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Greece's Economic Crisis: Yanis Varoufakis's Account

Book Review of "Adults in the Room" by Greece's Former Finance Minister Yanis Varoufakis. Part One: Proposals Doomed to Fail

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In-depth Report: THE BALKANS

Featured image: Yanis Varoufakis (Source: CC – Flickr – Marc Lozano)

In his latest book, Adults in the Room, Yanis Varoufakis gives us his version of the events that led to the Tsipras government's shameful capitulation in July 2015. It essentially analyses the period 2009-2015, though it makes incursions into earlier periods.

With this voluminous work (550 pages), Yanis Varoufakis shows that he is a gifted narrator. At times he succeeds in moving the reader. His direct and vivid style makes it easy to follow events.

This initial article will cover the first four chapters of a book that comprises 17 in all. It deals with the proposals Varoufakis made before he became a member of the government in January 2015.

From the author's demonstration, we can clearly see that his behaviour and the politico-economic orientation he defended contributed to the disaster. Yanis Varoufakis clearly claims to have played a major role in working out the strategy adopted by a handful of Syriza leaders — Alexis Tsipras, Yanis Dragasakis, and Nikkos Pappas, essentially — *before* their victory in the January 2015 election.

Varoufakis does not plead guilty. He is convinced that had Tsipras actually taken the orientation he proposed and which Tsipras had agreed to late in 2014, the result would not have been defeat for the Greek people.

But, contrary to the conviction Varoufakis expresses, an attentive reading of his book leads to the conclusion that he contributed to that defeat.

Varoufakis explains how he gradually convinced Tsipras, Pappas, and Dragasakis not to follow the orientation adopted by Syriza in 2012, then in 2014. He explains that along with them, he worked out a new orientation that was not discussed within Syriza and was different from the one Syriza ran on during the January 2015 campaign. And that orientation was to lead, at best, to failure, and at worst to capitulation.

The measures defended by Varoufakis

Varoufakis sums up the content of the agreement he made with Alexis Tsipras, Dragasakis and Pappas in November 2014 during a meeting in Tsipras's apartment. The meeting had been organized by the Tsipras-Pappas-Dragasakis trio to convince Varoufakis to agree to become Finance Minister in the government that would shortly be formed by Syriza.

> "Alexis then delivered his offer, unassumingly and under Dragasakis's watchful eye. 'If we win, and there is no doubt we shall, we want you to become finance minister.'" |1|

Varoufakis sums up six priority measures he proposed to Tsipras, Dragasakis, and Pappas and to which they agreed. *What these measures implied was that Greece would remain in the Eurozone.*

Varoufakis writes: "I felt the need to recapitulate one more time what we had agreed our aims to be:"

- *Debt restructuring comes first.*
- Second, a primary surplus of no more than 1.5 per cent of national income and no new austerity measures.
- Third, wide-ranging reductions in sales and business tax rates.
- Fourth, strategic privatizations under conditions that preserve labour rights and boost investment.
- Fifth, the creation of a development bank that would use remaining public assets as collateral to generate a domestic investment drive, and whose dividends would be channelled into public pension funds.
- Sixth, a policy of transferring bank shares and management to the European Union…
- *Again they agreed, this time with greater conviction.* |2|

Varoufakis states clearly that these measures were to substitute for the measures in the Thessaloniki Programme Tsipras had presented in September 2014. Here is what he writes about that Programme:

- *Back in Austin, I heard on the news that Alexis had delivered a major speech in Thessaloniki outlining Syriza's economic platform. Gobsmacked, I got hold of the text and read it. A wave of nausea and indignation permeated my gut. Straight away I went to work. The article that emerged less than half an hour later was used soon after its publication by Prime Minister Samaras to lambast Syriza in parliament: 'Even Varoufakis, your economic guru, says that your promises are fake.' And so they were.*
- The 'Thessaloniki Programme' … promised wage rises, subsidies, benefits and investment paid for with sources of funding which were either imaginary or

illegal. There were also promises we should not have wanted to fulfil. Above all, it was at odds with any reasonable negotiating strategy that kept Greece within the eurozone, despite advocating that it should remain there. It was in fact such a ramshackle programme that I did not even bother to criticize it point by point. Instead I wrote:

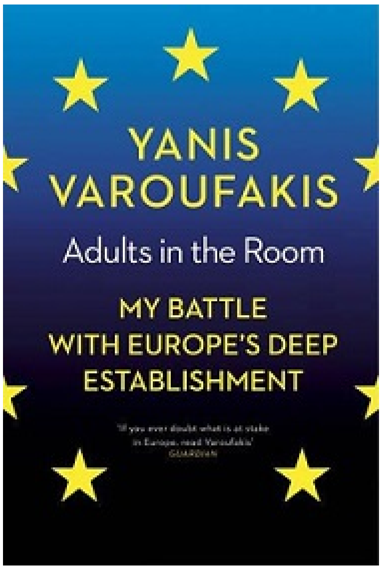
- 'How I would have loved a different speech from Alexis Tsipras, one beginning with the question 'Why vote for us?' Before proceeding to answer it with 'Because we are promising you only three things: blood, sweat and tears!'

- *Blood, sweat and tears, which Winston Churchill promised the British people in 1940 as he was assuming the helm of government, in return for their support and help to win the war.* |3|

Taking Winston Churchill as a positive reference in a public criticism of the Thessaloniki Programme took some doing. It was Churchill who organized the bloody repression of the demonstrations and strikes that shook Greece in late 1944 when, under the Yalta agreements, Britain took control of the country by repressing the very forces that had freed the country from the Nazi occupation.

Let us examine the measures as Varoufakis outlines them:

1. Debt restructuring



Varoufakis proposes restructuring the debt without reducing the debt stock. This first, very moderate measure depended on the good will of the Troika. In fact it was mere wishful thinking. Without recourse to a suspension of payment, combined with other unilateral acts including conducting an audit of the debt (with citizen participation), it was impossible to force the creditors to accept a real radical reduction of the debt. Varoufakis's main proposal regarding restructuring the debt, as he says himself, is in line with his "Modest Proposal for Resolving the Euro Crisis." Putting that proposal, which consisted in mutualising the public debts of the Eurozone, into practice would have required a joint decision by the governments of the Zone to ease public finances and abandon austerity policies. This is technically possible, and is politically desirable from the point of view of boosting the economy and creating a new neo-Keynesian social contract. But despite the moderate nature of the proposal, it is totally incompatible with the policies of the majority of the governments concerned. One would have to be extremely naive to think that the government leaders in place in most European capitals could be favourable to a Keynesian stimulus. Basing a solution on such a hypothesis shows a total lack of awareness of the power balance and the motivations of European policymakers.

With regard to debt, Varoufakis's most recent version of the proposal, issued in 2014-2015, does not call for questioning or reducing the debt owed to the IMF and to the private creditors, but rather for making an arrangement with the European partners on the following points:

> 1. Our government would issue new perpetual bonds, with the same face value as the bonds the ECB owned, bearing a small interest rate but with no expiry or redemption date ;
>
> 2. Existing debt obligations to Europe's bailout fund would be swapped with new Greek government thirty-year bonds, again of the same value as the existing debt (so no formal haircut) but with two provisions: first, annual payments were to be suspended until the country's income recovered to beyond a certain threshold; second, the rate of interest would be linked to the rate of growth of the Greek economy. |4|

Comment: These two proposals were just as unfeasible politically as was the idea of mutualising debt.

Moreover, Varoufakis's entire proposal regarding debt was and is unacceptable from a left-wing point of view because it presupposes evacuating any debate as to the legality and legitimacy of the debts whose repayment is being demanded of Greece. Varoufakis's proposal is in direct opposition to the position adopted by Syriza in 2012, which was to unilaterally suspend repayment and conduct an audit of the debt (I will return to this point later). Further — and this is important — in his proposal Varoufakis does not explicitly include the abandonment of the conditions imposed by the creditors.

Varoufakis himself recognises that his proposal is extremely moderate:

- *[These measures] were moderate and politically palatable to the creditors, as they included no outright haircut. They signalled to the public and to potential investors that the EU was accepting a new role: no longer the harsh creditor of an insolvent state, it would become a partner in Greece's growth, as its own returns would be proportional to Greek nominal income growth.*
- …Not once did any official of the EU or the IMF articulate a criticism of the logic behind these proposals. How could they?
- *As the CEO of one of America's largest investment banks remarked after hearing them, 'You are offering them a deal that a Wall Street bankruptcy lawyer could have come up with.'*

Comment: It is evident that this approach was also explicitly in opposition to a legitimate refusal to continue repayment of an odious debt.

2. “A primary surplus of no more than 1.5 per cent of national income and no new austerity measures.”

Comment: Committing to a primary surplus of 1.5% is totally incompatible with a true policy of stimulation of the economy, public and private employment, and purchasing power for the mass of the population. In Greece, a left-wing government which wishes to actually implement a stimulus policy and respond to a humanitarian crisis must apply a policy of deficit spending over a period of several years and refuse to secure a primary surplus.

3. Wide-ranging reductions in sales and business tax rates

Concerning this measure — which Varoufakis sums up as follows: “This would require sharp reductions in VAT and the corporate tax rate in order to re-energize the private sector” — he cites a question from Tsipras:

- *’Why should business pay less?’ Alexis protested.*

- *I explained that I thought the private sector should pay more in total tax revenue, but the only way to achieve an overall increase in their contribution at a time of next to no sales and with bankrupt banks unable to provide credit even to profitable firms was to reduce the corporate tax rate. Dragasakis stepped in to say he agreed, apparently allaying Alexis and Pappas’s initial consternation.*

Comment: Promising an undifferentiated reduction in corporate taxes is simply incompatible with a politics of the Left. Tax rates must be increased for large corporations, and the increase enforced. But there is no reason why the tax rates on small companies can’t be lowered at the same time. In any case, the belief that reducing corporate taxes will increase corporations’ contribution to revenues has never been demonstrated, and is more liberal incantation than reasoned argument.

4. Strategic privatizations under conditions that preserve labour rights and boost investment

Varoufakis says:

- *When it came to privatizations, I continued, we would have to make compromises if we wanted an agreement with the EU and the IMF. Syriza’s blanket rejection of privatization would have to be replaced with a policy of considering them case by case. Fire sales of public holdings had to end, but there would be some assets, such as ports and railways, that we should make available conditional on a minimum level of investment, on the buyer’s commitment to granting workers proper contracts and the right to union representation, and on the state retaining a large, even if minority, shareholding, the dividends from which would be used to assist pension funds.*

Comment: Whereas Syriza was fighting to put an end to privatisations and to renationalise a group of companies that had been privatised, Varoufakis — as indeed would be his practice once he became Minister — was favourable to the continuation of certain privatisations. This attitude condemned the government to submission to the major corporations, and in particular to foreign capital. The effect was to reduce the public authorities to impotence.

5. Creation of a development bank

“Fifth, the creation of a development bank that would use remaining public assets as collateral to generate a domestic investment drive, and whose dividends would be channelled into public pension funds.” Varoufakis proposes the creation of a rump development bank as a consolation prize in exchange for the privatisations and the transfer of the Greek banks into the hands of the foreign creditors (see Proposal 6).

Varoufakis writes:

- *Meanwhile, those assets that were to remain under public ownership should be handed over to a new public development bank, which would use them as collateral in the raising of funds to be invested in these same public assets so as to boost their value, create jobs and enhance future revenues. They agreed on this too.*

Comment: Varoufakis presents the creation of a public development bank in order to wash down the bitter pill of Proposals 4 and 6, which are in total contradiction with a left-wing strategy. Measure 4 consists in continuing the privatisations and Measure 6 in relinquishing the power the Greek public authorities still had over the Greek banks. Measure 5 served as a lure to make it appear as though the public authorities were going to set up a true public development instrument.

6. “Transferring bank shares and management to the European Union.” (sic!)

Varoufakis describes the idea as being “that these bankrupt banks be placed under the management and ownership of the EU. …this was an extraordinarily challenging proposal for a left-wing party that tended if anything towards nationalizing the banking sector.”

Comment: The Greek state was the principal shareholder of all the Greek banks and Syriza’s position was that the public authorities should actually exercise their power over the banks. In proposing to Tsipras, Pappas, and Dragasakis that the shares owned by the Greek public authorities should be transferred to the EU, Varoufakis was making an additional — and potentially tragic — step towards the complete abandonment of sovereignty.

After summing up these six proposals that he claims were accepted by Tsipras-Pappas-Dragasakis, Varoufakis comes to the strategy a Syriza government should bring to bear in negotiating with the EU. He explains that if the EU decided to directly sabotage the government, the ECB would do the dirty work. It would cut off the cash flow to the Greek banks and require them to shut their doors, as was done in March 2013 in Cyprus, according to Varoufakis.

Varoufakis says that Tsipras-Pappas-Dragasakis agreed to respond in the following manner:

- *Their agreement had to extend also to my proposed negotiating strategy, complete with its key deterrent, the threat to haircut our SMP bonds, and the parallel payments system with which to buy time in the event of an impasse that would bring on bank closures.*

I will return to this issue of negotiating strategy in a forthcoming article in which I will discuss the period that followed the elections in January 2015.

Varoufakis tells us that following the meeting with the Tsipras-Pappas-Dragasakis trio, he accepted the position of Finance Minister. Dragasakis, for his part, would occupy the post of Deputy Prime Minister and would directly supervise three key ministries, including Finance.

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Translated by Snake Arbusto in collaboration with Vicki Briault

This article was originally published by CADTM.

Notes

|1| Yanis Varoufakis, *Adults in the Room*, Bodley Head, London, 2017, p. 98.

|2| Ibid., p. 102.

|3| Ibid., p. 88-89.

|4| This citation and all the following ones are from Chapter 4.