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Yanis Varoufakis: How Europe Crushed Greece

By YANIS VAROUFAKIS SEPT. 8, 2015

ATHENS — Since the beginning of Greece's financial crisis in 2010, two prime ministers have been swept from office after they were forced to adopt an unfeasible package of austerity measures in exchange for a bailout from the troika, as the eurozone authorities — the European Commission, the European Central Bank and the International Monetary Fund — are known. It pains me to watch the same fate befall a third prime minister, my friend and comrade Alexis Tsipras.

In July, when Mr. Tspiras was forced to capitulate to the troika's latest "program," it spelled the end of our government. It also caused a split in our party, Syriza, between those who reluctantly agreed to implement the program and the rest of us (approximately 40 Syriza members of Parliament, out of a total of 149) who did not. The general election set for Sept. 20 is a result of this crisis.

For my part, having resigned as finance minister over the troika's ruthless, humiliating imposition, I plan to sit this one out. I will not contest my parliamentary seat in a sad election that will not produce a Parliament capable of endorsing a realistic reform agenda for Greece.

Nor can I support the adoption of a troika program that everyone knows is destined to fail. There was a clear consensus, shared not only by myself and Mr. Tsipras, but also by Germany's finance minister, Wolfgang Schäuble, and officials at the International Monetary Fund, that the new bailout deal was not viable.

I will not, however, join those who think that exiting the eurozone, to bring about a major devaluation with a reintroduced drachma, is *in itself* a program for Greece's recovery.

The cause of this continuing trouble for Greece lies in the eurozone's existential crisis. The pioneers of the single currency, of whom Mr. Schäuble is the last active member, were undecided whether the euro should be modeled on the international gold standard of the interwar period or on a sovereign currency, like the dollar.

The gold standard relied on strict rules that were unenforceable during a crisis. In a severe downturn, these imposed the greatest burden on the worst-hit economies and thus made exit the only alternative to a humanitarian crisis. This is the reason that President Franklin D. Roosevelt took the United States off the gold standard in 1933, expanded the money supply and helped pull America out of the Depression.

A sovereign currency, or state money, demands a different, more flexible set of responses based on political union, as the French government and others have recently proposed. The great questions that Europe must answer are: What *kind* of political union do we want? And are we prepared to act quickly enough to prevent the fragmentation of the eurozone?

Europe's indecision is a result of a deep rift between Berlin and Paris. Berlin has traditionally backed a rules-based eurozone in which every member state is responsible for its own finances, including bank bailouts, with political union limited to a fiscal overlord's possessing veto power over national budgets that violate the rules. Paris and Rome, cognizant that their deficit position would condemn them to a slow-burning recession under such a rules-based political union, see things differently.

It was in the context of this standoff that Mr. Schäuble felt that accepting an alternative plan for Greece's recovery, in place of the troika's program, would weaken Germany's hand vis-à-vis the French. Thus little Greece was crushed while the elephants tussled.

We had such a plan. In March, I undertook the task of compiling an alternative program for Greece's recovery, with advice from the economist Jeffrey Sachs and input from a host of experts, including the former American Treasury Secretary Larry Summers, and the former British chancellor of the Exchequer Norman Lamont.

Our proposals began with a strategy for debt swaps to reduce the public debt's burden on state finances. This measure would allow for sustainable budget surpluses (net of debt and interest repayments) from 2018 onward. We set a target for those surpluses of no more than 2 percent of national income (the troika program's target is 3.5 percent). With less pressure on the government to depress demand in the economy by cutting public spending, the Greek economy would attract investors of productive capital.

As well as making this possible, the debt swaps would also render Greek sovereign debt eligible for the European Central Bank's quantitative easing program. This in turn would speed up Greece's return to the money markets, reducing its reliance on loans from European institutions.

To generate homegrown investment, we proposed a development bank to take over public assets from the state, collateralize them and so create an income stream for reinvestment. We also planned to set up a "bad bank" that would use financial engineering techniques to clear the Greek commercial banks' mountain of nonperforming loans. A series of other reforms, including a new, independent I.R.S.-like tax authority, rounded out our proposals.

The document was ready on May 11. Although I presented it to key European finance ministers, including Mr. Schäuble, as the Greek Finance Ministry's official plan, it never received the endorsement of our own prime minister. The reason? Because the troika made it abundantly clear to Mr. Tsipras that any such document would be seen as a hostile attempt to backtrack from the conditions of the troika's existing program. That program, of course, had made no provision for debt restructuring and therefore demanded cripplingly high budget surpluses.

The fact that few people ever got to hear about the Greek plan is a testament to the eurozone's deep failures of governance. If the "Athens Spring" — when the Greek people courageously rejected the catastrophic austerity conditions of the previous bailouts — has one lesson to teach, it is that Greece will recover only when the European Union makes the transition from "We the states" to "We the European people."

Across the Continent, people are fed up with a monetary union that is inefficient because it is so profoundly undemocratic. This is why the battle for rescuing Greece has now turned into a battle for Europe's integrity, soul, rationality and democracy. I plan to concentrate on helping set up a Pan-European political movement, inspired by the Athens Spring, that will work toward Europe's democratization.

Naturally, this will take years to bear fruit — years that Greece cannot afford. In the meantime, I shall continue to promote our plan for Greece's recovery as a true, viable alternative to the troika's impossible program.

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