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July 2015 No 877

The Great GREXIT

44 thoughts on Greece, Germany and the Eurozone – Keynote at the Hans-Böckler-Stiftung, Berlin 8th June 2015



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Posted on [June 9, 2015](#) by [yanisv](#)



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Thank you for inviting me. Thank you for being here. Thank you for the warm welcome. Above all thank you for the opportunity to build bridges, to pave common ground, to bring harmony in the face of blatant attempts to sow the seeds of discord between peoples whose historic duty is to come together.

DIVIDED BY A COMMON CURRENCY

Since the end of the war Greeks and Germans, together with other Europeans, have been uniting. We were uniting despite different languages, diverse cultures, distinctive temperaments. In the process of coming together, we were discovering, with great joy, that there are fewer differences *between* our nations than the differences observed *within* our nations.

Then came the global financial disaster of 2008 and, a year or two later, European peoples, who were hitherto uniting so splendidly, ended up increasingly divided by a... common currency – a paradox that would have been delightful if only it were not so fraught with danger. Danger for our peoples. Danger for our future. Danger for the idea of a shared European prosperity.

History *does* seem to have a flair for farce, judging by the way it sometimes repeats itself. The Cold War began not in Berlin but in December 1944 in the streets of Athens. The Euro Crisis also started life in Athens, in 2010, triggered off by Greece's debt problems. Greece was, by a twist of fate, the birthplace of both the Cold War and the Euro Crisis. But the causes run much wider, spanning the whole of our continent.

What were the causes of the Euro Crisis? News media and politicians love simple stories. Like Hollywood, they adore morality tales featuring villains and victims. Aesop's fable of the Ant and the Grasshopper proved an instant hit. From 2010 onwards the story goes something like this: The Greek grasshoppers did not do their homework and their debt-fuelled

summer one day ended abruptly. The ants were then called upon to bail them out. Now, the German people are being told, the Greek grasshoppers do not want to pay their debt back. They want another bout of loose living, more fun in the sun, and another bailout so that they can finance it.

It is a powerful story. A story underpinning the tough stance that many advocate against the Greeks, against our government. The problem is that it is a misleading story. A story that casts a long shadow on the truth. An allegory that is turning one proud nation against another. With losers everywhere. Except perhaps the enemies of Europe and of democracy who are having a field day.

RECYCLING IN A MONETARY UNION

Let me begin with a truism: One person's debt is another's asset. Similarly, one nation's deficit is another's surplus. When one nation, or region, is more industrialised than another; when it produces most of the high value added tradable goods while the other concentrates on low yield, low value-added non-tradables; the asymmetry is entrenched. Think not just Greece in relation to Germany. Think also East Germany in relation to West Germany, Missouri in relation to neighbouring Texas, North England in relation to the Greater London area – all cases of trade imbalances with impressive staying power.

A freely moving exchange rate, as that between Japan and Brazil, helps keep the imbalances in check, at the expense of volatility. But when we fix the exchange rate, to give more certainty to business (or, even more powerfully, when we introduce a common currency), something else happens: banks begin to magnify the surpluses and the deficits. They inflate the imbalances and make them more dangerous. Automatically. Without asking voters or Parliaments. Without even the government of the land taking notice. It is what I refer to as toxic debt and surplus recycling. By the banks.

TOXIC RE-CYCLING

It is easy to see how this happens: A German trade surplus over Greece generates a transfer of euros from Greece to Germany. By definition!

This is precisely what was happening during the good ol' times – before the crisis. Euros earned by German companies in Greece, and elsewhere in the Periphery, amassed in the Frankfurt banks. This money increased Germany's money supply lowering the price of money. And what is the price of money? The interest rate! This is why interest rates in Germany were so low relative to other Eurozone member-states.

Suddenly, the Northern banks had a reason to lend their reserves back to the Greeks, to the Irish, to the Spanish – to nations where the interest rate was considerably higher as capital is always scarcer in a monetary union's deficit regions.

And so it was that a tsunami of debt flowed from Frankfurt, from the Netherlands, from Paris – to Athens, to Dublin, to Madrid, unconcerned by the prospect of a drachma or lira devaluation, as we all share the euro, and lured by the fantasy of riskless risk; a fantasy that had been sown in Wall Street where financialisation reared its ugly head.

Put differently, debt flows to places like Greece were the other side of the coin of Germany's trade surpluses. Greece's and Ireland's debt to German private banks maintained German exports to Greece and Ireland. This is similar to buying a car from a dealer who also provides you with a loan so that you can afford the car. Vendor-finance, is the term used.

Can you see the problem? To maintain a nation's trade surpluses within a monetary union the banking system must pile up increasing debts upon the deficit nations. Yes, the Greek state was an irresponsible borrower. But, ladies and gentlemen, for every irresponsible borrower there corresponds an irresponsible lender. Take Ireland or Spain and contrast it with Greece. Their governments, unlike ours, were not irresponsible. But then the Irish and the Spanish private sectors ended up taking up the extra debt that their government did not. Total debt in the Periphery was the reflection of the surpluses of the Northern, surplus nations.

This is why there is no profit to be had from thinking about debt in moral terms. We built an asymmetrical monetary union with rules that *guaranteed* the generation of unsustainable debt. This is how we built it. We are all responsible for it. Jointly. Collectively. As Europeans. And we are all responsible for fixing it. Collectively. As Europeans. Without pointing fingers at one another. Without recriminations.

Before 2009 the Greek media were ever so proud that Greece was growing faster than Germany. They were wrong. It was Ponzi, pyramidal, debt-fuelled growth. When our bubbles burst, the German press accused the Periphery of profligacy and of being bad European citizens who got what they deserved. It was the turn of the German press to get it wrong. The Periphery's exorbitant debts were *essential* for the industrial machinery and the banking systems of Germany and France to prosper given the problematic bank-based recycling system that we had.

In summary, our Eurozone's surpluses recycling was at the heart of the problem. Greece and Ireland took a big hit on behalf of a Eurozone that was not designed well. We took a hit to save the banks that did all the recycling so badly. To save a Eurozone economically incapable of absorbing the shockwaves of the large financial crisis that its design had brought on and politically unwilling to re-design our surplus recycling mechanism.

For five years now, Europe and three different Greek governments have been pretending that they solved the crisis while extending it into the future. Pretending that the nation's bankruptcy can be dealt with by ever increasing loans on conditions of further income-sapping austerity that undercuts the nation's capacity to repay. Meanwhile, a Great Depression has taken hold, the political centre has imploded, children faint at school from malnutrition and Nazis are coming out of the woodwork.

As I already said: It is truly pointless to play the blame game. Whose fault was the crisis? We are all at fault. We created a Eurozone with a surplus recycling mechanism which with mathematical precision led to a crisis with victims everywhere. The longer we take to realise this the greater our collective fault.

AESOP RE-VISITED

Earlier I referred to the Aesop fable that has done so much damage to our peoples' understanding of their relation and to their appreciation of each other. Allow me to re-tell it in a manner better suited to the economic circumstances of the Eurozone.

To begin with, I hope you agree that the idea that all the ants live in the North of Europe and all the grasshoppers have congregated in the South, in the Periphery, would have been comical if it were not so offensive and so destructive of our shared European project.

What happened in Europe after we established the euro, during the good times, was that the ants worked hard everywhere, in Germany and in Greece. And the ants were finding it hard to make ends meet. Both in Germany and in Greece. In contrast, the grasshoppers both in Greece and in Germany were having a finance-fuelled party.

The flow of private money from Germany to Greece allowed the grasshoppers of the North and the Grasshoppers of the South to create huge paper wealth for themselves at the expense of the ants – of the German and the Greek ants. Then, when the crisis hit, it was the ants of the North and especially the ants of the South, of Greece, that were called upon to bailout the grasshoppers of both nations.

These bailouts cost the ants dearly. Especially the Greek ants lost their jobs, their houses, their pensions while the German ants felt cheated, hearing about all these billions going to the Greeks while their living standards refused to rise despite their productive efforts. As for the Greek grasshoppers, some of them also suffered but the big, fat ones had nothing to worry about: they took their ill gotten monies to Geneva, to London, to Frankfurt. And they laughed all the way to the bank.

This is what was so wrong with the bailouts. It is not that Germans did not pay enough for Greeks. They paid far too much. For the wrong reasons. Money that, rather than help the Greeks, was thrown into a black hole of unsustainable debts while people suffered everywhere. From debt fuelled growth we went full circle to debt fuelled austerity.

It is this vicious cycle that our government was elected to put an end to.

THE AUSTERITY TRAP & THE INSTITUTIONS' DEMANDS

Since 2010 our party, and I personally, opposed the bailouts that piled new debt on the existing, unsustainable Greek public debt on condition of stringent austerity bound to reduce all incomes thus sinking Greece deeper into insolvency, depression, misery. We warned that it was pure folly to shift the Greek state's debt from the books of private banks onto the shoulders of Europe's taxpayers. It would turn one nation against another without doing anything to address Greece's insolvency.

The past five years proved us right. And this is why we were elected. From the first day in office I have been making a simple proposal to our partners, in the Eurogroup and elsewhere: Given that we have been elected to challenge the program that you believe in, and which you want us to abide by, the negotiations will be protracted. Let us negotiate in good faith. But, also, let us agree in the meantime, as quickly as possible, on a number of reforms that we all agree are absolutely necessary and which the previous governments refused to implement. Let us pass through our Parliament three or four, commonly agreed, bills that deal with tax evasion, that set up an fully independent tax authority, that strike a blow at corruption, that reform the income tax code, that regulate and tax television channels etc. etc. Let us implement immediately these reforms while the 'larger', 'comprehensive' negotiation continues.

The answer I received was unequivocal: "No! You must not pass anything through Parliament until and unless the complete review of the Greek Program is successfully completed. Any such legislation will be considered to be unilateral action and will jeopardise your relation with the institutions." And so it was that the negotiations have dragged on and on, draining our energies while the economy stagnates, while important reforms are still awaiting legislation.

I am often asked: "Be that as it may, why have you not concluded the negotiations with the institutions? Why are you not agreeing with them quickly? There are three reasons why.

First, the institutions are insisting on economically unsustainable macroeconomic numbers. Consider three such crucial numbers for the next seven years: The average growth rate, the average primary surplus and the average magnitude of fiscal measures (e.g. new taxes, benefit or pension reductions). The institutions propose to us actual numbers that are inconsistent with one another. They begin by assuming that Greece should achieve an average growth rate of about 3%. That's fine and good. But then, in order to remain consistent with their 'goal' of showing that our debt can come down to 120% of our national income by 2022, they demand primary surpluses in excess of 3%, with large fiscal measures to achieve these primary surpluses. The trouble here, of course, is that if we were to agree to these numbers, and impose upon our weak economy these highly recessionary fiscal surpluses, we will never achieve the above 3% growth rate that they assume. The end result of agreeing

with the institutions on their unsustainable fiscal numbers is that Greece will, yet again, fail miserably to achieve the promised growth targets, with appalling effects on our people and on our capacity to repay our debts. In other words, the past five years of spectacular failure will continue into the future. How can our new government consent to this?

Secondly, we may be an ideological government of the Radical Left but, unfortunately, it is the institutions that carry ideological fixations that make it impossible to reach an agreement. Take for example their insistence that Greece should be a labour protection-free zone. Two years ago, the troika and the government of the time disbanded all collective bargaining. Greek workers are left to their own devices to bargain with employers. Labour rights that took more than a century to win were swept away in a few hours. The result was not increased employment or a more efficient labour market. The result was a labour market in which more than one third of paid labour is undeclared, thus condemning pension funds and the government's tax take to permanent crisis. Our government has tabled a highly sensible proposal: To take the matter to the International Labor Organization and to have them help us draft a modern, flexible, business-friendly piece of legislation that restores collective bargaining to its rightful place in a civilised society. The institutions rejected that proposal, branding our stance "backtracking from reforms".

The third reason why we have not been able to agree with the institutions are the social unjust and unsustainable measures that they insist upon. For example, the lowest of pensions in Greece amount to 300 euros, of which more than 100 euros are made up by what is known as 'solidarity pension', or EKAS. The institutions insist that we eradicate EKAS while at the same time proposing that we push value added taxes on pharmaceuticals (that pensioners rely upon) from 6% to 12% and electricity from 13% to 23%. Put simply, no government that has a smidgeon of sensitivity toward the weakest of citizens can ever agree with such proposals.

I could go on and on, listing a litany of unacceptable demands by our creditors. I won't. You get the gist of it, I am sure.

Some ask me whether we are prepared to risk Grexit so as not to sign up to the institutions' demands. Our answer is that it will be a sad day for Europe when its integrity becomes a football to be kicked around in a game whose purpose is to force a sovereign people to accept an impossible deal. In any case, if such a terrible deal is to be imposed on our people, well at least it will not be with our signature. Immanuel Kant taught us that the majesty of duty has nothing to do with the calculus of expediency. It is an irony that it may take a Greek government to remind Europe of the great German philosopher's dictum.

Coming back to the reforms that Greece needs, in a sense, what our government is asking our partners for is to give us a chance to reform. To do our homework. Please let us reform Greece deeply. For if you continue to insist on logical inconsistent numbers, on ideological fixations and on socially unjust measures we shall not be able to carry the Greek people along the reform path that the country needs. Greece will remain unreformable if the institutions prevail. It is that simple.

To recap, we need to agree on proper, deep reforms and to embed them in a larger package, a larger agreement, which ends the Greek crisis once and for all. Besides the deep reforms, the other two elements of this broader agreement, must be a mechanism for rendering Greece's public debt sustainable (without haircuts and without new monies for the Greek state) and an investment package that kickstarts the economy and crowds in private investment.

Debt restructure – debt swaps

Greece's crisis began with public debt unsustainability. It will only end when public debt becomes sustainable again. Here is what we propose:

Greece acquires now a new liability of 27 billion to the ESM which allows us to buy back from the ECB the old SMP bonds that the ECB purchased in 2010, and whose face value is precisely 27 billion. Then we retire these bonds immediately. Thus the ECB will be repaid in full for Greece's remaining debt to it. The result will be an elimination of our short term funding

gap and the opportunity for Greek bonds to participate in the ECB's quantitative easing program, thus helping us return to the money markets in a manner that eliminates the need for more official sector loans in the future. Once the ECB SMP bonds have been repaid, the ECB will return to Greece, as has already been agreed, the 'profits' (approximately 9 billion euros) it made due to having purchased them below par initially (as per the existing arrangements for returning to Greece the ECB's SMP program 'profits'). Greece uses up this sum to repay, in part, its remaining debt to the IMF (19.96 billion). The remaining debt to the IMF (approximately 11 billion) will be refinanced through our regained market access.

An obvious objection to this swap is that, while no new money will be received by Greece, the ESM will have to acquire a new liability and, for this reason, a new set of conditions is necessary. This is true. But a simple solution presents itself readily: The same conditionalities, i.e. reform package, that we shall agree upon to complete the current program can also serve as the conditionalities for this new arrangement with the ESM. A common set of conditionalities, that our Parliaments approve, as the basis for concluding the current program and beginning the new arrangement. That way neither Chancellor Merkel nor PM Tsipras will have to go to our Parliaments twice. A simple, efficient and effective arrangement is, therefore, in sight.

Investment-led Growth

Debt management is a necessary but insufficient condition for ending the Greek crisis. Greece's economy needs to be kick-started. While long-term recovery will need to be financed privately, getting the flow of investment funding going will require an initial boost. It will also require a vehicle for dealing efficiently with the voluminous non-performing loans that currently block the credit system. Here is our proposal on this front:

The European Council gives the 'green light' to the European Investment Bank to embark upon a *Special Investment Program for Greece* that is fully funded by a special issue of EIB bonds (waiving the requirement of national co-funding), with the ECB providing secondary market coverage for the latter (in the context of its QE program) – to be administered by the EIB and the EIF in cooperation with a new public Development Bank, in collaboration with EFSI, the Hellenic Investment Fund, the EBRD, KfW and other European investment vehicles, and in conjunction with new privatisations (e.g. ports, railways)

The great merit of this proposal is that it will come at no cost to Greece's creditors. The EIB operates on purely banking criteria and, on this occasion, stands to benefit from Greece's rapid economic growth and the inevitable rise in asset prices. The very 'announcement effect' of this package of reforms, debt management and an EIB investment package will, even before any investment funding is provided), crowd in substantial investments and, inevitably, end the Greek crisis.

IPHIGENIA vs ANTIGONE

With the Greek crisis behind us, Europe will still need to look at itself in the mirror and deliberate on how to solidify our monetary union so as ensure that the next crisis is not an existential one.

Clearly we need political union. But what type? Let us not forget that the Soviet Union was a political union, albeit not one that we wish to emulate. No, what Europe must aim for is a democratic political union that will appeal to its peoples.

Europeans must ask ourselves an important question: Do we want a liberal political union that engages with those (like our government) who are critical of the current European policies, but committed to the EU? Or do we want a political union that has no tolerance for dissent to neoliberal policies and which tries to snuff out 'inconvenient' pro-Europeans like the SYRIZA government at the expense of European democracy? Permit me to guess that if Europe opts for the latter it will end up being dominated by anti Europeans who hate Europe and all it stands for, and who want to drag Europe back towards the nationalistic tribalism that has caused so much human loss for so many centuries.

Some leading Europeans unfortunately think that sacrificing Greece as a latter day Iphigenia will help the rest set sail toward

Political Union under a regime of Iron Discipline forged by the fear Grexit will have put into other Europeans' hearts and minds. I fear that this would be an attempt to keep to an unsustainable model by means of increasing degrees of authoritarianism and recessionary macroeconomics. In then final analysis, it would split the union and bring untold economic and human costs.

Let me suggest another heroine of the Ancient Athenian tragedy repertoire: Antigone. Antigone symbolised the just challenge of unjust rules; of rules that clash with basic principles of propriety and justice. She was, of course, no anarchist. She believed in rules. Alas, she believed that when one is faced with bad rules, with rules that are detrimental to the human condition, it is our duty to challenge them and to replace them with other rules, better suited to human purposes.

Which do you think is best suited to the European project? Agamemnon's strategy of sacrificing Iphigenia? Or Antigone's penchant for better rules? The idea that Greece should be amputated from the Eurozone, in order to discipline the rest? Or the idea of bringing everyone closer together on the basis of sound, sensitive, humanist policies?

The major problem we are facing is that this crisis has sapped the political will to bring our asymmetrical monetary union's economies closer together and with respect for national sovereignty. Citizens turn their back to the monetary union, understandably, and begin to recoil not behind national sovereignty but behind national chauvinism and stereotyping.

So, the great, big question becomes: Is it possible to give the peoples of our asymmetrical monetary union *more* sovereignty while, at once, introducing an effective, non-toxic surplus recycling mechanism?

I think it is. But it would take another long meeting to discuss explain how.

Speech of Hope

On September 6th 1946 US Secretary of State James F. Byrnes travelled to Stuttgart to deliver his historic *Speech of Hope*. It marked America's change of heart *vis-à-vis* Germany and gave the fallen nation a chance to re-imagine recovery, growth, and a return to normalcy.

Until Byrnes' *Speech of Hope* let rays of optimism pierce through occupied Germany, the allies were united in their commitment to convert "...Germany into a country primarily agricultural and pastoral in character." Byrnes' speech signalled to the German people a reversal of the punitive de-industrialization drive that, by the end of the 1940s, had seen to the destruction of seven hundred and six industrial plants.

Germany owes its post-war recovery and wealth to its people, their hard work, innovation and commitment to a united, democratic Europe. However, they would not have been in a position to stage a magnificent post-war renaissance without what the *Speech of Hope* signified.

Prior to Byrnes speech, and for a while afterwards, America's allies were not keen to restore hope to the defeated Germans. But once Washington had decided to rehabilitate Germany, there was no turning back. Its renaissance was on the cards, facilitated by the Marshall Plan, the US-sponsored 1953 debt write-down, as well as by the infusion of migrant labour from Italy, Yugoslavia and Greece.

Europe could not have united in peace and democracy without that sea change. Someone had to put aside moralistic objections and look dispassionately at a nation locked into a set of circumstances that would only reproduce discord and fragmentation across the continent. The United States, having emerged from the war as the only creditor nation, did precisely that.

Seven decades later, another nation is locked into a frightful trap that is sending ripples across Europe and from which it cannot escape without a variant of Byrnes' *Speech of Hope*: Greece! Moralistic objections abound and stand in the way of affording the Greek people a shot at achieving escape velocity. Greater austerity is demanded for an economy that is on its knees due to the heftiest dose of austerity any nation has had to endure in peacetime. No offer of debt relief. No plan for boosting

investment. And certainly no *Speech of Hope* for this fallen people.

The Greek government has tabled a set of proposals for deep reforms, debt management as well as an investment plan that will kick-start the economy. Greece is indeed ready and willing to enter into a compact with Europe that will eradicate the malignancies which were responsible for Greece being the first domino to fall in 2010. We are ready to play our part in designing a proper, sustainable recycling scheme for the Eurozone, to do our homework and stick to the rules that we co-author with our German friends.

But to implement these reforms successfully Greeks need a missing ingredient: Hope!

A *Speech of Hope for Greece* is, therefore, precisely that which would make all the difference now.

A *Speech of Hope for Greece* would, in fact, also benefit our creditors, as our renaissance eliminates the probability of default.

What should it include? A *Speech of Hope for Greece* does not have to be technical. It should simply mark a sea change, a break with the past five years of adding new loans on already unsustainable debt on condition of more doses of punitive austerity.

Who should deliver it? In my mind, it should be the German Chancellor.

Where? In Athens or in Thessaloniki or any other Greek city of her choice.

She could use the opportunity to hint at a new approach to European integration that starts in the country that has suffered the most, a victim both of Europe's faulty monetary design and of its society's own failures.

On a practical note, let me ladies and gentlemen inform you that in our midst today we have my great friend and colleague James Kenneth Galbraith – the son of the actual author of Byrnes' *Speech of Hope*, John Kenneth Galbraith. If need be, I am sure he could help in the drafting on a *Speech* that could change Europe. Just like Byrnes' speech do in 1946.

CONCLUSION

Allow me to end on a very personal note.

One of the enduring memories from my early childhood is the crackling sound of Deutsche Welle radio transmissions. Those were the bleak years of our 1967-1974 dictatorship when Deutsche Welle was the Greeks' most precious ally against the crushing power of state oppression.

Mum and dad would huddle together next to the wireless, some times covered by a blanket to make sure that nosy neighbours would not get a chance to call the secret police. Night after night these 'forbidden' radio programs brought into our home a breath of fresh air from a country, Germany, that was standing firm on the side of Greek democrats. While I was too young to understand what the radio was telling my mesmerised parents, my child's imagination identified Germany as a source of hope.

And there you have it. I end this speech on this note, as a tribute to my German friends who keep the memories of those DW's crackling sounds alive, pertinent and permanently inspiring.

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