

# Greece Votes No In Referendum on Creditor Plan

On July 2 I wrote that I expected Greece to vote Yes in the referendum. I expected the Greeks to vote in favour of anything that would restart the ATMs and get cash flowing through the banking system once again. As it turns, the Greeks voted no. Why did I and many professional investors expect a Yes vote? Because we have substantial savings. I made a forecast apparently empathizing with the average Greek but without a good understanding of the average Greek and an understanding of their circumstances.

5 years of austerity had not yielded more jobs. The probability of getting a job was low. There was little in the bank to protect or release anyway. And the Eurozone finance ministers had been making a concerted case basically threatening the Greeks into voting Yes.

This last factor could cynically be interpreted as an intentional strategy to jettison the Greeks from the currency union if one were inclined to conspiracy theories. Perhaps the Eurozone was trying to correct an earlier error, that of bending the rules to admit the Greeks in the first place. Perhaps they had just tired of negotiating with a deadbeat who was seeking aid on its own terms. Perhaps the Eurozone had tired of subsidizing Greece (the details are beyond this discussion but yes, there were net transfers to Greece), and unable to eject Greece under the current rhetoric of unity at all costs, needed to force Tsipras to the edge, and then force the Greeks to voluntarily eject themselves. If this is true, then job done. You should see an aid package (the Eurozone will not abandon an erstwhile member) involving debt forgiveness, which is what Greece had sought in the first place, but which the Eurozone could not give and then retain Greece in the union. As important as keeping its members

firmly in the union is ensuring that members pay their dues and respect the by laws.

With a No vote Tsipras can negotiate more aggressively but whether the creditors will be accommodating is another matter. If the conspiracy theory is correct then he has given Merkel her wish and maybe the negotiations will be less confrontational. This is unlikely. The tensions if anything may intensify. A lot depends on Tsipras approach. He may cock a snook at the creditors and refuse to pay, Greece is after all already in default. There is not a lot that the Eurozone can do, short of gunboat diplomacy, something that is unfashionable these days and especially with the Eurozone. A martial solution is something the West has long lost its stomach for, and a German led coalition would never make it past the broadsheets and blogs.

The creditors may recognize that even in the face of an acquiescent Greece that never went to the polls, or a Yes vote, they were never going to get the full face value of their debt back, and that they have now got the Greeks off their backs, some reasonable write down of the debt is acceptable. A more sinister scenario exists. It may have been necessary to induce the Greeks to eject themselves from the union to encourage responsible behaviour among existing Eurozone members but it may now also be necessary to deter further exits by demonstrating the high price of leaving the union.

As I have said before, Greece has always had a choice between austerity in Drachmas or austerity in Euros.