they seem often to create a bargaining position by public statements, statements calculated to arouse a public opinion that permits no concessions to be made" (Schelling, 1960, p. 28). Muthoo even claims that "the commitment tactic is most effective when a negotiator is bargaining on behalf of a constituency" (2000, p. 161). There is again a practical dimension; it matters whether and how costly it is for the government to back down. If the cost to each government is sufficiently large, then it is quite likely that parties end up in a stalemate. If each government's cost is not too large and it would be prepared to back down eventually, then a relative cost is significant factor. In other words, "a

government's bargaining power is higher the larger is its cost of backing down and the smaller is the other government's cost of backing down" (Muthoo, 2000, p. 161).

The notion of public commitment through audience costs has gained relatively high popularity in academic research and it has been applied to various contexts. For example, James D. Fearon analyzes it in a model of international crises bargaining and he finds that "regardless of the initial conditions, the state more sensitive to audience costs is always less likely to back down in disputes that become public contests" (1994, p. 577). He then develops the argument that the effect of audience costs differ in democracies and in authoritarian states because "in democracies, foreign policy is made by an agent on behalf of principles (voters) who have the power to sanction the agent electorally or through the workings of public opinion. By contrast, in authoritarian states the principals often conduct foreign policy themselves" (Fearon, 1994, p. 581). As a result democracies are simply able to generate the audience costs better. This is an important consideration in conflict studies, perhaps not that beneficial in our direction of research. Bahar Leventoglu and Ahmer Tarar examine the topic of public commitment in non-crisis bargaining model which considers divisible goods. In contrast to Putnam's work⁴ they investigate "the much less-studied issue of how leaders can affect their bargaining position by endogenously imposing domestic "constraints" on themselves by making public statements that it would be costly to back down from" (2005, p. 420). Their findings show similar results to what is mentioned above; they argue that "when only one side can generate costly public commitments or one side pays a significantly greater cost for violating a public commitment by a given amount than does the other, then the former negotiator benefits from public commitments and the latter is worse off" (Leventoglu and Tarar, 2005, p. 422). At the same time, however, they conclude that if both sides face fairly similar costs for backing down from public commitment then they are both worse off with commitments than without them.

1.7 Two-Level Games

There is one more relevant theoretical concept that deserves our attention and that has become significant in research of international negotiations. The logic of two-level games cannot be omitted because "where negotiation takes place through agents, whether lawyers

⁴ Putnam, R. D. (1988). *Diplomacy and Domestic Politics: The Logic of Two-Level Games*

or diplomats, or where a result must survive legislative ratification, the underlying structure of a "two-level game" is present" (Sebenius, 1992, p. 34). It was the already mentioned Robert D. Putnam who defined this concept and who "spurred a large amount of research on the effect on international bargaining of exogenously imposed domestic constraints on the executive, such as the requirement in many countries that major international agreements must be ratified by the legislature or by referendum" (Leventoglu and Tarar, 2005, p. 420).

Putnam proposes that international negotiations can be decomposed into two stages for analytical purposes. Bargaining at 'Level I' happens between negotiators at the international level where tentative agreement is reached. At 'Level II' separate discussions are held within each group of constituents about possible ratification of the agreement (1988, p. 436). He then defines the so called 'win-set' which is the set of all possible Level I agreements that would win the necessary ratification majority among the constituents of the Level II. In his argumentation the Level II win-sets have two important implications for Level I agreements. Firstly, "larger win-sets make Level I agreement more likely" because "by definition, any successful agreement must fall within the Level II winsets of each of the parties to the accord. Thus, agreement is possible only if those win-sets overlap, and the larger each win-set, the more likely they are to overlap" (Putnam, 1988, p. 437-438). Secondly, and more importantly, "the relative size of the respective Level II win-sets will affect the distribution of the joint gains from the international bargain. The larger the perceived win-set of a negotiator, the more he can be "pushed around" by the other Level I negotiators. Conversely, a small domestic win-set can be a bargaining advantage" (Putnam, 1988, p. 440). He naturally gives credit for definition of this principle to Schelling, nonetheless Putnam points out that win-sets do not have to be deliberately manipulated in one's favor as "even when the win-set itself is beyond the negotiator's control, he may exploit its leverage" (1988, p. 440).

1.8 Hypothesis and Analytical Technique

After introducing the research target it is the right time to offer hypothesis that is, together with the outlined theoretical background, designed to help us answer the research question. Thesis is based on an assumption that there was great material and arguably also bargaining power disparity between the parties where Greece was the weaker actor. Second assumption is that the ultimate goal of the Greek government to improve its

disadvantageous position in the third economic program negotiation process, and to secure a favorable deal that would reflect its electoral promises, was not accomplished. Nevertheless, the effort to reach this goal was in practical terms transformed into certain negotiation strategy.

The hypothesis that will drive my research is (H_1): The key attribute of the Greek strategy was the effort to enhance credibility of the commitment to end austerity.

The commitment to end austerity is approached on a general level as a commitment to certain outcome. I presume that making the strategy credible was a necessary condition for the Greek government to potentially increase its bargaining power, and to enforce its interests. That could have been achieved only if particular tactics of the overall strategy were effective in practice. In following empirical part of this thesis I am going to identify, observe, and analyze the Greek strategy in a way that reflects particular steps taken to possibly enhance its credibility. In practical terms, there are several tactics of the Greek strategy that are identifiable quite clearly. The first distinguishable manifestation is to make the end-to-austerity commitment public and clearly communicated to the domestic audience. Second tactic that was visible during the negotiation period was the repetitive use of threats. These two dimensions will be the most prominent in my research, however there are other significant factors to consider. Third area is the realm of Greek actions aiming to improve their BATNA. Fourthly, there were perceptible intentions to change the setup of the game. These briefly outlined tactics, and potentially any other relevant factor that requires attention, like two-level games dynamics will be studied in greater detail. It might not be sufficient to track occurrence and manifestations of the credibility enhancing tactics at the outbreak of negotiations; instead their development during the whole negotiation process should be covered.

To sum up what has been outlined in previous sections; negotiation analysis is used as a core approach to construct theoretical/methodological framework of my research. It does not have strictly established limits or boundaries therefore it is to a certain extent open to case-specific configuration. That is what has been done in this thesis when core concepts of negotiation analysis approach are accompanied by more particular pieces of negotiation theory that are focused in more detail on bargaining power, strategy, or tactics, and are enriched by insights from liberal theory of international relations, and two-level game

theory. From what has been described so far it is unsurprising that my research activity will be qualitative. Nature of the thesis is suitable for case study approach that allows within-case research. I aim to analyze the dynamics of the negotiation process, and of the strategy formation and application.

Although thesis does not primarily search for causal mechanisms as such, process tracing method is a close relative to the negotiation analysis approach in its logic of analytical technique. The way Stephen Van Evera describes it can be useful for understanding of our case; in process tracing “the investigator explores the chain of events or the decision-making process by which initial case conditions are translated into case outcomes”. And he continues, “evidence that a given stimulus caused a given response can be sought in the sequence and structure of events and/or in the testimony of actors explaining why they acted as they did” (1997, p. 64). I will search for evidence in primary sources that are the most valuable in this type of research. Primary sources can appear in various forms – statements of actors published via official governmental and personal channels, their announcements in media and press, public speeches at press conferences, interviews with journalists etc. Regardless of the form, these statements were made at the time of the negotiations and especially at the critical points. Then there are ex-post statements and documents that can be, again, published in various sorts like memoirs, biographies, interviews, manuscripts, but also as governmental and organizational research reports, and documents. Secondary resources might prove useful as well as they provide additional information, new original perspectives, levels of analysis, or ways of reasoning that one’s examination of primary resources might not reveal.

2 Historical Context

In order to possibly understand the positions, interests, actions, motivations, and strategy of the Greek government during the negotiations that led to the agreement on the third economic adjustment program, it is essential to learn more about historical development that made these negotiations inevitable. Following chapters shall help us to comprehend what happened in the period of the third bailout negotiation. But also to gain certain level of knowledge about contemporary history of Greece, its political and economical development, or its relationship with the European Union. That has to be done with the

purpose of the thesis in mind because it is indeed not within its scope to cover whole Greek history even if only contemporary.

2.1 First Bailout Program Characteristics and Greece's Road to It

The first financial assistance program to Greece started in May 2010. The country, like many others, was facing an economic downturn as a part of the global financial crisis that began in 2007 in the United States and then spilled to the rest of the world. Even in the eurozone was not Greece the only state that had to ask for financial support. I therefore do not aim to argue that the Greek situation was completely unprecedented. Still, it naturally had many unique characteristics that the following paragraphs intend to depict.

In 1974 ruling military junta collapsed and democracy was restored in Greece. In 1981, relatively briefly after the transition back to the democratic rule, Greece joins the European Economic Community as the tenth member. In 1999 euro is introduced as an accounting currency in eleven EU countries, Greece joins two years later in 2001 because it initially failed to meet the fiscal criteria (CFR, Greece's Debt). It soon became evident that Greece manipulated its statistics to meet the euro convergence criteria (BBC, 2004; BBC, 2012). Various 'creative accounting' operations were employed by the Greek establishment to disguise real figures. Subsequently it was even revealed that Goldman Sachs bank helped Greece conceal part of its deficit through credit swap transactions (Spiegel, 2010). As one of the effects of the global financial crisis borrowing costs rose and it became extremely difficult for Greece to service its mounting debt (CFR, Greece's Debt). Still, the state was not successful at all in reduction of its debt; Greece's budget deficit reached 15.1% of GDP in 2009 (Eurostat). Assistance from outside of Greece became gradually inevitable.

Following words of Aslanidis and Kaltwasser explain Greek party system and the political reality in a nutshell: "The transition to democracy in 1974 furnished Greece with a remarkably stable political system, structured around two main pillars: on the left, the Panhellenic Socialist Movement (PASOK), a social-democratic party with populist roots; on the right, New Democracy (ND), a liberal-conservative party. During their respective periods of rule, and despite programmatic differences, both political forces made extensive use of clientelism at the expense of general welfare. The chronic misallocation of state funds contributed greatly to the mountain of sovereign debt that became unmanageable". And they continue: "Having lost their leverage over clients and rent-seekers, PASOK and ND experienced increasing difficulties in mobilizing voters. The incumbent ND

administration lost the snap elections in late 2009, passing the hot potato straight to George Papandreou, the social-liberal president of PASOK and Socialist International. Following the legacy of his father Andreas, PASOK's historic populist founder, Papandreou captured power by overpromising, but the stimulus plan he swore by never left the drawing board. The urgent fiscal condition left him no choice but to default on the piling debt or ask for a bailout, finally opting for the latter (2016, p. 1078).

Therefore the first bailout program initiated on 2 May 2010 when “the Eurogroup agreed to provide bilateral loans pooled by the European Commission (Greek Loan Facility – GLF) for a total amount of €80 billion to be released over the period May 2010 to June 2013. This amount was subsequently reduced by €2.7 billion, because Slovakia decided not to participate in the Greek loan facility agreement while Ireland and Portugal stepped down from the facility as they requested financial assistance themselves. The financial assistance agreed by euro-area EU countries was part of a joint package, with the IMF committing additional €30 billion under a stand-by arrangement (SBA)” (EC, Financial assistance to Greece). It might be interesting to add that the Greek government asked the European Commission (EC), the European Central Bank (ECB), and the International Monetary Fund (IMF) to start talks about assistance program only on 15 April 2010. Greece was under obvious pressure and it needed to receive help quickly although it delayed its request until last minute. At the same time, the fear of contagion of financial instability across national borders became widespread among eurozone members and led to eventually prompt action from the euro area despite initial reluctance of many governments to support such financial support framework (ESM, 2019). The informal alliance of the EC, the ECB, and the IMF was dubbed ‘troika’. “While government leaders and finance ministers took overall charge of the policy response, and the euro area rescue fund played an increasingly prominent part, the troika emerged as the public face of the crisis management – and as the target of often vehement criticism in programme countries” (ESM, 2019, p. 77).

Greek government had had implemented several economic reforms to consolidate its finances even before the first bailout agreement was reached; however the so called economic adjustment program required Greece to remain on this path in exchange for the large amount of needed funds. The government pledged to various measures that would mean spending cuts and tax increases totaling 30 billion euro over three years (Reuters, 2010). To access the GLF funds, Greece agreed that fiscal balance should be reduced below 3 percent of GDP in 2014. Revenue-raising measures like increase in VAT and

excises taxes were required. But also expenditure reduction, especially large cuts in public wages and pensions were considered indispensable. The list of required adjustments is comprehensive including e.g. healthcare sector, labor market, tax collection, or privatization (EC, 2010).

On May 10, 2010 adopts The European Central Bank before unparalleled measure when it decides “to conduct interventions in the euro area public and private debt securities markets (Securities Markets Programme - SMP) to ensure depth and liquidity in those market segments which are dysfunctional” (ECB, 2010). In other words, this program “allows the ECB to purchase government bonds of struggling sovereigns, like Greece, on the secondary market in order to boost market confidence and prevent further sovereign debt contagion throughout the eurozone” (CFR, Greece’s Debt). On the same day EU finance ministers announced that they had approved €500 billion euro area rescue fund and that the IMF would provide another €250 billion. There the European Financial Stability Facility (EFSF) was born, the predecessor of the European Stability Mechanism (ESM) (European Stability Mechanism, 2019). The EFSF was then officially established in June 2010 and it “has provided financial assistance to Ireland, Portugal and Greece. The assistance was financed by the EFSF through the issuance of EFSF bonds and other debt instruments on capital markets. The EFSF does not provide any further financial assistance, as this task is now performed solely by the ESM” (ESM, Before the ESM).

The ESM later provided financial assistance also to Spain and Cyprus. What is important is that “in every case, the euro area made clear that its assistance would come in the form of loans, not grants, and that countries would be required to strengthen their economies in return through macroeconomic, structural, and financial sector reforms, referred to as ‘conditionality’. Each loan came conditional upon specific reform requirements, including timetables for their enactment” (ESM, 2019, p. 19-20). As already mentioned above, Greece was not an exception to this rule and it had to implement various reform measures as a result of each loan’s conditionality. Therefore each bailout’s consequential criteria were not only the amount of funds, or the length of assistance, but also the exact form of conditionality. Hence it became one of the relevant factors to be agreed upon in negotiations prior to each financial assistance agreement which was not always easy. As expressed by Klaus Regling, ESM Managing Director “One can argue what is the best conditionality, but it is always tough” (ESM, 2019, p. 20).

2.2 Second Bailout Program Characteristics

On 14 March 2012 the second economic adjustment program for Greece was approved by euro area finance ministers. The eurozone countries and the IMF pledged to release the remaining funds from the first program plus additional €130 billion for years 2012-2014, however the period was later extended to 30 June 2015. The eurozone committed to contribute €144.7 billion via now fully operational EFSF and IMF dedicated another €19.8 billion (EC, Financial assistance to Greece).

It is an interesting fact that on 31 October 2011 Papandreou proposed referendum on a second bailout agreement under negotiation. He called off the referendum on 3 November (CFR, Greece's Debt). Soon after that "Papandreou eventually resigned in November 2011, and a technocratic government took over to enforce austerity with the backing of ND and LAOS, a small populist radical-right party" (Aslanidis and Kaltwasser, 2016, p. 1078). The necessity of the second financial assistance program clearly shows that the first program was not sufficient. Also, by January 2011 "the three major rating agencies had all reduced Greece's debt to below investment grade" (ESM, 2019, 165). Situation got critical; fears of Greece exiting from the euro were more realistic as of spring of 2011. It became obvious that more funds will be necessary, but this time the Eurogroup decided that private sector bondholders would have to share the costs (ESM, 2019). Therefore after complex preparations, simultaneously to the second financial assistance program, it was also agreed to improve the sustainability of Greece's debt. This resulted in action known as "the PSI (private sector involvement) or private sector haircut; it was a restructuring of Greek debt held by private investors (mainly banks) in March 2012 to lighten Greece's overall debt burden. About 97% of privately held Greek bonds (about €197 billion) took a 53.5% cut of the face value (principal) of the bond, corresponding to an approximately €107 billion reduction in Greece's debt stock. The EFSF encouraged bondholders to participate in the restructuring⁵" (ESM, What was the private sector debt restructuring in March 2012).

⁵ EFSF provided EFSF bonds as part of two facilities to Greece. First one was "PSI facility – as part of the voluntary debt exchange, Greece offered investors 1- and 2-year EFSF bonds. These EFSF bonds, provided to holders of bonds under Greek law, were subsequently rolled over into longer maturities" and the second one was "Bond interest (accrued interest) facility – to enable Greece to repay accrued interest on outstanding Greek sovereign bonds under Greek law which were included in the PSI. Greece offered investors EFSF 6-

The new round of financial help to Greece came again with attached requirements, in other words “the release of the financial assistance is based on observance of quantitative performance criteria and a positive evaluation of progress made with respect to policy criteria, and the memorandum of understanding setting the economic policy conditionality” (EC, Financial assistance to Greece). Simply put, Greece agreed with permanent monitoring of compliance by troika. Particular conditions included e.g. pension system reform, higher taxes, minimum wage cuts of more than 20%, the scrapping of 150,000 public sector jobs, and more flexible types of employment (ESM, 2019).

An implementation of such an economic adjustment program requires not only economic and technical skill, but also political will and ownership of such measures. In spring 2012 the uncertainty about the outcome of Greece’s election did not provide much stability in the political sphere. Eventually, the 17 June 2012 election led to the formation of new coalition government that supported execution of the previously agreed economic program. This unstable period resulted in necessary revision of certain adjustment program conditions – “reduction of the primary surplus target for 2014 from 4.5% of GDP to 1.5% of GDP and an even annual adjustment of 1.5% of GDP until a primary surplus of 4.5% of GDP is achieved in 2016”, in addition “the finance ministers and the IMF also agreed on a package of measures to reduce Greece's debt to 124% of GDP by 2020” (EC, Financial assistance to Greece).

In July 2012 president of the ECB Mario Draghi said: “Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough” (ECB, Speech on 26 July 2012); a statement that become famous in months and years to come. In September 2012 he announced a new program of open-ended, unlimited buying of struggling eurozone governments’ bonds on the secondary markets. The aim of this scheme according to Draghi was to “buy up the debt of governments whose bond yields are too high and are therefore jeopardizing the uniform conduct of monetary policy across the eurozone” (The Guardian, 2012). In January 2015 took the ECB another step forward when it proclaimed an expanded asset purchase programme that was “aimed at fulfilling the ECB’s price stability mandate, this programme will see the ECB add the purchase of sovereign bonds to its existing private sector asset purchase programmes in order to

month bills. The bills were subsequently rolled over into longer maturities” (ESM, What was the private sector debt restructuring in March 2012).

address the risks of a too prolonged period of low inflation”. This quantitative easing program was designed to perform monthly asset purchases to amount to €60 billion to be carried out until at least September 2016 (ECB, Press Release on 22 January 2015). There were no special rules defined for Greece, however Greek bonds were not qualified for the quantitative easing program because country did not meet “the ECB’s eligibility criteria, which is linked to a positive assessment of the implementation of austerity reforms by the Troika for the countries receiving financial assistance”⁶. There were other factors in play like sustainability of Greek debt, and the ECB also owned more than 33% of the negotiable Greek bonds which was above the program limit (Fontan, 2018, p. 172).

Crisis of the political ownership of the program and its conditionality hit the Antonis Samaras coalition government in the second half of 2014 as “as Greece stumbled under the weight of political turmoil and six years of recession” (ESM, 2019, p. 197). Tensions grew on both sides, so did mistrust, emotions, and misunderstandings. Greek government became unable to back and implement further austerity measures. Situation was deadlocked, however as Greek parliament failed to elect president in December 2014, it had to be dissolved and the door was open for new parliament elections to be held within 30 days (The Guardian, 2014).

2.3 Third Bailout Program Characteristics

On January 25, 2015 Syriza party won snap elections and Alexis Tsipras became the new prime minister the next day. Intent of this chapter is to provide very short overview therefore more about Syriza’s intentions and actions will be written below; however it is impossible to avoid mentioning here that these elections were a turning point. Stated differently, “the political shift spelled the end of the fragile cooperation with the international institutions that had helped the second programme make as much progress as it did. From the perspective of the euro area authorities, Greece in the first half of 2015

⁶ Even after Greece would conclude the financial assistance programs the quantitative easing could again be conditional “since government bonds must be given an investment grade by at least one rating agency in order to be eligible in the operations of the ECB”. At the same time, a waiver allowing the ECB to buy the bonds “could be possible under specific conditions defined unilaterally by the ECB”. In short, the quantitative easing conditionality “is not systematic but it is explicit if Eurozone countries are under EU financial programmes or if they lose the confidence of rating agencies” (Fontan, 2018, p. 173).

turned its back on its prior agreements and lost its way out of the economic quagmire” (ESM, 2019, p. 313).

Then already on 4 February 2015 The Governing Council of the ECB decided to “lift the waiver affecting marketable debt instruments issued or fully guaranteed by the Hellenic Republic. The waiver allowed these instruments to be used in Eurosystem monetary policy operations despite the fact that they did not fulfill minimum credit rating requirements. The Governing Council decision is based on the fact that it is currently not possible to assume a successful conclusion of the programme review and is in line with existing Eurosystem rules.” This decision did not bear consequences “for the counterparty status of Greek financial institutions in monetary policy operations. Liquidity needs of Eurosystem counterparties, for counterparties that do not have sufficient alternative collateral, can be satisfied by the relevant national central bank, by means of emergency liquidity assistance (ELA) within the existing Eurosystem rules” (ECB, Press release 4 February 2015). It means that “from then on, the survival of the banks depends on Greece’s remaining exactly where Syriza does not want it to be: in a bailout program” (Mason, 2015).

On 20 February 2015 Eurogroup approves Greek request to extend the second program until June 30 (ESM, 2019, p. 314). On 4 June Greece informed IMF that it will delay its next scheduled loan repayment. In fact, Greece had decided to bundle its four June payments into one on June 30. The Fund allowed such an operation under its old rule (Deutsche Welle, 2015). On June 22 an emergency EU summit failed to reach agreement. In the morning of 27 June 2015 Tsipras announced his decision to hold a referendum on creditors’ latest proposal. The same day Eurogroup refused to extend EFSF program for Greece. Then the ECB ended emergency funding to Greece and on 29 June 2015 bank holidays and capital controls were introduced in Greece (ESM, 2019, p. 314). On June 30 the second financial assistance programme expired and Greece failed to make IMF loan repayment. The referendum took place on 5 July and Greek voters rejected creditors’ rescue conditions proposal in ratio 61% to 39% (ESM, 2019, p. 314).

Greece made an official request for stability support in the form a government loan from the ESM on 8 July 2015 (European Council, Greece: the third economic adjustment programme). On 12 July European leaders gathered for another summit that “would prove to be the deciding moment for Greece’s membership in the euro”, and after extremely intense negotiations the parties agreed to “move towards a third rescue programme, provided that Greece met a host of tough conditions” (ESM, 2019, p. 323). Final approval

of the third financial assistance program was granted on 14 August 2015. It “envisaged a financing envelope of up to €86 billion, including up to €25 billion to recapitalize the banks and a cushion for unexpected needs.” Lending was to be arranged solely by the ESN because the IMF declined to “contribute financially to the third programme, although it would later, in 2017, agree to a stand-by arrangement to be in place through the end of the ESM package” (ESM, 2019, p. 327).

On 20 August 2018 Greece successfully left the third financial assistance program and “at a conclusive meeting in Luxembourg, euro area finance ministers welcomed Greece’s completion of 88 final policy actions, accepted Greece’s commitment to further fiscal and structural reforms, authorized a final ESM disbursement, and came through with previously promised medium-term debt relief for Greece” (ESM, 2019, p. 331).

3 Empirical Analysis of the Third Bailout Program Negotiation

Before we begin with the effort to explain the Greek behavior and strategy we must briefly identify the main parties and actors. On the Greek side it is of course SYRIZA (Coalition of Radical Left) – it entered a “new stage in its life and action” after its founding Congress on 10-14 July 2013 as a single party. There Syriza “declared itself a party of the democratic and radical Left, which has its roots in great independence, anti-fascist, democratic and labor movement struggles in Greece, comprises many different ideological currents and left cultures, while building its identity through a synthesis of the values of the labor movement with those of the ecological, feminist and other new social movements” (Syriza, About SYRIZA). After the January 2015 general elections Syriza formed coalition government with the Independent Greeks (ANEL), “a populist radical right spinoff from ND. This development represents a major political novelty: the first ever European alliance of a radical left-wing and a radical right-wing populist party” (Aslanidis and Kaltwasser, 2016, p. 1078). Therefore when I use a term ‘Greek government’ it is indeed this coalition of two parties; however it is Syriza and its representatives that played much more pivotal role in negotiations therefore I also work with a name ‘Syriza government’.

As already mentioned, the leader of Syriza and the new Prime Minister was Alexis Tsipras. Another critical post, the Ministry of Finance went to Yanis Varoufakis, a self-described libertarian Marxist (Dendrinou and Varvitsioti, 2019). Above lines suggest that Syriza was

internally divided. To mention the main groups; there was “the Left Platform, an organized group of communist and Trotskyist MPs which has always advocated default and exit from the euro. There is the “Group of 53,” a more organic center-left faction containing many people close to Tsipras himself. It includes both [Euclid] Tsakalotos [Minister of Finance after Varoufakis] and parliamentary speaker Zoe Konstantopoulou. Their aim is to persuade Tsipras to make a demonstrative “rupture” with the lenders, designed to force them to offer a better deal within the eurozone. Then there is a group of moderates around deputy prime minister Yannis Dragasakis, including most of the independents and former social democrats Tsipras appointed as ministers” (Mason, 2015).

To understand who are the creditors in the third bailout negotiation it is important to realize that “majority of Greece’s sovereign debt is held by Europe’s taxpayers now, following the haircut of privately held debt in 2012. Any debt write-off in 2015 meant taxpayers would lose money and politicians would have to explain why (Zahariadis, 2016, p. 486). Greek debt amounted to 323 billion euro in 2015. Greece owed full 60% of that sum to Eurozone countries through the EFSF and the GLF. The biggest shares unsurprisingly belonged to the largest countries – Germany, France, Italy, and Spain. The second most significant lender was the IMF with 10% of the Greek debt, followed by the ECB with 6%. The rest were Greek banks, foreign banks, Bank of Greece, other bonds, and other loans (BBC, 2015). Therefore the term creditors used in this thesis basically stands for troika although the EC and the ECB certainly were not the only actors representing the eurozone countries in negotiations – the Eurogroup meetings, and talks at the heads of states level also played extremely important role. We can see that naming such a heterogeneous and multi-party entity ‘creditors’ is a great simplification; however it is necessary for the sake of accessibility of the thesis.

3.1 Interests, Issues, Positions, and Preferences

Previous sections hopefully not only shed light on historical milestones as such, but also proved helpful to gain a better understanding of the negotiations’ architecture, context, structure, process, and issues. This chapter strives to deepen this kind of knowledge and illuminate the Greek side’s positions, interests, and preferences. Let it still be considered a part of the first analytic step that enables us to develop the next chapters more precisely.

There were many particular, predominantly economic issues to be settled during the negotiations, mostly related to the bailout’s conditions. We should also not forget that it

was not anyhow guaranteed that the creditors would allocate any specific sum for the program therefore that was an issue as well. The Greek government naturally paid attention to these specific points. For example the position that Varoufakis agreed on with Syriza leaders – Tsipras, Nikos Pappas (Minister of State in the first Tsipras’ government), and Dragasakis – when he was about to enter the government was following: debt restructuring comes first and as the most important, a primary surplus of no more than 1.5 per cent of national income, wide-ranging reductions in sales and business tax rate, strategic privatization under conditions that preserve labor rights and boost investment, creation of a new public development bank, and a policy of transferring bank shares and management to the European Union while creating a public “bad bank” to deal with the banks’ non-performing loans (Varoufakis, 2018, p. 100-102).

From the list of austerity measures it was therefore debt restructuring, level of budget surplus, tax rates, or privatization that were the most prominent issues, however plenty more categories and subcategories were subjects of the bailout talks. It is also worth mentioning that position of the Greek government on these particular issues was evolving and so was their relevance to the government members. Varoufakis recalls that as negotiations progressed “Alexis, Pappas, Dragasakis and even my friend Euclid [Tsakalotos] seemed increasingly ready to accept a deal that included only vague promises on debt as long as some of Syriza’s sacred cows – the reintroduction of collective bargaining agreements and the preservation of pensions, for example – were left alive” (2018, p. 322). That, on one hand, is a natural development and one can expect that certain tradeoffs happen during the negotiation process. Moreover, it shows that there was some level of willingness to compromise at the Greek side. On the other hand, this statement reveals that there was a rift within the Greek government.

Undoubtedly important issue was the possible Greek exit from the eurozone. Extending following statement: “We can most probably safely assume that both the new Greek government and its creditors understand that cohesion of the euro area is both in the collective as well as in the national interest.” (Pitsoulis and Schwuchow, 2017, p. 45) I argue that it has never been Greece’s intention to deliberately achieve Grexit. And although the government parties were not united behind this, its most prominent figures, especially Tsipras, were rejecting this option. Tsipras confirmed to Varoufakis that they are “committed to refusing to think of Grexit as an objective” when they were forming the government (Varoufakis, 2018, p. 102). And as Alexis Tsipras said a week after the

referendum to the Greek parliament: "It is our national duty to keep our people alive and in the eurozone" (BBC, 2015b). The same Greek officials, on the other hand, indeed often used inflammatory rhetoric during the negotiation process that showed much less willingness to compromise. And it would be exactly the absence of an agreement that could cause Grexit. However, regardless of all the offensive public statements during the negotiations, after the referendum - in the critical moment - Tsipras' words and more importantly actions were clearly directed towards compromise instead of further escalation that could lead to Grexit.

It is safe to say that a detailed document describing discussions about all the particular issues and related parties' positions would dramatically exceed scope of this thesis. For us it is more important to concentrate on underlying interests that tell us much more about reasons, motivations and values behind Greek behavior. I argue that the first elementary interest of the Syriza government was to overturn the austerity regime that was established in Greece by previous two bailouts and their conditionality. The struggle was not primarily about a budget surplus percentage or exact height of pensions, it was about the overall aspiration to dismantle austerity status quo. Of course, Syriza's particular positions on economic issues were also strongly determined by the left-wing character of the party. The underlying desire to end austerity was indeed ideological. In other words, "the Greek government injected ideology into bailout negotiations by invoking the values of dignity, fairness, and solidarity" (Zahariadis, 2016, p. 488), author supports this argument also by Tsipras' newspaper statement: "We had the illusion we could change relations in Europe projecting the value of righteousness against the value of money" (ibid). When Tsipras met journalist Paul Mason in November 2015 he told him: "I know that the result [of the negotiations] and what happened afterwards was not good, but the fact that people had the chance to express their feelings and to feel dignity was something very, very important. These were historic times for Greece and for the Greek people—and these times happened" (Mason, 2015). Also in the Varoufakis' (2018) memoir is the underlying stress on the emotional aspect of the whole story clearly visible. He often includes narration of his encounters with ordinary citizens that illustrate his determination to gain back dignity for the Greek people.

I do not argue, however, that we can conclude our analysis here, stating that the Greek actions were solely driven by ideology, and that all steps of the Greek officials were completely emotional. I believe that following chapters have more to reveal about Greek

government's behavior. Also, as discussed above, Tsipras was not willing to finish its clash with creditors by the eventuality of Grexit. This is how he explains why he did not quit negotiations on the decisive meeting on July 12: "If I walked away on this night, probably I would have become a hero for one night, maybe two or three, but it would have been a true disaster for the next days and nights, not only for me but for the majority of the Greek people. So it was a very difficult dilemma: My heart and soul told me to leave, but my mind told me I had to find a solution, even though I knew this solution was very difficult and tough" (Mason, 2015). Therefore I contend that the second elementary interest of the Syriza government was to avoid total economic collapse of the country it was ruling at that time. This burden of responsibility naturally posed significant restrictions to what the government could hypothetically do in case its only interest was to end austerity.

3.2 Alternatives, BATNAs, and ZOPA

It is perhaps obvious; however it is important to state here that Greece needed the funds from the third bailout program. Therefore it either had to reach an agreement with the troika or find an alternative solution that would compensate absence of a new round of financial assistance. Although economic indicators of the Greek economy were slightly optimistic in 2014, the crisis was far from over. By March 2015 run the Greek government out of cash and it had to take control over the cash reserves of public organizations to cover state expenditures (Zahariadis, 2017, p. 686). So the financial situation of the Greek government at the outbreak of negotiations was not good and from the perspective of state's liquidity it even worsened during 2015. However complicated it might be to precisely assess potential damage of the no-agreement scenario that would result in Grexit; consequences would be extremely severe for Greece - and as indicated above, Alexis Tsipras was aware of that. If we assume that Greece's BATNA was no-agreement with troika and inevitable return to its national currency then its alternative was not attractive. Therefore if the Greek government wanted to increase its bargaining power in ongoing negotiations or perhaps to be better prepared for a possibility of no-deal option, it was in its best interest to attempt to improve its BATNA. Following paragraphs will be dedicated to analysis of such efforts.

The question of existence of the zone of possible agreement is basically not present in our research as we know that an agreement was reached. We can still briefly discuss how the ZOPA looked like. If Greece was strict in its demands of debt restructuring and end of

austerity then it could narrow down the ZOPA, possibly to the point where it would disappear. It however had to relax its strong requirements and move towards deal that was more in line with creditors' idea of a preferred outcome. That was a deal that comes with attached harsh austerity measures and without any strong commitment to debt relief. We can of course argue, and I shall come back to this point later, how much were the creditors ready to allow Greek exit from the eurozone. If they accepted this option with great ease it would also make ZOPA significantly smaller or even vanished. Once we assume, however, that both sides on average preferred to keep Greece in the eurozone, the ZOPA lies between an agreement with severe conditions without any mention of debt relief and one that requires very little conditionality while offering generous debt restructuring.

Yanis Varoufakis' account of the negotiations period is very detailed; however there are two key points of his negotiating strategy that he advocates repeatedly during the whole story he narrates. First one is the threat to haircut Greek Securities Markets Programme (SMP) bonds; this will be discussed in more detail in a chapter below. Second point is creation and possible implementation of the 'parallel payments system' that should buy Greece time in case of an impasse that would bring about bank closures (Varoufakis, 2018, p. 102). There indeed remains a big question mark over its effectiveness in case it was ultimately put into practice. Nonetheless, Varoufakis was continuously promoting this move within the Syriza ranks and at least he seemed to be confident that it would serve its purpose. The scheme would allow all sorts of transactions to continue parallel to the banks⁷

⁷ Following lines explain the concept in more detail: "For example, pensions could be partly paid into a pensioner's tax office reserve account, and the pensioner could then transfer a part of that sum to, say, her landlord, who would also have tax to pay. Even though these credits could not be withdrawn from the system as cash, the scheme would continue to work for as long as the state continued to accept the credits in lieu of tax. And it could work remarkably well if it were developed further in two ways. Every Greek citizen already has an identity card. Imagine if this were reissued as a smart card featuring a microchip similar to those in modern debit and credit cards. The ID cards of pensioners, public-sector workers, people on benefits, government suppliers – anyone who has financial dealings with the state – could be linked to their tax office reserve accounts and used to pay for goods and services at supermarkets, petrol stations and the like. In other words, even if the banks were to close down, even if the state was rendered illiquid, the government could still meet its obligations simply by assigning tax credits to people's ID cards – as long as the total value credited did not run the government into a fiscal deficit, of course. Second, the same system could be used to allow the government to borrow from Greek citizens, thus bypassing the commercial banks, the hostile and suspicious money markets and, of course, the troika. As well as receiving tax credits from the state, citizens

and would be euro-denominated; however it could be redenominated to a new currency promptly if the troika decided to push Greece out of the eurozone (Varoufakis, 2018).

The idea of a parallel payment system is my opinion the most clear-cut attempt to potentially improve Greece's BATNA. It can be perceived as an alternative plan to be activated only if the worst comes to the worst. For Varoufakis it was more than that – it was a course of action to be chosen instead of surrender – meaning acceptance of a bad deal for Greece. As mentioned, it is hard to assess attractiveness of this alternative even ex post. Apart from that, the biggest flaw of its credibility is the fact that it was eventually never authorized by the rest of the Greek cabinet to become an official negotiation tactic (Varoufakis, 2018, p. 271, 448, 470). It had been discussed in cabinet meetings for months, it might have leaked to the creditors or not, but the plan was eventually made public only after the agreement had already been sealed (Ekathimerini, 2015). In a sense, this alternative was never actually part of the negotiation process with creditors. That makes it definitely a very interesting theoretical exercise; however its direct impact on Greek bargaining power and credibility of its commitment was zero from this point of view. It was rather a theoretical move that could make Greece less vulnerable. We might have seen more of its effectiveness if the Greek government decided to employ it as a tactic, but that simply did not happen because Syriza top members were not willing to fully embrace it.

Greece had tried to find and secure alternative ways of financing of its debt, and seek support from external players that could possibly improve Greek bargaining position by their influence. Or at least country officials attempted to make it look that way; that creditors would think that Greece has other options. Looking backwards it is quite clear that this effort did not have desired effect, although the impression could have been slightly different real-time. One of the possibilities was a helping hand from Russia. However, when Tsipras visited Moscow on April 8 he was not offered any loans or direct financial support. Instead, memorandum of cooperation on a proposed gas pipeline extension that would bypass Ukraine was signed, promising a possible 3-5 billion euros deposit payment, but this plan never materialized. According to the energy minister

could be given the option to buy credits from the tax office online, using web banking linked to their normal bank accounts. Why would they want to do this? Because the government would offer them a discount of, say, 10 per cent, if they later used those credits to pay their taxes, say, a year down the line" (Varoufakis, 2018, p. 96).

Panagiotis Lafazanis the Russians were willing to help Greece only if country left the EU (Dendrinou and Varvitsioti, 2019, p. 137).

Another country that Greece could possibly turn to was China. Varoufakis was in contact with Chinese government about their investment in the port of Piraeus and more infrastructure projects, and about a purchase of Greek treasury bills (T-bills). In the end Chinese bought only very limited amount of T-bills. Varoufakis claims that the Chinese side explained the small purchase by an intervention from Berlin (2018, p. 311-321). Varoufakis' version might be completely ridiculous; nonetheless this path also did not lead to any significant enhancement of Greek financial situation and of its BATNA. Similar is true for a relationship with the Western superpower. Shortly after election, partly because of President's Obama public statements, Varoufakis was sure about United States' support. However, signs of rift within the US government started to be slowly visible and this support less reliable (2018, p. 223-224). On 15 April Varoufakis met Barack Obama and during their informal conversation he promised to help by keeping the pressure on the Europeans. At the same time, he insisted that Greece must meet them halfway (2018, p. 376). Influence of the President of the United States is unquestionable; however without his direct participation in the bailout talks there was not much that Greece could expect from Obama's encouraging approach. According to Varoufakis it was Tsipras in particular who "had labored under the illusion that forces beyond Europe would come to our assistance" (2018, p. 346). In the same chapter he admits that those illusions of financial assistance evaporated during the negotiation process.

3.3 Actions to Change the Game

This element could be approached quite broadly which would probably lead to a very long list of issues that the Greek side wished to incorporate or exclude from negotiations. There is no use of that; however it is definitely an important learning that a change of the European political arena might have been one of the Greek actual interests. Euclid Tsakalotos expressed that clearly: "The new government was making a good-faith effort to reflect Greek voters' frustration at the effects of the economic adjustment programmes. I think that the Greek government in the first six months tried to change the agenda – they genuinely believed that we could not just ignore a popular vote that said we needed change in direction and they tried to explain that to the Europeans. It was worth an attempt to

change. It did raise many issues. Many of the issues we raised in the first six months are now being discussed quite seriously” (ESM, 2019, p. 313).

There was not a significant chance to add or remove any parties from the negotiation setup. However, the Syriza government had picked a fight with the entity of troika and wanted to see its removal. That can be illustrated on each side’s perception of the extension of the second bailout program. “The majority of the Greek government was selling the deal as a big win and insisted that the old bailout was over. Greek officials also stated publicly that the troika is dead. However, in reality the trio of creditors had just been renamed to ‘institutions’ (Dendrinou and Varvitsioti, 2019, p. 80). In other words, “euro area leaders yielded on a symbolic point, dropping the term ‘troika’ and, with an interim stop at ‘quadriga’, re-designating the international authorities as ‘the institutions’. This was an effort to defuse the Greek public’s resistance to troika oversight. ‘The Greeks were obsessing over it. I thought, what is in a name?’ said [Thomas] Wieser, former chairman of the Eurogroup Working Group” (ESM, 2019, p. 315). This shows that for the creditors this was a minor concession and more importantly that there was not any practical change of the negotiation architecture. It was merely a symbolic victory for Greece.

3.4 Use of Threats

This and the next chapter will focus more closely on a commitment tactic as such. First I examine it in the form of threats, then in regard to the domestic audiences.

The second of the two crucial points of Varoufakis’ intended negotiating strategy was the threat to haircut Greek SMP bonds; that was his ‘key deterrent’ (Varoufakis, 2018, p. 93). The main leverage that this caveat could bring did not lie in the sum that the Greek state still owed the ECB in the form of outstanding bonds. The amount was financially insignificant from the bank’s perspective. Instead, according to the former Greek finance minister, the threatening factor was the legal implications of the possible haircut that could undermine the whole debt-purchasing program of the ECB⁸. The ECB would not risk legal

⁸ The detailed reasoning of Varoufakis was following. It “hinged on the legal battle between Mario Draghi at the ECB and the Bundesbank under Jens Weidmann. Draghi had promised to buy vast amounts of government bonds from Europe’s shaky economies in order to prop up the eurozone. The Bundesbank had taken him to court over this, claiming it violated the constitution of the ECB. In February 2014 the German courts had referred the matter to the European Court of Justice, which ruled in favor of Draghi, but their judgment included caveats – caveats that in my analysis gave a future Syriza government considerable

challenge from the Bundesbank and the German Constitutional Court. It would also cause great distress to Angela Merkel's government (Varoufakis, 2018). Therefore to antagonize the ECB and the German chancellor Syriza government had to "signal to Draghi that it wanted a mutually advantageous deal with the EU, the ECB and the IMF and was willing to compromise to get this. But it must also signal, discreetly but firmly, that if Draghi were to shut down Greece's banks in response to a Syriza victory, it would consider this a *casus belli* and would immediately legislate to postpone redemption of the Greek government bonds owned by the ECB by, say, two decades. I had no doubt that if a Syriza government signaled early on its intention to retaliate by haircutting the Greek SMP bonds held by the ECB in this way, it would deter the ECB from closing down the banks" (Varoufakis, 2018, p. 94). Also, Varoufakis was convinced that it was Merkel who was the key to a resolution of the Greek crisis because she was the only one with strong enough authority to contain German Minister of Finance Wolfgang Schäuble who supposedly controlled the Eurogroup, and Jeroen Dijsselbloem, President of the Eurogroup. However, he was aware that she would need a powerful incentive to interfere and thus allow for the possibility of settlement that could not otherwise pass the Eurogroup. Such incentive would be her fear of eurozone instability. In particular, if Draghi convinced her that Greece is determined to haircut SMP bonds in case Greek banks are forced to close down (Varoufakis, 2018).

The problem with the key deterrent is exactly the same as with the first crucial point of Varoufakis' proposed strategy - parallel payment system. It could theoretically work, as well as it might not, but it had never been officially announced, not to mention put into practice in the negotiations. Varoufakis defends credibility of his commitment not to back down as he claims that "sticking to my debt restructuring and end-of-austerity conditions, even at the threat of Grexit, was not a bluff" because "even if the troika were to do its worst, not budging and 'taking' a painful Grexit was preferable to capitulation". That is so because to him the best scenario of "a debt restructure and an end to austerity within the eurozone" was preferred to middle scenario of "forced Grexit by a troika that chose to accept Grexit's cost" that was preferred to the worst scenario of "capitulation leading to permanent depression within the eurozone" (Varoufakis, 2018b). However, this defense

leverage. My reading of them was that Draghi's power to continue buying government debt was conditional on protecting the ECB from any write-down of government debt the ECB already owned. This included the so-called SMP bonds: Greek government bonds it had acquired from private investors as part of what it had branded the Securities Market Programme" (Varoufakis, 2018, p. 93).

remains merely theoretical and so is the potential boost of the Greek negotiation strategy credibility. Varoufakis blames first and foremost the Prime Minister Tsipras for Greece's 'defeat' as he eventually opted for the 'worst scenario' despite his numerous promises to activate the key deterrent (Varoufakis, 2018b). One may completely understand Tsipras' motives to choose painful compromise over full escalation of the clash with creditors. Nevertheless, his reluctance to honor Varoufakis' plan held back potentially most interesting phase of the proposed strategy - its implementation. From the point of view of our research, and negotiation analysis as such it is certainly a pity.

To proceed with the threat to haircut SMP bonds was never approved by the Greek government. However, threatening statements by the country officials in various forms were not scarce. For example, Tsipras articulated the demand of war reparations from Germany in an address before the Greek parliament as "a moral obligation". Insisting that "Germany has never properly paid reparations for the damage done to Greece by the Nazi occupation" he caused concern that Greece might seize German assets (The Guardian, 2015). He subsequently bolstered his words by forming "a national committee to explore credible ways to extract war reparations and by launching a public relations campaign in metro stops and other Greek public places during negotiations" (Zahariadis, 2016, p. 487). This topic reopened old wounds and certainly could increase anti-German sentiment. However, as sensitive as this issue might be in German-Greek relations, the threat to seize assets like diplomatic properties or Goethe institute in Athens does not sound very credible in context of the bailout negotiations.

What definitely had the threatening potential was the eventuality of Greek exit from the eurozone. In February 2015 said Varoufakis that "the euro is fragile, it's like building a castle of cards, if you take out the Greek card the others will collapse" (Reuters, 2015). While the talks stalled at the beginning of June 2015, Tsipras labeled creditors' demands as "absurd" and unacceptable. Instead he vowed "to entirely transform the economic and political balances throughout the West" (The Telegraph, 2015). Later in month, under significant time pressure to reach a deal before Greece had to pay the IMF at the end of June, the Greek prime minister accused the Fund of "criminal responsibility" and said that lenders were seeking to "humiliate" Greece (The Guardian, 2015b). As we can see, Tsipras was careful not to threaten the debt default explicitly. However, his decision to harden his rhetoric even in the period when the possibility of Grexit was already on the table

definitely further increased existing fears of escalation into debt default and actual Greek exit from the euro. The same goes for his move to call the referendum.

The prospect of mutual harm was obvious; however there remains a question of each side's ability to withstand losses. Varoufakis' belief that Greece could achieve the 'best' scenario was clearly supported by his conviction that Grexit was an empty threat to Greece because it would "cost the EU around one trillion euro in written-off public and private debt as well as a chain reaction of bankruptcies within Europe's financial labyrinth" (Varoufakis, 2018, p. 109). That seems to be too optimistic assumption. Many argue that the creditors and markets had gradually prepared for the possibility of Grexit and were ready to accept the costs. In words of Lim, Moutselos, and McKenna: "In the intervening three years since the last bailout the costs of defection had remained prohibitively high for Greece and included the sunk costs of five years of austerity, but had decreased for Germany: German financial institutions had already absorbed the costs of the 2012 'haircut' and the rest of the Eurozone was shielded by better growth prospects and the monetary operations of the European Central Bank" (2018, p. 13). In similar fashion Hennessy argues that "although the eurozone rescue measures adopted in phase two should have persuaded Tsipras that threats to force Greece out of the eurozone were credible, he (falsely) interpreted his endorsement from parliament to renegotiate the bailout conditions as giving him bargaining leverage" (2017, p. 755). This perspective suggests that it was actually the creditors who could credibly threaten Greece, not vice versa.

Moreover, European creditors allegedly prepared a 'Plan B' that would increase their readiness for Grexit. Dendrinou and Varvitsioti claim that the plan, which would be triggered only in case of Greece defaulting on its debt, was secretly develop by a small group of troika experts already in 2012 when Greece was close to the brink (2019, p. 147). During the spring of 2015 the plan was revived, still as strictly confidential. According to the authors, the Plan B stated that the eurozone's exposure to the cost of Grexit was still substantial, but smaller than in 2012. And it assessed the direct contagion risk as manageable (2019, p. 148-151). When Jean-Claude Juncker said that "We have a 'Grexit' scenario prepared in detail" the EC officials immediately downplayed the remark and refused to discuss any details (Politico, 2015). Nevertheless, even if such a detailed plan was not developed the threat of Grexit was most likely more alarming for Greece. In such conditions could not be the government's threatening rhetoric considered credible, and thus could not secure much needed bargaining leverage, although it stimulated the prospect of

mutual harm. Statement of Yannis Dragasakis from an interview on Greek public television (ERT) says it all: “We believed if we threatened the Europeans to leave the euro, they would relent. However, this proved wrong and it appears they were prepared” (cited in Zahariadis, 2016, p. 488).

Above paragraphs bring us to conclusion that the only threat to default that was openly and explicitly employed by the Greek government was the one to the International Monetary Fund. Varoufakis mentions this tactic in his memoir. His meeting with Christine Lagarde was scheduled on Easter Sunday and the Greek cabinet decided that they will default on the next payment to the IMF. In very last minute before the meeting Tsipras called Varoufakis and instructed him that they will not actually default, but he should still inform Lagarde that they will. In theory, IMF should get anxious and convince the ECB to stop the liquidity squeeze. Then Greece will reciprocate by announcing that they are not defaulting. Varoufakis strongly disagreed with this step because according to him the threat of default was the strongest weapon they had. And if the enemy called their bluff then creditors will never fear their threats again (Varoufakis, 2018, p. 358). This bluff was probably overly optimistic and its potential effect on the overall bailout agreement design is questionable even if it had some immediate impact on the ECB’s liquidity policy. More importantly, it was really just a bluff because Greece eventually made the payment to the IMF on April 9, using mainly funds belonging to regional administrations (Dendrinou and Varvitsioti, 2019, p. 135).

As already mentioned, Greece then surprised the IMF in the beginning of June by its request to merge June payments to one in the end of the month. This operation was accepted by the Fund, however it definitely further increased tensions between the parties and heightened insecurity about negotiations’ outcome. When Greece defaulted on IMF payment on June 30 after all it naturally once again alarmed the world. Country missed its scheduled 1.6 billion euro loan repayment which meant it was “in arrears”, the official euphemism for default (CNBC, 2015). So Greece did default on one of its creditors in the end; however the timing suggests that it was not a bold negotiating tactic, but rather a genuine inability to respect the repayments timetable. The second program of financial assistance ended the same day and a potential agreement on a new bailout was not even close yet. Tsipras’ evaluation of the negotiation also does not suggest that delaying an outcome was a careful plan: “I think that we lost time. At the end we were out of power and out of money. If we knew that in advance we could have made braver decisions at the

beginning” (Mason, 2015). After the default Jeroen Dijsselbloem said that “what can change is the political stance of the Greek government that has led to this unfortunate situation”, and that Athens was welcome to ask for new aid but only with attached conditionality. Simultaneously Angela Merkel ruled out further negotiations until after referendum (CNBC, 2015). Creditors were not impressed enough by Greece’s financial vulnerability at this point and they signaled that they are not going to back down from their austerity demands. One of the reasons of creditors’ firm position was quite likely their ability to see that Greece’s willingness to get so close to the brink was not completely deliberate.

3.5 Public Commitment to Domestic Audiences

This chapter loosely relates to all previous sections because broadly speaking any public statement of the Greek government representatives did send certain message to the voters. And it is indeed closely connected with the content of the preceding section. Following paragraphs intend to focus more specifically on analysis of public communication and activities that could arouse domestic audiences and strengthen commitment of the Greek side. Last but not least, what definitely deserves a special attention is Tsipras’ decision to call the referendum and its impact on the effort of the Greek side.

Since its establishment has Syriza “insisted strongly on its position to abolish the memoranda and renegotiate the debt” (Syriza, About SYRIZA). The anti-austerity, including debt restructuring, is not indeed its single topic, but it is at the core of its agenda. Its rise to power was based on rejection of the bailouts, party articulated voters’ dissatisfaction with them, and associated their ‘failure’ with its political opponents. Alexis Tsipras declared in his speech to the party’s Central Committee in October 2013: “We know that the Memoranda have no social consensus, that those afflicted by them reject them. [...] Today it is not just the people at the bottom who do not want the Memoranda, but also those at the top, who can no longer cope. They cannot stand it anymore. And this is enormously important. The Samaras government is worn out” (Syriza, 2013). After Syriza won the European Parliament elections on 25 May 2014 Tsipras said that people “decisively rejected the Samaras government” and “overthrew the unpopular, barbaric policy of the Memorandums” (Syriza, 2014). Party’s Thessaloniki program – basically its 2015 electoral manifesto – included a promise of “gradually reversing all the Memorandum injustices” (Syriza, 2015). When Syriza reached its goal and triumphed in

January 2015 general elections, Tsipras addressed his supporters: "Greece is leaving behind catastrophic austerity, it is leaving behind the fear and the autocracy, it is leaving behind five years of humiliation and pain. The troika for Greece is the thing of the past" (BBC, 2015c). Yanis Varoufakis' criticism of the austerity regime had been also fierce when he described it as "kind of fiscal waterboarding policies that have turned Greece into a debt colony" (BBC, 2015c).

Interestingly, some argue that it is necessary to distinguish two games⁹ that the Greeks were engaged in – domestic and international – to perceive well the frequent contrast in public statements. "From January to July 2015, while the confrontation unfolded, Tsipras followed a two-pronged communication strategy with Greek and international audiences. Domestically, he retained the main elements of his characteristically combative populist discourse, launching frequent attacks against his European interlocutors, accusing them of hostility against the Greek people and trying to overthrow his democratically elected government. The International Monetary Fund, the German minister of finance, and other named or unnamed individuals and institutions, were depicted as enemies, conspiring with domestic collaborators to subjugate Greeks and establish a German domination over Europe." However, "Tsipras changed face when visiting foreign capitals, speaking to foreign media or meeting with his European Union peers. His transformed international discourse framed the dispute as a political struggle between "conservative forces" favoring austerity and "neoliberal" solutions for Europe, and those against them. In his capacity as president of the European Left Party, he constantly portrayed the Greek crisis as the canary in the coalmine of a growing democratic deficit endangering the very foundations of the European project. Arriving at the February European Summit in Brussels, he employed a conciliatory tone, expressing his confidence that "all together, we can find a mutually viable solution in order to heal the wounds of austerity, to tackle [the] humanitarian crisis across [the] European Union, and to bring Europe back to the road of growth and social cohesion"" (Aslanidis and Kaltwasser, 2016, p. 1080). That might be the most plausible

⁹ According to George Tsebelis, Tsipras was involved in three different games. First, he was a popular leader in the domestic electoral game. Second, he had to deal with a strong left-wing opposition within his own party that controlled between 40 and 50 per cent of the party central committee, but it was a minority of the Parliamentary group. Third, he was negotiating with multiple actors at the EU level, including the Eurogroup (Tsebelis, 2016, p. 29).

explanation of often considerably different rhetoric of the Greek officials, notably Tsipras, on the same issue within short period of time.

Similar notion can be illustrated on a case when a compromise proposal between the IMF and the Eurozone was presented to Tsipras and his team on June 3, 2015. After series of discussions Tsipras requested forty-eight hours for a review. However, he did not return to the negotiating table, instead he addressed the Greek parliament with speech denouncing the ‘non-realistic and absurd’ proposal of the institutions. He also said that the Greek government ‘will not vote for another memorandum’ (Dendrinou and Varvitsioti, 2019, p. 186). According to the authors, his speech was to reassure his own members of parliament that he is not about to accept agreement that would contradict their electoral promises. But this act seriously hurt the trust relationship between Tsipras and the creditors including Jean-Claude Juncker who had been the most sympathetic to Greece for a long time. Couple of days later Tsipras protested Juncker’s anger by defense that he spoke to the parliament in Greek (Dendrinou and Varvitsioti, 2019, p. 190). One can consider both options believable – that Tsipras’ excuse was merely an alibi, and that Tsipras was really convinced that what he says in the Greek parliament, perhaps as a part of the intra-party game, stays in the Greek parliament.

I argue that although it might be sometimes complicated to distinguish who was a primary audience of a particular statement, the Greek officials were aware of the power that public opinion has. That is self-evident in politics. In particular words of Varoufakis, “one should never underestimate the importance of public opinion”. He further explains his position: “As the minister of finance of a bankrupt state I had a duty to demonstrate to our people, to the people of Europe, but also to the creditors, that solutions existed within the rules of the eurozone that would benefit everyone except: the oligarchy; the political class wedded to Greece’s insolvency; and the troika officials whose new jobs and new rent-seeking opportunities depended on the European periphery’s permanent insolvency” (Varoufakis, 2018b). This statement definitely reveals ideological motivation. More importantly, it also shows that the boundaries between the games might not be completely rigid and especially that the audiences may overlap. Particularly in negotiations like this one that was very closely followed not only by all the parties and their expert teams, but also by media in all relevant countries. Therefore I contend that the differences in rhetoric in varying context do not subdue the public commitment to end austerity that was so prevalent in Syriza’s program and communication that it is impossible to ignore it.

We can see that Syriza had been committing to scrap previous bailouts with their harsh austerity basically since its establishment. Once Tsipras changed roles from an opposition leader to a prime minister there were certain occasions when the tone was much more appeasing. However, the message to abolish austerity was persistent and could be heard especially in Greece but also by the creditors. Long-term commitment to this position was clear, and it escalated by possibly the most powerful instrument that can arouse public audiences – nationwide referendum. Indeed, at the moment when Tsipras called people to the polls the outcome was not completely foreseeable and it could possibly also undermine his position. In this context, the final result was really favorable to the Greek government and it theoretically should have strengthened its commitment to reject austerity that was represented by the deal proposal. And it should have proven beneficial in a new round of negotiations. However, the reality narrates more complicated story.

Scholars disagree on motives behind the decision to hold the referendum. Some argue that “the referendum was a tactical and probably long-prepared move to enable the government to hold out for a potentially better deal” (Pitsoulis and Schwuchow, 2017, p. 52). Others come to conclusion that “the referendum was the excuse to close the banks and introduce the painful deal as the alternative to chaos, in order to achieve the agreement of the party” (Tsebelis, 2016, p. 31) suggesting that its announcement was not only part of international negotiation game, but also of domestic and intra-Syriza one. In other opinion, “the referendum of July 5, 2015 can be interpreted not only as a tool to limit domestic dissent (especially within Syriza) but also as a negotiating threat to credibly argue for the rejection of creditor terms” (Zahariadis, 2016, p. 484). The latter would be the most in line with theoretical expectations of this thesis.

From different perspective Dendrinou and Varvitsioti claim that what also played an important role was Tsipras’ frustration; after crossing many of his red lines he felt that any attempt to compromise led only to additional demands from the creditors (2019, p. 209). According to the authors Tsipras then announced that negotiations simply cannot go on like this anymore. They also argue that the referendum proclamation caused mixed feelings among his ministers and advisors, however there was basically no discussion allowed by the prime minister. Varoufakis also writes that there was little discussion. However, he claims that he asked if government wants to win or lose. Dragasakis allegedly answered that they need an emergency exit. At that time Varoufakis was convinced that they will lose the referendum because of low public support, while Dragasakis supposedly wanted to

fail to legitimize the acceptance of troika's terms (2018, p. 443-445). At the end of the day one tends to agree with following evaluation: "To this day, it is not quite clear what Tsipras hoped to achieve with this unexpected move. If he really expected it to soften the stance of the creditors, he badly miscalculated. In fact, Brussels heavily criticized the announcement and immediately escalated the dispute by withdrawing its latest proposal" (Wolf, 2018, p. 843). Indeed, creditors' reaction was immensely important again and posed evident restrictions to what Tsipras might have hoped to achieve by the referendum.

The referendum campaign was unusually short, however even in this limited timeframe "two dominant narratives emerged in the public debate in which all major political actors took very clear stances. The three moderate pro-EU parties, conservative Nea Dimokratia, center-left PASOK, and centrist To Potami, in tandem with European policymakers warned that a vote against the bailout proposal would inevitably result in Greece's exit from the eurozone". By contrast, the coalition government parties SYRIZA and ANEL "argued that a rejection of the agreement would enhance Greece's bargaining leverage in renewed negotiations with its creditors and ultimately result in debt forgiveness and less austerity. This second narrative emphasized that Greece's membership in the eurozone was not at risk because Europeans would not want to damage the monetary union by allowing Greece to crash out of the euro" (Walter et al., 2018, p. 978).

While announcing the referendum Tsipras stressed out the democratic aspect; it should be the Greek people who decide. He said: "To this blackmail ultimatum...and with no end to it in sight, nor with the prospect of allowing us to ever stand on our feet economically or socially, I call upon you to decide sovereignly and proudly, as the history of Greeks dictates. I am personally committed to respect the result of your democratic choices, whatever those may be." Apart from that he denounced the creditors' proposal as placing "unbearable new burdens on the Greek people" (Financial Times, 2015). Syriza's appeal to reject the proposal was direct and clearly communicated to domestic audiences. During the campaign Tsipras urged supporters that gathered at huge rally to "say a proud no to ultimatums and those who terrorize you". He also pointed out that "on Sunday, we are not just deciding that we are staying in Europe, but that we are deciding to live with dignity in Europe" (Independent, 2015). These statements indicate that Tsipras, at least publicly, indeed did aim to utilize the referendum campaign as an instrument to strengthen the commitment to fight for an outcome that does not involve harsh austerity.

It is impossible to completely rule out options that the whole referendum episode was staged only to overcome Syriza's internal division, or even to provide an emergency exit. And it is quite imaginable that Tsipras' decision to announce the referendum was not completely tactical, and was to some extent driven by motivation to escape from desperate situation. On the other hand, Syriza's campaign for 'no' was unsurprising when we consider its long-term gist of end-to-austerity. And Tsipras' encouragement of domestic audiences to reject creditors' proposal was evident. Therefore even if his appearances were not absolutely authentic, the message was clear and prevalent in both domestic and international arena. What surely undermined possible positive effect of the public commitment from referendum campaign was creditors' reaction. As already mentioned they immediately withdrew from negotiations so at that moment there were technically no direct talks. The creditors could afford to hold out, and they refused to fall for the Greek games. The fact that the ECB cut off its emergency lending to Greek banks shortly after the referendum was announced (Time, 2015) also signaled their resolve. When then Tsipras at the end of June appeared to lose his nerve and sent a letter to European finance ministers asking for another bailout his appeal was rejected almost immediately (Time, 2015).

However, the talks were not stalled forever; the referendum took place and the result boosted public commitment of the Greek government to the maximum. Right after referendum outcome announcement Varoufakis was still convinced that "the Greek people have allowed us to return to the table with immense bargaining power and a sense of pride in them" (Mason, 2015). Mason recalls that the cabinet room went crazy and grown men grinned like school kids. Then Tsipras delivered a televised address where he said that "this is not a mandate of rupture with Europe, but a mandate that bolsters our negotiating strength to achieve a viable deal", indicating that Grexit was not a desired outcome. He also mentioned that "this time, the debt will be on the negotiating table" insisting that an IMF report published that week "confirms Greek views that restructuring the debt is necessary" (Al Jazeera, 2015). Another four hours later Varoufakis was an ex-finance minister – his resignation was presented at the time as a sign of good faith with the creditors.

When Varoufakis spoke with Mason in September he told him a different story: "When I walked into the Maximos, and saw you there, I felt it—you did not—the atmosphere was negative. It was clear that the resonance of this majestic no on the streets had not carried

through to the Maximos—Maximos was charged towards surrender (Mason, 2015). In his memoir Varoufakis also claims that he was the only one from the Greek cabinet who was genuinely celebrating the referendum outcome. To Varoufakis was Tsipras' public announcement where he ruled out rupture with the troika, and revealed his intention to establish a council of political leaders a clear sign that he was about to surrender (2018, p. 467). Tsipras really met the other Greek parties' leaders soon and with exception of the Communist Party they all agreed on a common statement: "The results of the referendum do not constitute rupture but a mandate to continue and reinforce the efforts for a socially fair and economic viable agreement" (Dendrinou and Varvitsioti, 2019, p. 254).

Before his resignation Varoufakis tried to unsuccessfully convince Tsipras for the last time to initiate his plan to activate the parallel payment system and to haircut the SMP bonds. He said to Tsipras: "Without these moves to bolster your bargaining power, the 61.3 per cent will be scattered in the winds. But if we announce this tonight, with 61.3 per cent of voters backing us, I can assure you that Draghi and Merkel will come to the table very quickly with a decent deal. Then the banks will open the next day. If you do not make this announcement, they will steamroller you" (Varoufakis, 2018, p. 468). Regardless of what one thinks about Varoufakis' proposed strategy he was right at this point. Coming back to the negotiating table without any further steps, although with strong domestic support from the referendum, did not help Tsipras to bolster his bargaining power. Already on July 7 the EU leaders' summit took place and Tsipras was expected to bring a profound agreement proposal. Instead, he argued again that Greece needs a political solution. However, "the message to the Greek prime minister that night was unequivocal: holding a referendum had not changed anything. The Greek government had to work within the Eurogroup framework and request a new bailout program. Its reform proposals should be specific, credible, and presented in the next forty-eight hours" (Dendrinou and Varvitsioti, 2019, p. 265).

Even the French President Hollande was strict to Tsipras; however he offered his team to work with the Greeks on an acceptable proposal. Allegedly, the last proposal that was left unfinished when negotiations had broken down prior to the referendum announcement was brought. Only minor changes were done by the economic teams, yet to the surprise of many in his inner circle Tsipras approved the proposal (Dendrinou and Varvitsioti, 2019, p. 267-268). On July 10 Tsipras sought backing for this proposal in the Greek parliament and he argued that he "did what was humanly possible under difficult circumstances and we

have to agree that the package of reforms asked of us is tough. But we have the possibility of an agreement that can end Grexit” (Dendrinou and Varvitsioti, 2019, p. 270). Arriving at the crucial summit meeting of eurozone leaders on 12 July Tsipras chose reconciliatory tone when he said: “I am here ready for an honest compromise. We owe it to the peoples of Europe who want Europe united and not divided. We can reach an agreement by tonight if all parties want it” (The New York Times, 2015). Negotiations on particular issues were still extremely intense; Donald Tusk had to prevent Angela Merkel from leaving the room at one point (Dendrinou and Varvitsioti, 2019, p. 303), however there is no direct evidence to be found in the big picture that Tsipras was able to use the referendum result to improve his bargaining position. After the end of the exhausting talks in Brussels he again selected quite moderate tone when he explained himself: “We faced difficult decisions and dilemmas and we took responsibility for the decision in order to avoid the realization of the most extreme positions” (Politico, 2015b). Few days later when Tsipras had to defend the new austerity bailout measures in the parliament he openly expressed his pragmatism: “I acknowledge the fiscal measures are harsh, that they will not benefit the Greek economy, but I am forced to accept them” (Reuters, 2015b).

In conclusion of this chapter I argue that Greek representatives had been very active in sending anti-austerity message to their constituents. The fight against troika, previous two bailouts, and their conditionality was at the very core of their agenda. Indeed, this message was also a part of domestic electoral game and it brought Tsipras to power, however that is quite natural in democracies. The new Syriza government maintained the end-to-austerity rhetoric during the third bailout negotiations and escalated the public commitment by the referendum. From this point of view it is a paradox that Tsipras went so far with the plebiscite, won the support of Greek people, and right after that his pace towards surrender accelerated. Nevertheless, the public commitment of Greek government to anti-austerity bargaining position and outcome was obvious. And I argue that since this struggle was absolutely central to government’s existence and public opinion was heated up to the maximum it was costly for the government to back down. Therefore this tactic seems to be the most credible of all we have examined and had the best potential to enhance Greek bargaining power. However, the creditors were committed to certain outcome as well, and as discussed in previous chapter, they were not ready to capitulate. Furthermore, many of them negotiated on behalf of their constituencies as Greece did and they also could not end up with a deal that would be difficult to sell at home. And during the six months of

negotiations frustration grew gradually. Reportedly the mood on decisive summit of 12 July was “aggressively anti-Greek, with the exception of the French, the Italians, and Cyprus. Schäuble was measured, but others, one minister reported, were “unpleasant and nasty” towards Greece” (The Guardian, 2015c). With cost of backing down being huge for both sides the negotiations became stalemated. To get them back on track towards an agreement someone had to offer concessions despite their cost. It was Greece that eventually blinked first and had to sacrifice more of its demands.

3.6 Two-Level Games

Although not too many it is feasible to find some occasions when Greek officials argued that what creditors proposed could not possibly be ratified at home. Varoufakis used this argument on 23 June in internal discussion with Syriza ranks and it was the first time he heard that some of them count on potential parliamentary voting support from Greek opposition MPs (Varoufakis, 2018, p. 436). Another example is when Euclid Tsakalotos told Skai television that the government decided that a referendum was the only way forward because the proposal submitted by Greece’s international creditors “would never have been ratified by Parliament and would have brought down the government” (Ekathimerini, 2015b). More prevalent in negotiations was above explained appeal of the Greek actors that stressed out the electoral mandate they have to reject austerity; however that is not exactly a two-level game dynamic.

Wolf argues that “Greek negotiators did not use domestic constraints to extract international concessions. If ratification at home had been their chief concern, Athens’ representatives should have constantly highlighted the risks of their involuntary defection. In this manner, they should have used domestic pressures to convince the creditors that they needed to help their Greek interlocutors. Yet instead of capitalizing on their narrow win-set, the Greek side stuck to its all-or-nothing approach” (2018, p. 840). He explains Greek leaders’ inability to employ the two-level games tactic by their mood of angry defiance which supposedly prevented them from seeking such rational moves. My research also does not suggest that the Greek government had consistently and tactically used an argument of a small domestic win-set to gain concessions. However, Wolf’s explanation might be too simplistic because many opposition members of the Greek parliament were willing to support a third bailout agreement. The three moderate parties, Nea Dimokratia, PASOK, and To Potami were openly pro-European and signaled their support of the

creditors' proposal in the referendum campaign. It sounds quite realistic that both Tsipras and Europeans were aware of this distribution of power in the Greek parliament; that was indeed disadvantageous for the former and favorable for the latter. Nice example is the above mentioned authorization of the draft agreement that Tsipras asked from the Greek parliament on July 10. The result revealed that chances of approval of a future final agreement are high. The proposal was supported in total by 251 members of parliament out of 300; there were defections, however 145 lawmakers out of 162 from the ruling coalition still backed the plan (Dendrinou and Varvitsioti, 2019, p. 271). This preliminary ratification basically prevented Tsipras from possibly arguing in the final stage of the negotiations that his domestic win-set is too small to ratify an agreement that includes too harsh austerity measures.

Conclusion

Let me sum up what conclusions I drew in the particular chapters of the thesis. First I probed deeply for Greek interests in order to possibly understand what was behind the bargaining positions and often offensive rhetoric of the Greek representatives. Unsurprisingly, I found out that the pivotal Greek interest was to get rid of the austerity regime that was established by the two bailouts and their conditionality. It was often emotional, but genuine struggle. At the same time, to understand the dynamics of the negotiations it is important to identify the second crucial Greek interest – to remain in the eurozone. There were people within Syriza ranks that were ready to sacrifice the membership, however the preference of the Prime Minister was decisive in the end – and he chose the safe haven of eurozone.

Next I observed the alternatives of the Greek side and the effort to improve its own BATNA. One factor was the parallel payment system which I will discuss below together with threats. The other one was the attempt to secure alternative ways of financing from external parties. None of these provided any significant help to Greece in the end therefore I conclude that Greek outside option remained unattractive. Thus, this tactic could not enhance Greek bargaining power.

Similar is true for the endeavor to dismantle troika. It was an issue of a great significance to Syriza officials, however quite irrelevant for the creditors, without any leverage on the

negotiation outcome. Hence, although Greece was able to achieve concessions here, this symbolic accomplishment could not magnify credibility of the Greek commitment.

My analysis continued with the examination of the threatening tactics. Let me first discuss the strategy of Yanis Varoufakis that included development of a parallel payment system and the threat of haircutting the SMP bonds. It is such an interesting part of the negotiations that I could not avoid its discussion despite the fact that its application was not eventually approved by Tsipras. That indeed totally eradicates its credibility enhancement potential. At the same time it reveals that Tsipras' role in decision making was crucial in spite of Syriza's heterogeneity. Another threatening tactic – to default on Greece's debt – was present during the negotiations although mostly implicitly. The negotiations were definitely escalated to the point when Greek exit from the eurozone was likely. However, my analysis shows that the threatening effect was not credible for two reasons. First, creditors were ready to hold out and quite possibly even to accept the cost of Grexit. Second, at the end of June when negotiations escalated Greece was already completely out of money and vulnerable; its default on an IMF payment was a necessity, not a tactical move.

Another extremely important part of my analysis was the tactic of public commitment through audience costs. I argued that it is quite indisputable that Greek representatives managed to arouse Greek public to the maximum and that their commitment to end austerity was completely transparent. Final boost came when majority of the Greek voters rejected creditors' proposal in the referendum. At this point it was damaging and costly for Tsipras to back down. This tactic shows the greatest sign of credibility from all that are examined in the thesis. However, it simply was not sufficient to improve Greek bargaining position. The creditors decided to completely ignore the referendum and did not show any sign of warming up towards the Greek demands that were just supported by the will of public. Apart from that, the European creditors also negotiated on behalf of their constituencies and many of them were committed to outcome that was unfavorable to Greece which resulted in the stalemate.

The final chapter discussed application of the two-level games dynamics. I came to conclusion that Greece was not actively employing the argument of a small domestic win-set to possibly achieve concessions. Moreover, it turned out that there was a sufficient number of opposition MPs to make up for government defectors to ratify a deal that included harsh austerity measures.

Above findings show mixed results. I believe that my research question, hypothesis, and framework allowed me to thoroughly examine the negotiation process, the Greek behavior and led me to relevant conclusions. At the same time, I did not find a coherent answer to my research question. I do not argue that the Greek actions do not deserve to be considered a strategy. However, I also cannot conclude that my hypothesis that the key attribute of the Greek strategy was the effort to enhance credibility of the commitment to end austerity was confirmed. Actions of the Greek government were often inconsistent and sometimes even in contradiction to each other. The most notable example of two different conceptions of a Greek negotiating strategy is Varoufakis' proposal in contrast to what actually prevailed. To get back to the positive results; the effort to enhance credibility of the commitment to end austerity was most clearly represented by the tactic of public commitment to domestic audiences. The effort was undermined because of the reasons mentioned above; however the Greek side did a lot to establish its commitment and to enhance its credibility. The second most promising tactic was the use of threats because the prospect of mutual harm caused by the Greek default was very real. Unfortunately for Greece the threat was not credible for reasons explained above and therefore the Greek effort became irrelevant. The same is true for the remaining factors that were discussed – alternatives, changes to the game, and two level games. There the results do not indicate credibility enhancement effect.

List of References

- AL JAZEERA (2015). *Greece Overwhelmingly Rejects Bailout Terms*. Online.
<https://www.aljazeera.com/news/2015/07/early-results-shows-campaign-leads-greek-vote-150705162957783.html>.
- ASLANIDIS P., KALTWASSER, R. C. (2016). Dealing with Populists in Government: the SYRIZA-ANEL Coalition in Greece. *Democratization*. Vol. 23, No. 6, pp. 1077-1091.
- BBC (2004). *Greece Admits Fudging Euro Entry*. Online.
<http://news.bbc.co.uk/2/hi/business/4012869.stm>.
- BBC (2012). *How 'Magic' Made Greek Debt Disappear Before It Joined Euro*. Online.
<https://www.bbc.com/news/world-europe-16834815>.
- BBC (2015). *The Greek Debt Crisis Story in Numbers*. Online.
<https://www.bbc.com/news/world-europe-33407742>.
- BBC (2015b). *Greek Debt Crisis: What was the Point of the Referendum?* Online.
<https://www.bbc.com/news/world-europe-33492387>.
- BBC (2015c). *Greece Election: Syriza Leader Tsipras Vows to End Austerity 'Pain'*. Online. <https://www.bbc.com/news/world-europe-30978052>.
- CNBC (2015). *Greece Defaults on IMF Payment despite Overtures*. Online.
<https://www.cnn.com/2015/06/30/greece-defaults-on-imf-payment-despite-pleas-for-aid-extension.html>.
- COUNCIL ON FOREIGN RELATIONS. *Greece's Debt: Crisis Timeline*. Online.
<https://www.cfr.org/timeline/greeces-debt-crisis-timeline>.
- CRUMP, L. (2015). Analyzing Complex Negotiations. *Negotiation Journal*. Vol. 31, Issue 2, pp. 131-153.
- DENDRINO, V., VARVITSIOTI, E. (2019). *The Last Bluff*. Papadopoulos Publishing. 335 pp.
- DEUTSCHE WELLE (2015). *IMF Allows Greece to Bundle June Debt Payments*. Online.
<https://www.dw.com/en/imf-allows-greece-to-bundle-june-debt-payments/a-18497040>.
- EKATHIMERINI (2015). *Varoufakis Claims Had Approval to Plan Parallel Banking System*. Online.
<https://www.ekathimerini.com/199945/article/ekathimerini/news/varoufakis-claims-had-approval-to-plan-parallel-banking-system>.

EKATHIMERINI (2015b). *SYRIZA's Tsakalotos Says Referendum Was Called to Stave off Government Collapse*. Online.

<https://www.ekathimerini.com/198871/article/ekathimerini/news/syrizas-tsakalotos-says-referendum-was-called-to-stave-off-government-collapse>.

EUROPEAN CENTRAL BANK. *ECB Announces Expanded Asset Purchase Programme*. Press Release on 22 January 2015. Online.

https://www.ecb.europa.eu/press/pr/date/2015/html/pr150122_1.en.html.

EUROPEAN CENTRAL BANK. *ECB Decides on Measures to Address Severe Tensions in Financial Markets*. Online.

<https://www.ecb.europa.eu/press/pr/date/2010/html/pr100510.en.html>.

EUROPEAN CENTRAL BANK. *Eligibility of Greek bonds used as collateral in Eurosystem monetary policy operations*. Press Release 4 February 2015. Online.

<https://www.ecb.europa.eu/press/pr/date/2015/html/pr150204.en.html>.

EUROPEAN CENTRAL BANK. *Speech by Mario Draghi, President of the European Central Bank at the Global Investment Conference in London 26 July 2012*. Online.

<https://www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html>.

EUROPEAN COMMISSION. *Financial Assistance to Greece*. Online.

https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/which-eu-countries-have-received-assistance/financial-assistance-greece_en.

EUROPEAN COMMISSION (2010). *The Economic Adjustment Programme for Greece*. European Economy Occasional Papers 61. Directorate-General for Economic and Financial Affairs, May 2010.

EUROPEAN COUNCIL. *Greece: the third economic adjustment programme*. Online.

<https://www.consilium.europa.eu/en/policies/financial-assistance-eurozone-members/greece-programme/>.

EUROPEAN STABILITY MECHANISM. *Before the ESM*. Online.

<https://www.esm.europa.eu/efsf-overview>.

EUROPEAN STABILITY MECHANISM. *What was the private sector debt restructuring -in March 2012?* Online. <https://www.esm.europa.eu/content/what-was-private-sector-debt-restructuring-march-2012>.

- EUROPEAN STABILITY MECHANISM (2019). *Safeguarding the Euro in Times of Crisis: The Inside Story of the ESM*. Luxembourg: Publication Office of the European Union. 424 pp.
- EUROSTAT. *General Government Deficit (-) and Surplus (+) - Annual Data*. Online. <https://ec.europa.eu/eurostat/tgm/table.do?tab=table&plugin=1&language=en&pcode=teina200>.
- FEARON, D. J. (1994). Domestic Political Audiences and the Escalation of International Disputes. *The American Political Science Review*. Vol. 88, No. 3, pp. 577-592.
- FINANCIAL TIMES (2015). *Tsipras Announces Referendum on Creditors' Bailout Demands*. Online. <https://www.ft.com/content/4452f90c-1c51-11e5-a130-2e7db721f996>.
- FISHER, R., URY, W., PATTON, B. (1981). *Getting to Yes: Negotiating Agreement Without Giving In*. Penguin Group. 200 pp.
- FONTAN, C. (2018). Frankfurt's Double Standard: The Politics of the European Central Bank During the Eurozone Crisis. *Cambridge Review of International Affairs*. Vol. 31, No. 2, pp. 162–182.
- HENNESSY, A. (2017). Good Samaritans vs. Hardliners: the Role of Credible Signalling in Greek Bailout Negotiations. *Journal of Common Market Studies*. Vol. 55, No. 4, pp. 744-761.
- INDEPENDENT (2015). *Greek Debt Crisis: Alexis Tsipras Speaks to 25,000 at 'No' Rally in Syntagma Square, Urging Voters to Deny 'Those Who Terrorise You'*. Online. <https://www.independent.co.uk/news/alexis-tsipras-speaks-to-25000-at-no-rally-in-syntagma-square-urging-voters-to-say-no-to-those-who-10365557.html>.
- LAKHANI, A. (2015). David versus Goliath and Multilateral Diplomatic Negotiations in the 21st Century: How the Greek Debt Crisis Negotiations Marked the Revenge of Goliath. *Cardozo Journal of International and Comparative Law*. Vol. 24, Issue 1, pp. 97-152.
- LAX, D. A., SEBENIUS, J. K. (2003). 3D Negotiation: Playing the Whole Game. *Harvard Business Review*. Vol. 81, No. 11, pp. 64-74.
- LEVENTOGLU, B., TARAR, A. (2005). Prenegotiation Public Commitment in Domestic and International Bargaining. *American Political Science Review*. Vol. 99, No. 3, pp. 419 - 433.
- LIM, D. J., MOUTSELOS, M., MCKENNA, M. (2018). Puzzled Out? The Unsurprising Outcomes of the Greek Bailout Negotiations. *Journal of European Public Policy*. Vol. 26, Issue 3, pp. 325-343.

- MASON, P. (2015). The Inside Story of Syriza's Struggle to Save Greece. *The Nation*. Online. <https://www.thenation.com/article/archive/the-inside-story-of-syrizas-struggle-to-save-greece/>.
- MORAVCSIK, A. (1997). Taking Preferences Seriously: A Liberal Theory of International Politics. *International Organisation*. Vol. 51, No. 4, p. 513-553.
- MUTHOO, A. (2000). A Non-Technical Introduction to Bargaining Theory. *World Economics*. Vol. 1, No. 2, pp. 145-166.
- ODELL, J. (2002). Creating Data on International Negotiation Strategies, Alternatives and Outcomes. *International Negotiation*. Vol. 7, Issue 1, pp. 29-52.
- ODELL, J. (2012). Negotiation and Bargaining. In: Carlsnaes, W., Risse, T., Simmons, B. A.: *Handbook of International Relations*. SAGE Publications, pp. 379-400.
- ODELL, J. (2010). Three Islands of Knowledge about Negotiation in International Organizations. *Journal of European Public Policy*. Vol. 17, No. 5, pp. 619-632.
- PITSOULIS, A., SCHWUCHOW, S. C. (2017). Holding out for a Better Deal: Brinkmanship in the Greek Bailout Negotiations. *European Journal of Political Economy*. Vol. 48, pp. 40-53.
- POLITICO (2015). *What Plan B?* Online. <https://www.politico.eu/article/what-plan-b/>.
- POLITICO (2015b). *Tsipras's Left-wing Revolt*. Online. <https://www.politico.eu/article/greece-grexit-tsipras-bailour-deal-eurozone-negotiations/>.
- PUTNAM, R. D. (1988). Diplomacy and Domestic Politics: The Logic of Two-Level Games. *International Organization*. Vol. 42, No. 3, pp. 427-460.
- REUTERS (2010). *EU, IMF Agree 147 Billion Bailout for Greece*. Online. <https://www.reuters.com/article/us-eurozone/eu-imf-agree-147-billion-bailout-for-greece-idUSTRE6400PJ20100502>.
- REUTERS (2015). *Greek Finance Minister Says Euro Will Collapse if Greece Exits*. Online. <https://www.reuters.com/article/us-eurozone-greece-varoufakis/greek-finance-minister-says-euro-will-collapse-if-greece-exits-idUSKBN0LC0QO20150208>.
- REUTERS (2015b). *Greek Parliament Approves Bailout Measures as Syriza Fragments*. Online. <https://www.reuters.com/article/us-eurozone-greece/greek-parliament-approves-bailout-measures-as-syriza-fragments-idUSKBN0P40EO20150716>.
- SCHELLING, T. (1960). *The Strategy of Conflict*. Harvard University Press. 328 pp.
- SEBENIUS, J. K. (1992). Negotiation Analysis: A Characterization and Review. *Management Science*. Vol. 38, No. 1, pp. 18-38.

SEBENIUS, J. K. (2017). BATNAs in Negotiation: Common Errors and Three Kinds of “No”. *Negotiation Journal*. April 2017, pp. 89-99.

SPIEGEL (2010). *How Goldman Sachs Helped Greece to Mask Its True Debt*. Online. <https://www.spiegel.de/international/europe/greek-debt-crisis-how-goldman-sachs-helped-greece-to-mask-its-true-debt-a-676634.html>.

SYRIZA. *About Syriza: Syriza in Brief*. Online. <https://www.syriza.gr/page/about-syriza.html#>.

SYRIZA (2013). *Excerpts from the Speech by Alexis Tsipras, President of SYRIZA, at the Central Committee Meeting on 20 October 2013*. Online.

<https://www.syriza.gr/article/id/53893/Excerpts-from-the-speech-by-Alexis-Tsipras-President-of-SYRIZA-at-the-Central-Committee-meeting-on-20-October-2013.html>.

SYRIZA (2014). *Historic Day for our People - Statement by SYRIZA President, Alexis Tsipras, regarding the election results of May 25, 2014*. Online.

<https://www.syriza.gr/article/id/56544/HISTORIC-DAY-FOR-OUR-PEOPLE---Statement-by-SYRIZA-President-Alexis-Tsipras-regarding-the-election-results-of-May-25-2014.html>.

SYRIZA (2015). *The Thessaloniki Programme*. Online.

<https://www.syriza.gr/article/id/59907/SYRIZA---THE-THESSALONIKI-PROGRAMME.html>.

THE GUARDIAN (2012). *ECB Introduces Unlimited Bond-buying in Boldest Attempt yet to End Euro Crisis*. Online. <https://www.theguardian.com/business/2012/sep/06/debt-crisis-mario-draghi>.

THE GUARDIAN (2014). *Greece plunged into crisis as failure to elect president sets up snap election*. Online. <https://www.theguardian.com/world/2014/dec/29/greece-crisis-president-snap-election>.

THE GUARDIAN (2015). *Greece Sours German Relations Further with Demand for War Reparations*. Online. <https://www.theguardian.com/world/2015/mar/11/greece-sours-german-relations-further-demand-war-reparations>.

THE GUARDIAN (2015b). *Greek Exit Real Prospect as Eurozone Hardens towards Belligerent Athens*. Online. <https://www.theguardian.com/business/2015/jun/16/greek-exit-prospect-eurozone-athens-tsipras-eu-imf>.

THE GUARDIAN (2015c). *Three Days That Saved the Euro*. Online. <https://www.theguardian.com/world/2015/oct/22/three-days-to-save-the-euro-greece>.

- THE NEW YORK TIMES (2015). *The Latest: Deal Is Reached on Greece's Debt Crisis*. Online. <https://www.nytimes.com/live/greek-debt-crisis-live-updates/tsipras-seeks-an-honorable-compromise/>.
- THE TELEGRAPH (2015). *Defiant Tsipras Threatens to Detonate European Crisis Rather Than Yield to Creditor "Monstrosity"*. Online. <https://www.telegraph.co.uk/finance/economics/11642260/Defiant-Tsipras-threatens-to-detonate-European-crisis-rather-than-yield-to-creditor-monstrosity.html>.
- TIME (2015). *How Germany Called Greece's Bluff Ahead of Bailout Vote*. Online. <https://time.com/3943909/greece-germany-alexis-tsipras-merkel-bluff/>.
- TSEBELIS, G. (2016). Lessons from the Greek Crisis. *Journal of European Public Policy*. Vol. 23, No. 1, pp. 25-41.
- VAN EVERA, S. (1997). *Guide to Methods for Students of Political Science*. Cornell University Press. 144 pp.
- VAROUFAKIS, Y. (2018). *Adults In The Room: My Battle With Europe's Deep Establishment*. Vintage. 576 pp.
- VAROUFAKIS, Y. (2018b). *Was defeat inevitable? A review of Adam Tooze's meta-review of 'Adults in the Room' [1]*. Online. <https://www.yanisvaroufakis.eu/2018/03/07/was-defeat-inevitable-a-review-of-adam-tooze-s-meta-review-of-adults-in-the-room-1/>.
- WALTER S., DINAS, E., JURADO, I., KONSTANTINIDIS, N. (2018). Noncooperation by Popular Vote: Expectations, Foreign Intervention, and the Vote in the 2015 Greek Bailout Referendum. *International Organization*. Vol. 72, Issue 4, pp. 969-994.
- WHEELER, M. (2002). Negotiation Analysis: An Introduction. *Harvard Business School Background Note*. No. 801-156, pp. 1-14.
- WOLF, R. (2018). Debt, Dignity, and Defiance: Why Greece Went to the Brink. *Review of International Political Economy*. Vol. 25, No. 6, pp. 829-853.
- ZAHARIADIS, N. (2016). Values as Barriers to Compromise? Ideology, Transnational Coalitions, and Distributive Bargaining in Negotiations over the Third Greek Bailout. *International Negotiation*. Vol. 21, Issue 3, pp. 473-494.
- ZAHARIADIS, N. (2017). Bargaining Power and Negotiation Strategy: Examining the Greek Bailouts, 2010–2015. *Journal of European Public Policy*. Vol. 24, No. 5, pp. 675-694.

Univerzita Karlova
Fakulta sociálních věd
Institut politologických studií

Diploma thesis project

Negotiation analysis of the third economic adjustment program for Greece: Greek strategy explained



Name: Jakub Kult

Academic advisor: Michal Parízek, M.Sc., Ph.D.

Study program: Mezinárodní vztahy

Year of project submission: 2020

Introduction to the topic

Chapter of financial assistance to Greece is relatively long and complex one. It attracts a lot of attention, and provokes various opinions and comments. I believe that social and political relevance of this topic is indisputable. From broader perspective it is a part of financial crisis following year 2008, including subjects like austerity, or mere existence of the eurozone. This topic is of great importance not only in the field of economics but also in political science and international relations (IR). It cannot be within scope of proposed thesis to cover all aspects of Greek financial crisis neither its whole timeline. Therefore thesis will aim to concentrate on the third economic adjustment program and process of its negotiation, although previous programs and unique Greek historical experience must be indeed carefully considered. The third sequel of financial assistance to Greece was in some aspects similar to previous two programs; however its negotiation process was certainly the most specific and remarkable one which sparked my interest to research it.

In 2010 Greece found itself at the peak of its long-term financial problems. To avoid default it was provided, as Eurozone member, the first bailout package, or program. Financing was done on the basis of bilateral loans from euro-area member states to Greece that received more than €70 billion. The second adjustment programme that was endorsed in March 2012 and lasted until June 2015 replaced the first one. Further funds exceeding €150 billion were provided by the euro-area member states via the European Financial Stability Facility (EFSF) mechanism (EU: Greece: the third economic adjustment programme.). Needless to say that both programs came with attached conditionality that included austerity measures. In this political climate, the left wing, anti-austerity Syriza party wins snap elections on January 25, 2015, breaking more than forty years of two-party rule in Greece. It vows to renegotiate bailout terms, debt sustainability, or renew public sector spending (Council on Foreign Relations: Greece's Debt). That is where negotiations between Greece and its creditors entered a new phase.

Research target, research question

Negotiation analysis of the third bailout program would still be too broadly defined topic. Thesis will therefore focus on the Greek strategy in the bargaining process with its creditors. Proposed analysis aims to provide description and explanation of the strategy by employing concepts of negotiation analysis as outlined below. In other words, research target is to clarify the choice of the strategy and the behavior of the Greek side. More specifically, thesis will ask what the driving force behind the strategy was; i.e. what was the key characteristic of the Greek bargaining strategy?

Literature review

It would be nearly impossible to provide a complete overview of negotiation analysis theoretical background therefore only several authors will be mentioned at this point and

more concepts can be found in the next chapter. Second paragraph provides a review of relevant empirical articles.

Sebenius (1992) offers a great introduction to negotiation analysis and its terms like zone of possible agreement (ZOPA), and elements – interests, alternatives, value creation vs. value claiming, and changes to the game. Crump (2015) reminds us that thorough analysis is necessary, especially in complex negotiations. One should understand a negotiation architecture, context, structure and relationships, process, and decision making. Muthoo (2002) summarizes insights into common negotiations' principles regarding the role of patience, risk aversion, outside and inside options, costs of backing down, or information and knowledge. Odell (2013) points out the importance of BATNA (best alternative to a negotiated agreement) in negotiation analysis. Elsewhere Odell (2010) suggests that it might be useful to think of strategies on a scale from purely distributive (value claiming) through mixed to purely integrative (value creating) instead of more rigid distinctions. Lax and Sebenius (2003) argue that negotiation literature often unjustifiably omits the role of negotiation setup. Wade-Benzoni et al. (2002) summarize how ideology and values can impede agreements in international disputes and discuss a role of values as barriers. Leventoglu and Tatar (2005) examine the topic of public commitment and audience costs in non-crisis bargaining situations.

Pitsoulis and Schwuchow (2017) develop a game-theoretic model and with its help they argue that negotiation process of the third Greek bailout program including Greek leaders' decision to hold a referendum can be rationally explained by the logic of brinkmanship. Hennessy (2017) chooses to model economic programs as a costly signaling game. Her main concern is to establish a relationship between costly exchange of information and compliance with conditionality. Lim, Moutselos and McKenna (2018) analyze the sources of bargaining strength in all three bailout negotiations. They claim that the most influential factor was the ability to withstand non-agreement. At the same time, they argue that the compromise steps towards Greece were not driven by the domestic constraints but by IMF's signaling of Greek economic weakness. Zahariadis (2017) examines negotiation strategy used in Greek bailouts including the third one. He applies bargaining power model in the two-level games context that is based on assumption that power resources, BATNAs and domestic constraints affect governments' choice of negotiating strategy. Wolf (2018) argues that rational choice explanations are not sufficient in the case of the third Greek bailout. He rejects arguments that Greek negotiation tactics could be economically rational or driven by domestic constraints. He provides an explanation by moral emotions and status sentiments instead. Lakhani (2015) provides a summary of negotiation styles, strategies, principles, and tactics where she exceptionally thoroughly analyses the use of power and leverage. Tsebelis (2016) aims to derive lessons from the Greek crisis for both Greece and the EU. By employing logic of nested games and incomplete information he explains why Greece was unsuccessful in the prolonged negotiations.

Conceptual and theoretical framework, research hypotheses

Negotiation analysis can provide new, another, or simply different conceptual and theoretical framework to analyze international relations topics, next to the usual theories. Sebenius (1992) points out that perhaps the biggest deviation of negotiation analysis from game theoretic approach is its relaxed assumption of full rationality which also allows negotiation analysis to absorb and accept knowledge from other fields, e.g. psychology. Another characteristic of negotiation analysis is that it does not assume that all the elements of the game are common knowledge. These factors, combined with expected subjective perspective of negotiating parties, shift focus of negotiation analysis towards subjective perceptions of the zone of possible agreement (ZOPA), and on how those perceptions change. Basic elements of negotiation analysis, like interests, BATNA, approach to value, setup, or barriers are indispensable but not sufficient for our purpose. Important factor that needs to be considered is bargaining power. Wheeler describes it in a broad sense as an ability of a party to influence a negotiation process and its outcomes. He refuses the assumption of some authors that bargaining power is simply the strength of one's BATNA (Wheeler, 2000, p. 11-12). Last but not least, in our particular case we cannot ignore that "where a result must survive legislative ratification, the underlying structure of a "two-level game" is present" (Sebenius, 1992, p. 34).

Some of above factors might be more useful to understand the negotiation process in broad terms while some will be more related to strategy research in particular. For example, thesis will and has to consider the role of domestic politics. However, primary focus will not be on domestic ratification process, but on public commitment and domestic audience costs.

It was Schelling (1960) who first described the approach to bargaining power that teaches us that qualities like higher financial resources, physical and military strength, or ability to withstand losses do not automatically guarantee advantage in bargaining situations. Often the opposite is true and weakness may be strength. From this point of view, bargaining power is the power to bind oneself through commitment. Fearon (1994) extends this way of reasoning by exploring in more detail the impact of commitment through domestic audience. Although he works with a model designed for crisis bargaining with possibility of military result his argument of audience costs remains lucid in non war-prone negotiations. Crises are public events carried out in front of domestic political audiences that are concerned with whether the leadership is successful or not at foreign policy. And if a state backs down, its leaders suffer audience costs that increase as the crisis escalates (Fearon, 1994, p. 577). Muthoo (2000) stresses out that the deployment of commitment tactic will enhance player's bargaining power "if and only if the cost of backing down from one's demand is sufficiently large" (p.161). Regarding the use of public statements he argues that "a government's bargaining power is higher the larger is its cost of backing down and the smaller is the other government's cost of backing down" (Muthoo, 2000, p. 161).

This background is utilized when aiming at the research target. Thesis will be based on an assumption that there was great material and arguably also bargaining power parity

between the parties where Greece was the weaker actor. Second assumption is that the ultimate goal of the Greek government to improve its disadvantageous position in the third economic program negotiation process and to secure a favorable deal that would reflect its electoral promises was not reached. The attempt to reach this goal was in practical terms transformed into negotiation strategy. Proposed thesis shall describe the strategy and its particular tactics in more detail. Nevertheless, there are several identifiable manifestations of it that are relevant to our research. The first distinguishable dimension is an effort to make the end-to-austerity commitment clearly communicated to the domestic audience and therefore binding for the Greek government. Second tactic that was apparent during the negotiation period was the repetitive use of threats. Third area are Greek actions aiming to improve their own BATNA, or on a contrary to attack creditors' one. There was also visible intention to change the setup of the game.

Based on above the hypothesis that will drive my research is (H_1): The key attribute of the Greek strategy was an effort to enhance credibility of its commitment to end austerity.

The commitment to end austerity is approached here on a more general level, as the core interest of the Greek government. It naturally overlaps with its important practical manifestation as domestic audience commitment tactic. I presume that making the overall strategy credible was a necessary condition for the Greek government to potentially increase its bargaining power, and to defend its position. That could have been achieved only if particular tactics, including the public commitment one, were effective.

Analytical technique and empirical data

My research will be qualitative, scrutinizing the negotiation process from the viewpoints outlined above. Nature of the proposed thesis is suitable for a case study approach that allows within-case research. We aim to analyze the dynamics of the negotiation, and of the strategy formation and application. Although thesis does not primarily search for causal mechanism as such, process tracing method is the closest relative to the negotiation analysis approach and its logic can be useful in our case. Van Evera (1997, p. 64) sums it up: "In process tracing the investigator explores the chain of events or the decision-making process by which initial case conditions are translated into case outcomes". He continues "evidence that a given stimulus caused a given response can be sought in the sequence and structure of events and/or in the testimony of actors explaining why they acted as they did".

In its analytical part, thesis will observe, trace and analyze the Greek strategy in a way that reflects particular steps taken to enhance its credibility. These steps are indeed to be considered as a sequence that develops in time and that is set in motion by actions of the Greek government. The most evident dimensions of Greek effort were identified in previous section; however it is possible and desirable that more will be discovered. Related to the public commitment and its credibility, thesis will analyze government's long-term communication and actions towards domestic audiences that aimed at tying their hands and

that could make backing up from their position costly¹⁰. Finest example of this tactic materialized in July 2015 Greek bailout referendum. Threats can be seen as one of the displays of value claiming tactic and they can take various forms¹¹. Thesis will research further what threats were used, when, and how. It will also assess the credibility strengthening effect of this tactic in negotiation context. The same applies to the Greek actions directed at BATNA improvement¹², and at change of the game setup¹³. Can we observe any consequences that would lead to enhanced plausibility, and therefore to empowerment of the Greek position?

More data will be collected from both primary and secondary resources. Indeed primary sources where actors directly describe or even explain their actions and reasons are extremely valuable in this type of research and should be employed as much as possible. Of course, even primary sources hold certain amount of risk that data is not completely revealing of all the details and true intentions of the actors. Primary sources can appear in various forms – statements of actors published via official governmental and personal channels, their announcements in media and press, public speeches at press conferences, interviews with journalists etc. Regardless of the form, these statements were made at the time of the negotiation process and especially at the critical points; luckily, thanks to the importance of the topic, every major media provided coverage of events that I am about to research.¹⁴ Indeed, certain share of governmental documents and especially majority of

¹⁰ For example, Syriza party leader Alexis Tsipras vowed to end "five years of humiliation and pain" and Greek finance minister Yanis Varoufakis described the austerity regime as a "kind of fiscal waterboarding policies that have turned Greece into a debt colony" (<https://www.bbc.co.uk/news/world-europe-30978052>).

¹¹ Greek government mentioned demands of war reparation from Germany including proposals to seize its assets, e.g. statement by Nikos Paraskevopoulos, the Greek justice minister (<https://www.theguardian.com/world/2015/mar/11/greece-sours-german-relations-further-demand-war-reparations>.) Greek representatives also threatened, although usually not explicitly, to default on Greece's debts if they are not granted concessions (<https://www.telegraph.co.uk/finance/economics/11642260/Defiant-Tsipras-threatens-to-detonate-European-crisis-rather-than-yield-to-creditor-monstrosity.html>). Another form of indirect threat was a mention of possible eurozone collapse in the case when Greece would be forced out of it, e.g. by Yanis Varoufakis (<https://www.reuters.com/article/us-eurozone-greece-varoufakis/greek-finance-minister-says-euro-will-collapse-if-greece-exits-idUSKBN0LC0QO20150208>).

¹² Greece expected pragmatic support from the US government, while friendly relations with Russia aimed to establish a perception that Greece has another ally and alternative financial outlet (<https://www.theguardian.com/world/2015/apr/06/varoufakis-extends-washington-charm-offensive-after-talks-with-lagarde>) and (<https://www.theguardian.com/world/2015/apr/07/alexis-tsipras-flies-to-moscow-speculation-greek-bailout-vladimir-putin>).

¹³ An example is a refusal to negotiate within the troika setup; the Greeks rather insisted on direct talks with eurozone leaders (<https://www.bbc.com/news/world-europe-31055069>).

¹⁴ High number of resources can be found on the EU institutions websites – European Commission, European Council, European Central Bank, etc. They go from very descriptive ones like timelines

news articles consist of a mix of direct statements and descriptions of current situation. The same is true for ex-post statements and documents that can be, again, published in various forms like memoirs, biographies, interviews, manuscripts, but also as governmental and organizational research reports, documents, etc. This kind of sources need to be read in more careful manner as they can provide more complex picture of events than the news reports, however there is greater risk that this picture is, deliberately or not, biased.¹⁵

(<https://www.consilium.europa.eu/en/policies/financial-assistance-eurozone-members/greece-programme/timeline/>) to transcripts of press conferences, speeches, and remarks of the actors e.g. transcript of President Jean-Claude Juncker's press conference on Greece

(https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_15_5274).

There is an archive of announcements and statements on Greek official governmental webpage. Archive is sorted by date and is by default in Greek, however can be well translated by Google; see e.g. speech by Prime Minister A. Tsipras during the debate on the referendum on 5 July

(<https://primeminister.gr/2015/06/28/13826>). As a less official source there is an archive of Yanis

Varoufakis, former Greek Minister of Finance that includes his speeches at meetings with his counterparts (<https://www.yanisvaroufakis.eu/2015/06/28/as-it-happened-yanis-varoufakis-intervention-during-the-27th-june-2015-eurogroup-meeting/>).

As mentioned, negotiation process of the third Greek bailout was reported by a big number of media companies. To mention at least few; BBC (<https://www.bbc.co.uk/news/topics/czv6nvnzw9pt/greece-debt-crisis>), The Guardian (<https://www.theguardian.com/world/2015/oct/22/three-days-to-save-the-euro-greece>), Reuters (<https://www.reuters.com/article/eurozone-greece-varoufakis/greeces-varoufakis-confirms-covert-plan-to-hack-tax-codes-idUSL5N1073NO20150727>), Financial Times (<https://www.ft.com/content/ff50e5a9-7b15-3998-a9f1-c11359dc01b8>), Spiegel Online (<https://www.spiegel.de/international/europe/game-of-chicken-between-greece-and-eu-threatens-euro-zone-integrity-a-1018442.html>), Ekathimerini (<http://www.ekathimerini.com/168103/article/ekathimerini/news/pm-says-will-pursue-german-war-reparations>).

¹⁵ Let me mention here three large works that cover the period of the third Greek bailout negotiation. First is "The Last Bluff" written by Viktoria Dendrinou and Eleni Varvitsioti, Greek journalists who covered the crisis for Bloomberg news and Kathimerini newspaper. They provide highly detailed timeline of the bailout negotiations based on their reporting with help of other media sources. More importantly, their book is also based on interviews with 95 direct protagonists of the events like politicians and senior officials. To the best of my knowledge there is no other book that could provide this kind of additional insight from behind the closed doors, however great disadvantage is that majority of information obtained is anonymous. Second is "Adults in the Room" by Yanis Varoufakis which is an extremely thorough and detailed account of events. It has an obvious drawback perhaps best shown in the subtitle of the book - "My battle with Europe's deep establishment" – book indeed provides author's recollection of events seen through his strongly ideological lenses. But it is a good source of reasoning, interests, and strategies of Varoufakis that indeed has been very important figure in the negotiations. It also offers many transcripts of conversation between author and other actors that are not available elsewhere. Third is "Safeguarding the Euro in the Times of Crisis" published by

Secondary resources are useful for a different reason as they can provide additional information, new original perspectives, levels of analysis, or ways of reasoning that author of the proposed thesis might not be able to accomplish. It is first and foremost academic articles that guarantee high quality of insight, sophisticated interpretation, and reliable analysis; however there definitely are also non-academic sources that can produce informative, trustworthy, and stimulating content. Some of the scholarly articles were already mentioned in the literature review. There is high number of non-academic articles and those, again, need to be approached carefully. That is not to say that political commentaries and opinion pieces have to be excluded altogether from consideration.¹⁶

Planned thesis outline

- Introduction
- Historical context of the negotiation
- Methodological/theoretical framework of negotiation analysis
- Empirical analysis of the bailout negotiation process
- Conclusion

Resources

COUNCIL ON FOREIGN RELATIONS. *Greece's Debt Timeline*. Online (accessed 20th February 2020) at <https://www.cfr.org/timeline/greeces-debt-crisis-timeline>.

CRUMP, L. (2015). Analyzing Complex Negotiations. *Negotiation Journal*. Vol. 31, No. 2, pp. 131-153.

DENDRINO, V., VARVITSIOTI, E. (2019). *The Last Bluff*. Papadopoulos Publishing. 335 pp.

EUROPEAN STABILITY MECHANISM (2019). *Safeguarding the Euro in Times of Crisis: The Inside Story of the ESM*. Luxembourg: Publication Office of the European Union. 424 pp.

the European Stability Mechanism (ESM) press that covers the inside story of the ESM. It does not focus mainly on Greece but understandably some of the chapters do.

¹⁶ To state only few examples in an extreme amount of articles published. BBC - Was the Greek finance minister pretending to be mad? (<https://www.bbc.com/news/33507250>). Politico - 9 myths about the Greek crisis (<https://www.politico.com/agenda/story/2015/07/9-myths-about-the-greek-crisis-000131>). LSE Blog - What the 2015 Greek debt negotiations tell us about Germany's negotiating stance on Brexit (<https://blogs.lse.ac.uk/euoppblog/2018/02/08/what-the-2015-greek-debt-negotiations-tell-us-about-germanys-negotiating-stance-on-brexite/>).

EUROPEAN UNION. *Greece: the third economic adjustment programme*. Online (accessed 20th February 2020) at <https://www.consilium.europa.eu/en/policies/financial-assistance-eurozone-members/greece-programme/>.

FEARON, D. J. (1994). Domestic Political Audiences and the Escalation of International Disputes. *The American Political Science Review*. Vol. 88, No. 3, pp. 577-592.

FISHER, R., URY, W., PATTON, B. (1981). *Getting to Yes: Negotiating Agreement Without Giving In*. Penguin Group. 200 pp.

HENNESSY, A. (2017). Good Samaritans vs. Hardliners: the Role of Credible Signalling in Greek Bailout Negotiations. *Journal of Common Market Studies*. Vol. 55, No. 4, pp. 744-761.

LAKHANI, A. (2015). David versus Goliath and Multilateral Diplomatic Negotiations in the 21st Century: How the Greek Debt Crisis Negotiations Marked the Revenge of Goliath. *Cardozo Journal of International and Comparative Law*. Vol. 24, Issue 1, pp. 97-152.

LAX, D. A., SEBENIUS, J. K. (2003). 3D Negotiation: Playing the Whole Game. *Harvard Business Review*. Vol. 81, No. 11, pp. 64-74.

LEVENTOGLU, B., TARAR, A. (2005). Prenegotiation Public Commitment in Domestic and International Bargaining. *American Political Science Review*. Vol. 99, No. 3, pp. 419 - 433.

LIM, D. J., MOUTSELOS, M., MCKENNA, M. (2018). Puzzled Out? The Unsurprising Outcomes of the Greek Bailout Negotiations. *Journal of European Public Policy*. Vol. 26, Issue 3, pp. 325-343.

MUTHOO, A. (2000). A Non-Technical Introduction to Bargaining Theory. *World Economics*. Vol. 1, No. 2, pp. 145-166.

ODELL, J. (2012). Negotiation and Bargaining. In: Carlsnaes, W., Risse, T., Simmons, B. A.: *Handbook of International Relations*. SAGE Publications, pp. 379-400.

ODELL, J. (2010). Three Islands of Knowledge about Negotiation in International Organizations. *Journal of European Public Policy*. Vol. 17, No. 5, pp. 619-632.

PITSOULIS, A., SCHWUCHOW, S. C. (2017). Holding out for a Better Deal: Brinkmanship in the Greek Bailout Negotiations. *European Journal of Political Economy*. Vol. 48, pp. 40-53.

PUTNAM, R. D. (1988). Diplomacy and Domestic Politics: The Logic of Two-Level Games. *International Organization*. Vol. 42, No. 3, pp. 427-460.

SCHELLING, T. (1960). *The Strategy of Conflict*. Harvard University Press. 328 pp.

- SCHIMMELFENNIG, F. (2015). Liberal Intergovernmentalism and the Euro Area Crisis. *Journal of European Public Policy*. Vol. 22, No. 2, pp. 177-195.
- SEBENIUS, J. K. (1992). Negotiation Analysis: A Characterization and Review. *Management Science*. Vol. 38, No. 1, pp. 18-38.
- TSEBELIS, G. (2016). Lessons from the Greek Crisis. *Journal of European Public Policy*. Vol. 23, No. 1, pp. 25-41.
- VAN EVERA, S. (1997). *Guide to Methods for Students of Political Science*. Cornell University Press. 144 pp.
- VAROUFAKIS, Y. (2017). *Adults In The Room: My Battle With Europe's Deep Establishment*. Vintage. 562 pp.
- WADE-BENZONI, K. A., HOFFMAN, A. J., THOMPSON, L. L., MOORE, D. A., GILLESPIE, J. J., BAZERMAN, M. H. (2002). Barriers to Resolution in Ideologically Based Negotiations: The Role of Values and Institutions. *Academy of Management Review*. Vol. 27, No. 1, pp. 41-57.
- WHEELER, M. (2002). Negotiation Analysis: An Introduction. *Harvard Business School Background Note*. No. 801-156, pp. 1-14.
- WOLF, R. (2018). Debt, Dignity, and Defiance: Why Greece Went to the Brink. *Review of International Political Economy*. Vol. 25, No. 6, pp. 829-853.
- ZAHARIADIS, N. (2017). Bargaining Power and Negotiation Strategy: Examining the Greek Bailouts, 2010–2015. *Journal of European Public Policy*. Vol. 24, No. 5, pp. 675-694.