

PAPANDREOU'S DECISION ON 2011 BAILOUT REFERENDUM FOR GREECE – A TWO-LEVEL GAMES ANALYSIS

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Rezumat

Acest articol examinează, prin aplicarea modelului jocurilor pe două niveluri, decizia Primului Ministru al Greciei în favoarea organizării unui referendum în privința celei de-a treia tranșe de ajutor financiar din 2011. În articol se argumentează că explicația acestei decizii se găsește în primul rând în domeniul politicii interne. Cauzele de la nivel internațional au jucat un rol semnificativ însă nu decisiv deoarece referendumul era menit pentru a câștiga avantaje în negocierile de la Nivelul al II-lea al jocurilor pe două nivele. Procesul identificării motivelor deciziei de a organiza un referendum pentru acceptarea sau respingerea unui nou împrumut acordat de Uniunea Europeană, Fondul Monetar Internațional și Banca Central Europeană urmează modelul jocurilor pe două niveluri, propus de Putnam (1988) pentru a analiza dacă motivele deciziei în cauză pot fi identificate la Nivelul I sau la Nivelul al II-lea al negocierilor. Cauzele deciziei primului ministru sunt identificate prin evaluarea diferitelor opțiuni și a consecințelor lor. Concluzia acestui articol este că motivele de prim ordin au fost din domeniul politicii interne. Organizarea referendumului a avut ca scop evitarea unor alegeri anticipate. În plus, a vizat creșterea susținerii publice pentru Mișcarea Socialistă Panhellenă (PASOK) prin adoptarea unei poziții anti-austeritate (în cazul în care Parlamentul vota negativ în privința organizării referendumului) și prin acordarea grecilor posibilitatea de a vota în legătură cu viitorul țării lor (în cazul în care referendumul ar fi avut loc). Analiza se bazează pe un studiu de caz, folosind date de ordin calitativ în preponderență. Datele cercetării au fost obținute din rapoartele media de la nivel internațional.

Cuvinte cheie: referendum, modelul jocurilor pe două niveluri, politică internă, negociere.

Abstract

This article examines through the two-level games model the case of Greek Prime Minister's call for a referendum on the third 2011 bailout loan. It argues that the clue to understand his decision lies primarily in domestic politics. International causes played a major part but the analysis proposed here shows that the referendum was aimed at gaining negotiation leverage at Level II negotiations. The process of identifying the reasons for Papandreou's decision to call for a referendum on the third European Union, International Monetary Fund and European Central Bank bailout agreement is conducted within the "two-level games framework" proposed by Putnam (1988) in order to assess whether the decision is better explained by constraints on Level I or Level II negotiations. The causes for his decision are identified by evaluating various options and their consequences. This paper concludes that the primary causes were of domestic kind. The referendum aimed avoiding snap elections. In addition, it sought an improvement of public support for

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Panhellenic Socialist Movement (PASOK) by committing the opposition to the austerity measures (in case of Parliament “no” vote on referendum) and by giving the Greek people a chance to vote on the future of the country (in case a referendum took place). The analysis employs the case-study research method and the qualitative data type. Evidence was gathered mainly from international media reports.

Key words: referendum, two-level games model, domestic politics, negotiation.

Résumé

Cet article examine à travers le modèle de jeux à deux niveaux le cas d'appel du Premier Ministre grec d'un référendum sur le troisième prêt de sauvetage en 2011. Il faut valoir que l'indice pour comprendre sa décision réside essentiellement dans la politique intérieure. Les causes internationales ont joué un rôle majeur, mais l'analyse proposée ici montre que le référendum visait à obtenir un effet de levier de négociation au deuxième niveau des négociations. Le processus d'identification des motifs de la décision de Papandreou de convoquer un référendum sur le troisième accord de sauvetage de la part de l'Union Européenne, de Fonds Monétaire International et de la Banque Centrale Européenne est mené dans le cadre de „jeux à deux niveaux” proposé par Putnam (1988) afin d'évaluer si la décision est mieux expliquée par les contraintes de première ou de deuxième niveau des négociations. Les causes de sa décision sont identifiées par l'évaluation des différentes options et leurs conséquences. Cet article conclut que les principales causes étaient du cadre de la politique intérieure. Le référendum visait éviter les élections anticipées. En outre, le référendum cherchait une amélioration de l'appui du public pour le Mouvement socialiste panhellénique (PASOK) en commettant l'opposition aux mesures d'austérité (en cas d'un vote négatif de la part du Parlement à référendum) et en donnant au peuple grec la possibilité de voter sur l'avenir du pays (en cas le référendum avait eu lieu). L'analyse utilise la méthode d'étude de cas et le type de données qualitatives. Les données ont été recueillies à partir des rapports des médias internationaux.

Mots clés: référendum, modèle de jeux à deux niveaux, politique intérieur, négociation.

1. Introduction

The Greek debt crisis tested many leaders because of the interconnected problems that it posed. The heads of top economic powers in Europe were challenged to contain the Greek debt crisis and negotiated with the Greek counterparts three bailout agreements within a period of two years. The seriousness of the crisis led commentators to assess that being the Greek Prime Minister in these circumstances was the toughest task that a politician could have taken. George Papandreou “took up” the job in November 2009, while the extent of the economic problems became obvious and eventually resigned in November 2011 as Greece fell far deeper into economic hardship. Furthermore, his political career ended after he resigned as the leader of PASOK party in January 2012 stating that he would not seek re-election.

2. The Two-Level Games Framework

This section emphasizes the usefulness of the two-level games framework for the research task assigned here. Firstly, it stresses the broad importance of the two-level games construct in integrating domestic politics in international negotiation process analysis. Secondly, it emphasizes the utility of the two-level games construct in guiding empirical research on the decision-making process related to international negotiations. It discusses the concepts coined by Putnam and his arguments concerning the “general equilibrium analysis” in which national and international games are accounted for simultaneously.

Putnam’s influential article (1988) constitutes a theoretical endeavour which aims to structure the analysis of international negotiation. His approach of two-level games accounts for the complexity and interplay between the domestic and external forces in interpreting successful or failed negotiation agreements. Basically, the model Putnam proposes is a distinct conceptualization of international negotiation. Although the novelty of his observations is doubtful, the innovation of the two-level games stands in “drawing together a number of previously disparate observations and emphasizing the effects of interaction between domestic- and international level variables” (Knopf 1993, p. 600).

On the other hand, Putnam’s idea of two-level games is contested because it failed to reach the realm of theory. For this reason, many works drawing on Putnam’s article formalized and broadened the two-level games model with new hypotheses. Milner (1997) has used it in explaining successful or failed cooperation using the interaction of the domestic actor’s preferences, given their political institutions and levels of information. Knopf (1993, p. 600) develops “three-and-three” framework distinguishing three forms of separable spheres of domestic-international interaction- “transgovernmental”, “transnational” and “cross-level”.

Despite various interpretations, it is useful to stress the logic of Putnam’s original article arguing that its main utility is integrating domestic and international factors in bargaining strategies in international negotiations. One of the most comprehensive works on developing the two-level games approach, points out that “the most theoretically distinctive element in the two-level games approach is its typology and analysis of strategies for simultaneously exploiting both levels in a bargaining situation” (Evans, Jacobson and Putnam 1993, p. 17).

Other scholars account for the same merit. Schoppa (1993, p. 353) highlights that the greatest achievement of Putnam’s article is the description of how international negotiations create opportunities for negotiators to pursue “synergistic strategies” aimed at reshaping politics in both their own and their counterparts’ domestic arenas to make possible deals that would not have been possible in the absence of interaction between the two levels. Furthermore, Tamayo (2001, p. 70) underlines that the dependent variable refers to the changes in the bargaining

capacity of the chief negotiator as Putnam's goal was to formulate a theory of international negotiation.

Next, this part shows how the two-level games framework is useful for guiding empirical research on interaction between domestic and international factors in decisions on the negotiation process. Putnam pointed out that in international negotiations political leaders must assure the reconciliation of domestic interests with the interests of the negotiating partner in order to reach an agreement. In other words, "governments face a two-sided strategic interaction: a domestic one, vis-à-vis societal actors, and an international one, vis-à-vis other states" (Hale and Held 2011, p. 7). According to Putnam, interests are accommodated through "back and forth" interaction between the international level (Level I) and the national one (Level II).

Putnam asserts that the best way to understand the behavior of foreign policy decision makers is to recognize that they are in fact operating in two separate environments, each with a distinctive logic that structure choices accordingly. He uses rational-choice framework based on preferences, constraints, and informational environments to organize the analysis of choices. His approach is "informed by game theory and captures the dynamic attempts of decision makers to address local constituencies and external forces simultaneously" (Alden and Aran 2012, p. 60). Therefore, the two-level games approach is helpful in explaining the puzzling aspects of the strategies pursued in negotiations as "statesmen function as a transmission belt between domestic and international affairs" (Li 2005, p. 43).

One of the central concepts developed by Putnam is "win-sets"- which counts for the situation of a successful agreement when the priorities of both levels overlap. He states that a negotiator's strategies determine the size of the win-set. Other factors that affect the size of a win-set are Level II preferences and coalitions, and Level II institutions (Putnam 1988, p. 443). For example, one strategy he discusses at Level II negotiations is the use of side-payments to attract marginal supporters for a deal. At Level I negotiations, a useful strategy is to try to exaggerate or minimize the tightness of one's domestic win-set. The exaggeration serves the reaching of the most favorable agreement for a negotiator. The minimization functions as an impediment to an unfavorable deal. Other strategies are "reverberation" and "targeting"- involving direct communication and side-payment offers to domestic actors in order to expand a favorable win-set for the deal one proposes.

Furthermore, "voluntary/involuntary defection" constitutes an essential concept connected to decisions strategies (Putnam 1988, p. 440) in the ratification process. Voluntary defection is an impediment of an agreement in the absence of enforceable conditions. Involuntary defection occurs when domestic preferences are beyond the control of the government representatives responsible for signing the international agreement. In Putnam's view a negotiator might seek to misrepresent a voluntary defection as involuntary risking reputational costs.

Last but not least, he underscores that “it is reasonable to presume, at least in the international case of two-level bargaining, that the chief negotiator will normally give primacy to his domestic calculus, if a choice must be made, not least because his own incumbency often depends on his standing at Level II” (Putnam 1988, p. 457). He asserts that the preferences of statesman in international negotiations may differ from the constituents’ ones. For Putnam, the statesman may have three main priorities: “enhancing his standing in the Level II game by increasing his political resources or by minimizing potential losses; shifting the balance of power at Level II in favor of domestic policies that he prefers for exogenous reasons; to pursue his own conception of the national interest in the international context” (Putnam 1998, p. 457).

3. Methodology

For achieving the research purpose aforementioned, this paper uses the case study method. Also, process tracing is used in identifying the intervening causal process—the causal chain and causal mechanism of the decision process on the referendum. Although the procedure of gathering process tracing evidence comes at times under fire as it takes into account all kinds of evidence in a disparate way (Gerring 2007, p. 178), it is praised for narrowing down the list of possible causes for a certain outcome. In addition, the analysis relies on the language of necessary conditions and the use of counterfactual logic to support the arguments.

The data used is mainly qualitative, containing primary (discourses, declarations) and secondary sources (media coverage, economic analyses). While mindful of the restriction to genuine Greek media and debates because of language impediments, the interpretation of discourses and interviews of Greek politicians in the international media was made in order to decipher the messages meant for the international community and for the Greek people as well. Furthermore, the analysis is based on the restricted available information on the negotiations involved. For this reason, the causes are analyzed through the rational actor model taking into account the aims and consequences of possible choices.

4. The Call on Referendum as a Bargaining Tactic

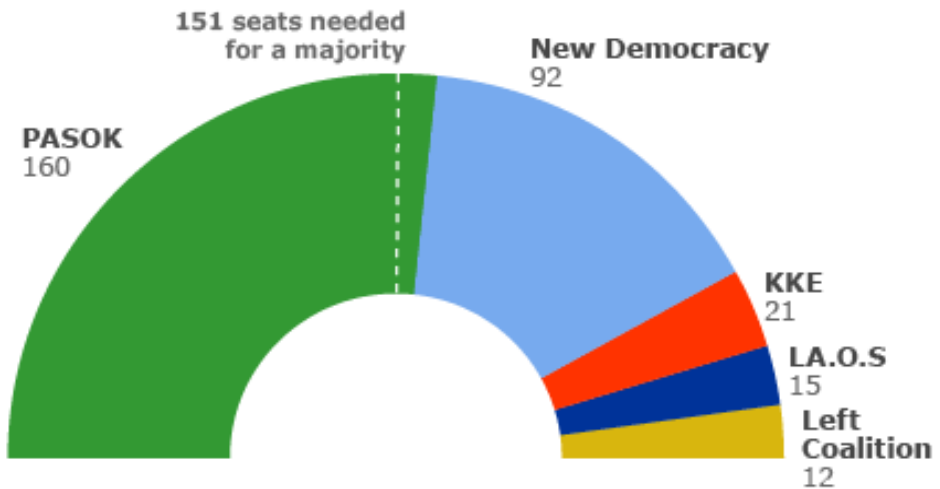
In order to answer the research question, it seems useful to consider the referendum call a bargaining tactic and eventually, a critical decision point. In establishing the primary causes of the decision, at each level of negotiation there are specified the options available, the constraints on both levels of negotiation, and Papandreou’s expectations regarding the intentions of his adversaries and the likely consequences of various courses of action.

● **Background of the third EU, IMF, ECB- Greece Bailout Agreement**

A presentation of the background of the negotiations on the third Greece bailout is necessary because it puts into context the actors' standings on the agreement. Greece's economic problems became a particular European concern in late 2009 as its level of government deficit was the highest in EU (Eurostat Yearbook 2010. Europe in Figures: 40). The heated debates (comprising media, political or expert's discourses) on the causes of Greece's economic crisis are important as they shape public attitudes and policy decisions. The crisis is widely seen as the result of a mixture of structural causes such as soaring public spending, low productivity and widespread corruption (Avent, *The Economist*. 4 Mar. 2010).

George Papandreou came to power in snap elections called by outgoing Prime Minister Costas Karamanlis (conservative New Democracy Party) on 5 November 2009. As it can be seen in **Table no 1**, Papandreou's party Panhellenic Socialist Movement (PASOK) won 160 seats, ensuring a majority in the 300 - seats Parliament. Despite growing economic difficulties, there was a glimpse of hope for change on behalf of the Greek society as PASOK won after it had been in opposition for more than five years. At the time, European leaders welcomed the news with mixed feelings as Papandreou had won promising to avert austerity measures for Greek people. However, external loans proved deemed necessary despite of prohibitively high borrowing costs. Therefore, several rounds of austerity measures were adopted in order to meet the requirements of the bailouts agreements. Greece received three rounds of international loans from 2010 till late 2011.

Table no 1: Greece's election results in 2009. Seats in parliament



Source: *BBC news*, "Greece's Socialists win snap poll", 5 October 2009
<http://news.bbc.co.uk/2/hi/8289674.stm>

Greece received three bailouts from EU, IMF and ECB. The first was agreed upon by EU, IMF and Greece on 2 May 2010. It was meant to prevent Greece defaulting on its debt. The deal valued 110 billion euros for a period of three years. The Greek Parliament adopted a set of austerity measures on 6 May 2010, with 172 votes in favor. The measures meant the harshest programme of fiscal and structural adjustment since the end of the Second World War. On this occasion fifty thousand protesters marched in Athens (Smith, *The Guardian*, 6 May 2010).

The second bailout was approved by Eurozone leaders and Greece on 21 July 2011. It comprised 109 billion euros and involved support from IMF, too. In this agreement private lenders (including banks) pledged to support Greece. Therefore, the Greek government agreed to implement further austerity measures involving public spending cuts and tax raises.

The third bailout was a deal of 130 billion euros. The novelty of the deal was that banks were forced to raise more capital to protect themselves against future losses and it also required banks a restructuring of Greece's debt by accepting a loss of 50 percentage of money they have lent Greece (Spiegel, *Financial Times*, 28 Oct. 2011).

- **Call on a Referendum as a Bargaining Tactic on Level II Negotiations**

Public disapproval and opposition frenzy are two similarities between Papandreou's situation and Costas Karamanlis's position before calling snap elections half way through his four-year term. Yet, Papandreou avoided a "d  j   vu". On 31 October, in a Parliament address, he called for two high-stakes votes. The first was a vote of confidence in his leadership, while the second dealt with the pursuit of a referendum on the third bailout. Therefore, Papandreou chose a different way of dealing with Greece's political and economic crises (**Table no 2**).

Table no 2: Timeline: Papandreou's decision points (2011)

31 October	Papandreou (P.) calls for a confidence vote and a referendum vote
2 November	P. wins cabinet backing to hold a referendum
3 November	P. drops referendum plan
5 November	P. survives parliamentary confidence vote avoiding snap elections
6 November	P. seals a deal with the opposition to form a coalition to approve bailout with the condition of his resignation

Source: *Reuters*, "Timeline: Greece's debt crisis", 6 November 2011

<http://www.reuters.com/article/2011/11/06/us-greece-economy-events-idUSTRE7A52VF20111106>

Papandreou faced numerous constraints in securing the bailout deal as the Level II "win-set" was very narrow. Firstly, the main opposition party (conservative New Democracy) had more political clout on the crisis issue. The difficult economic

situation gave the opposition the occasion to use a populist discourse criticizing the international creditors and the way the government managed the crisis. The views expressed by Antonis Samaras in his first interview to international media since becoming the main opposition leader are representative for the internal debates on the path that Greece should follow. He dismissed the austerity programme as “failure”. In addition he advocated a different policy mix than the mainstream policy, recalling in the interview one statement made to Angela Merkel- “Look, if your plan works, then I am wrong. But if it doesn’t work, then you are going to need a new plan and I am the one who can bring that” (Granitsas and Walker, *The Wall Street Journal*, 5 Jul. 2011). Although he did not elaborate on the new plan, his alternative involved new measures for economic growth instead of tax raises and public spending. Unfortunately, he was right in his predictions. Put it simply, austerity did not work, neither did the first bailout. In 2011 Greece missed its targets for reducing its deficit and further 7bn euros in savings will have to be found (Hewitt, *BBC news*, 23 Jan. 2012). New Democracy Party’s opposition to austerity measures can be assessed as opportunistic but it was a credible threat in the long run as it simultaneously exploited and induced public dissatisfaction towards governing party.

One can argue that if Papandreou had not called on a referendum he would have risked endangering the bailout agreement through rejection of the austerity measures on behalf of the Parliament as the New Democracy Party showed strong disapproval over the deal. Still, the opposition threatened with a “no” vote in the previous international deals but eventually it participated in positive voting in order to secure the deal. The international media did not express concerns about a possible rejection of the third bailout through “no” vote on behalf of the opposition. Therefore, fears amid a negative vote in the Parliament were not a primary cause of Papandreou’s decision as he had parliamentary majority, 153 out of 300 seats - dangerously slim, but enough to pursue further measures.

Secondly, a more serious concern for Papandreou was the government rift. The media (at least the international part) did not particularly cover this subject. Still the disagreements among the government members could have been read between the lines. The government seemed divided on the support for two traditional rivals within the socialist party, George Papandreou and Evangelos Venizelos (the Finance Minister during the crisis). The latter seemingly was not consulted on the referendum decision. Nevertheless, Papandreou managed to win cabinet support for the referendum. The announcement of the decision sparked party and government “rebellions” on the referendum. Two socialist lawmakers, Milena Apostolaki and Eva Kali defected reducing the socialist parliament majority to the bare minimum of 151 seats. Other PASOK Parliament members threatened to follow suit with six senior party members openly calling for Papandreou to step down (Lowen, *BBC news*, 2 Nov. 2011). The government rifts became evident as Evangelos Venizelos spoke out publicly against the idea of a referendum: “Greece’s position within the

euro area is a historic conquest of the country and it cannot be put in doubt. This acquis by the Greek people cannot depend on a referendum” (Public statement, 3 Nov. 2011).

Thirdly, the PASOK Parliament members were also divided on the reforms that Greece could undertake. For example, a member of the parliament- prominent figure from the PASOK party (Vasso Papandreu) stated that it was the last time when he voted for austerity measures invoking that “the society was despairing and the country was collapsing” (Smith, *The Guardian*, 20 Oct. 2011). These problems emerged as opinion surveys showed 90 percentage of Greeks opposing Papandreu’s policies and his party polling just 20 percentage of public support (*MSNBC World News*, 4 Nov. 2011). Furthermore, low opinion polls divided the government to such an extent because of the ever-gloomier diagnosis of the economy. Its GDP fell by 6 percentage in 2011, far more than expected.

Last but not least, on 20 October the Greek Parliament passed the new austerity package while 80 000 protesters gathered to show their disapproval. These particular protests were followed by a two-day general strike. In addition, there were violent clashes with one man killed in fights with police. The austerity measures draw on a five-year plan which allows for more money to be raised through tax increases and less money to be saved through spending cuts. Public dissatisfaction with the economic situation of Greece has grown amid worrying growing unemployment rate- 18.8 percentage in November 2011, up from 13.3 percentage in November 2010 (*The Guardian*, “Eurozone unemployment hits new record”, 6 Jan. 2012). Yet, riots did not mean a new impetus for the referendum decision as violent protests became a common view on the streets of Athens. However, the public preferences towards the PASOK party whether expressed through riots or not were an important factor for Papandreu’s decision. As mentioned before, the socialist party lost public support and chances for winning the next election (normally set up in 2013) looked bleak given the austerity programme that the ruling party had to enforce.

In summary, Papandreu’s decision on the referendum was a move meant to escape a series of constraints that any leader would have met in his position. The referendum scenario aimed to downplay the opposition’s fierce criticism once the Greek people had decided on the way forward. Furthermore, it placed some of the responsibility on the Greek citizens regarding the important decision on carrying on as a eurozone member. In his address to the Parliament he put it bluntly, “rejection of this agreement [the bailout], either because of a referendum or because of elections, either because we would not have parliamentary majority or because of a weakness in carrying out decisions, would mean an exit from the euro. It means an exit from the euro” (Steward, *The Guardian*, 3 Nov. 2011). He added that the referendum created a “positive shock” as it brought positive results to Greece’s political world (Steward, *The Guardian*, 3 Nov. 2011).

The referendum proposal gave the government negotiation leverage on political landscape till the next elections. If he would have called on early elections, the polls show that he would have lost (Mavris, G. "Papandreou's referendum and public opinion", 07 Nov. 2011). Although the referendum call tactic did not achieve a mandate for other two years in power, it led to a coalition government which shared responsibility for the austerity measures required by the third bailout. For the coming elections (February 2012) the PASOK party has low public support but the referendum debate saved it from a graver plunge into the pools.

- **Call on a Referendum as a Bargaining Tactic on Level I Negotiations**

The timing of Papandreou's announcement on a referendum coincided with the preparations ahead of the G20 Summit- set for 3-4 November in France. It was widely reported that Papandreou did not consult the foreign partners on his decision.

At Level I negotiations Papandreou had similar tight space of maneuver as at Level II. His decision on referendum was a "voluntary defection". That was the case because at Level I his decision on the referendum did not aim providing more bargaining leverage in his dealings with the international community. In his address to the Parliament he stated clearly that a "no" vote will mean exit from the eurozone and that "the moment is such that a different national position should be applauded" (Steward, *The Guardian*, 3 Nov. 2011). Still, when the prospect of failing to gather support for a referendum was considered, the consequences were beneficial in terms of the message sent abroad because it raised the possibility of a different Greek approach towards the crisis.

On deciding on the referendum Papandreou had two options concerning the economic consequences for the country. One option was to keep euro as a currency and continue the required reforms established in collaboration with the European leaders. The alternative was to exit the eurozone and adopt economic measures which did not constitute guarantees in exchange for an agreement. Economic experts foresaw bleak consequences for Greece if it had dropped the euro. The new drachma would have plummeted, inflation would have taken off, it would have to print money to finance its deficit and it would still need external finance (*The Economist*, "If Greece goes...", 23 Jan. 2011). On the other hand, this would be the way for greater competitiveness. Yet the costs of a Greek exit outweigh the benefits.

Some commentators invoked Papandreou's power on the wording of the referendum question as a trick up his sleeve as polls showed that 60 percentage of the population were against the terms of the bailout and 70 percentage were against leaving the monetary union (Elliott, *The Guardian*, 1 Nov. 2011). Still, in his address to the parliament he was straightforward on the need to decide on the euromembership dilemma.

There are arguments that an exit from the euroarea would trigger a withdrawal from the EU in the legal sense (ECB, “Working Paper”, 2009). Although at the moment of decision on referendum, the possibility on the exit of Greece was a taboo in European leaders’ speeches, this was not the case anymore after the referendum debate. Nonetheless, even after avoiding a referendum, Greece’s situation was compared with that of Lehman Brothers in the sense that the mix of policies applied were not efficient and alternative ways are too hard to reach. Angela Merkel expressed doubts about the chances of saving Greece from financial meltdown despite two years of severe austerity measures and multibillion bailout packages (Traynor, *The Guardian*, 25 Jan. 2012).

On the other hand, the EU would have also suffered to a great extent if Greece left the eurozone, despite the fact that Greece’s GDP is just 2 percentage of EU’s total. This event would have created a dangerous precedent spreading fear and chaos to citizens, bond investors and creditors because they would have regarded the euroarea as divided between first rank countries with safe economies and banks (e.g. Germany, France) and “pariah economies” (e.g. Italy, Portugal, Spain).

After the announcement of the referendum, the next 8 bn. euros of rescue loans were withheld from Greece while waiting for the result of the popular vote. Also, for the first time it was stated the possibility for a country to exit the eurozone. Therefore, the European leaders’ indignation towards Papandreou’s call for referendum was paradoxical as after two months they brought up the subject of Greece’s inevitable default.

Eventually, Papandreou met European leaders and IMF representatives at Cannes on the fringes of G20 summit. After one day of the meeting he carried on to win cabinet support for the referendum, therefore, it can be stated that international influences did not avert Papandreou’s decision. However, Papandreou sent a nationalist message abroad by showing that Greece can have the last word on its future economic policies. Yet, EU leaders met the new technocrat government with the same skepticism as they asked for a written commitment on behalf of Greek leaders as guarantee of austerity measures.

5. Conclusions

Despite the fact that “two-level games” approach does not have a fully-fledged theory status, it is useful for decision making process analysis. The model assumed by Putnam proposes thinking of national leaders as players in a “two-level game”. His metaphor is helpful in explaining the moves statesman make at Level I and II negotiations recognizing the fact that astute players identify the strategies that would bring most benefits for them.

This paper aimed to identify the primary causes for Papandreou’s decision on a referendum call on the third bailout in the logic of “two-level games” framework. It concludes that the referendum decision was the right move that induced political

domestic realignments and sent a nationalistic message abroad. Domestic constraints such as low public support for PASOK party and a growing opposition in opinion polls led to the necessity of a strategic move on the part of governing party. In addition, the third bailout meant further austerity measures in the context of bleak economic prospects for Greece and EU too. Therefore, if PASOK had continued to be held the sole responsible for the problems Greeks confront, it would have stand very little chances for the next election. The referendum was a credible “threat” as Papandreou had Parliament majority and unanimous cabinet support. After the announcement of the decision, government and party rifts became obvious endangering the prospect of a referendum. Nevertheless, the option of a failed referendum enforcement was beneficial for PASOK party as it led to negotiations over a coalition government which shared responsibility over the austerity measures and public dissatisfaction. Overall, Papandreou played the “two-level game” in a successful way for his party but he became the “victim” of the domestic negotiations for a coalition government.

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