

'A frenzy of reasonableness'

Adults in the Room

My battle with Europe's deep establishment

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The title of this essay is a quote from the author. This is what he told the EU officials he was bringing to the negotiations with them about the debts of the Greek state. And it did him no good at all.

Put briefly, the Greek state (it's public life, politics, civil service) was corrupt, with tax evasion common, especially among the rich. The public sector was feather-bedded and the state's pension system was unaffordable. Rather than confront any of this, successive governments simply borrowed and then borrowed more. Despite being virtually bankrupt, Greece had been allowed to join the European Single Currency in 2001 after faking its public debt figures (with the help of Goldman Sachs¹) to meet the entry criteria. Essentially a poor, under-developed country, Greece joined the Euro zone at too high rate for its economy, which made its exports uncompetitive. By the time Varoufakis got involved, unable to devalue its currency, Greece had been forced into what is euphemistically called 'internal devaluation' – wage, pension and welfare cuts. Such cuts, in turn, reduced demand in the economy and so began the downward spiral,² which has now been operating for 7 years without any sign of the theoretical spontaneous upturn which such 'internal devaluation' is supposed to bring.

The global financial crisis of 2008/9 pushed the Greek economy off the cliff and into six years of crisis, borrowing new money to pay the interest on old loans, and the immiseration of much of the Greek population. This led to a coalition of the left, Syriza, taking office in 2015. Top of the list of things they had to do was reduce Greece's debt payments which were crippling the Greek government. The author, an economist, was teaching at an American university when his friend, Alexis Tsipras, the Syriza prime minister, asked him to come back and negotiate with the EU. A smart guy, who understood international debt and debt financing, Varoufakis returned, was elected to parliament and became finance minister.

¹ See <<http://tinyurl.com/oxueskd>> or <<http://www.independent.co.uk/news/world/europe/greek-debt-crisis-goldman-sachs-could-be-sued-for-helping-country-hide-debts-when-it-joined-euro-10381926.html>>.

² Known to economists of a Keynesian bent as the reverse multiplier.

With more debts than can be repaid there are three possibilities. One is simply to default on them. This was rejected by Syriza. The second is to reduce them, offer to pay part, a 'haircut'. This was rejected by the banks and the EU governments to whom the money was owed. Which left the third option: converting the existing debt into longer term debt with lower interest payments. This book is a detailed account, meeting by meeting,³ memo by memo, four hundred hundred pages worth, of the author's attempt to persuade the EU to do this.

Varoufakis' problem going into the negotiations was that Greece only had one card to play – the threat of leaving the single currency, a.k.a. Grexit. There were a host of domestic difficulties. Personal and political conflict within the government: Syriza was an unstable coalition of left groups, some of whom wanted Grexit or refusal to pay the debt. During the negotiations members of the Greek state acted as spies for the EU; and the EU constantly briefed against Varoufakis personally and against Syriza collectively, and went round Varoufakis to other cabinet members to undermine him. While the economics ministers of some EU states agreed with the Varoufakis plan in private, none had the courage to challenge the EU officials in public and became nodding dogs at the endless meetings. Lastly – and this had the biggest impact – the EU simply dragged out the negotiations for month after month until the various internal pressures and conflicts forced Prime Minister Tsipras to give up on Varoufakis and go along with the EU's demands that its officials run the Greek economy. When it came to it Tsipras was unwilling to play his only card, the Grexit threat.

As he quits the job Varoufakis learns that the EU has forced the Greek government to abandon its plans to make tax-evaders pay up. On this account the EU is simply a front for the rich and the bankers, no matter how reckless their lending was.

How bad was the EU? I noticed this headline recently: 'IMF takes "unusual" steps for Greece'. The story began: 'The IMF has again departed from its usual procedures to support Athens, exposing itself to accusations of giving the country special treatment'.⁴ This is how bad the EU was: Varoufakis' only ally in the plan to reorganise the Greek debt burden was the IMF, whose then head, Christine Lagarde, used the expression 'adults in the room' (the book's title) in a meeting with Varoufakis. But even the IMF was unable to persuade the EU's core economic officials – fundamentally fronting for German

³ Some which the author recorded on his mobile phone, as he acknowledges in his introduction.

⁴ <<http://tinyurl.com/y9ynnco3>> or <<http://www.channelnewsasia.com/news/business/imf-takes-unusual-steps-for-greece-8950896>>

and French banks which had made stupid loans to an already bankrupt Greece – to change the policies which are destroying it.

If you look at the Wikipedia entry for Syriza,⁵ under 'Government formation' you will see this doom-laden but hilarious subhead:

'See also Tenth austerity package (Greece), Eleventh austerity package (Greece), Twelfth austerity package (Greece), Thirteenth austerity package (Greece).'

Thirteen austerity packages, applying the same failed policies! But Varoufakis is generous. He believes no-one wanted this outcome: they just couldn't find a way to avoid it. He writes in his introduction:

'There are no "goodies" or "baddies" in this book. Instead it is populated by people doing their best, as they understand it, under conditions not of their choosing.' (p. 2)

He offers the current Greek tragedy as. . . Greek tragedy. This is not supported by the evidence he presents. His book is populated by politicians agreeing to policies they didn't understand and EU officials imposing policies they knew would fail but from which they were afraid to dissent for fear of damage to their careers.

Robin Ramsay

⁵ <https://en.wikipedia.org/wiki/Syriza#January_2015_election>