

EU ECONOMICS MEETS DEMOCRACY

AN INTERVIEW WITH
YANIS VAROUFAKIS

The architecture of the European Union institutions is flawed. Its leaders seem to deny the ineffectiveness of the response given to the financial and economic crisis as we see inequality and extremism on the rise. The European Union will be unprepared for the next crisis unless it profoundly reforms its governance and enhances democracy.

GREEN EUROPEAN JOURNAL: Today in Europe we see it being bashed, mistrusted, and loaded with negative emotional charges. Why? What do you think are the big disintegration forces at play today in Europe?

YANIS VAROUFAKIS: The European Union is a construct which was simply not fit for purpose. The design – from an economic perspective – of the single market, and especially the common currency that was grafted upon it, is such that it was always going to be incapable of responding to a global financial crisis like that of 2008. And in exactly the same way as the Gold Standard in the 1920s, it created macroeconomic and financial imbalances which then burst under the pressure of the Wall Street collapse in 1929, and the established order of Europe. This is precisely what we are facing again. The response of the EU today to the inevitable crisis is one of permanent denial. To put it in slightly more general terms, when a crisis happens in the US, as acute as in 2008, the powers that be – bankers, the Federal Reserve, people from the treasury, corporations – they ask themselves a basic question: how can we stop this crisis from consuming us?

In Europe, after October 2008, the question asked was: how can we continue to pretend that the rules of the Eurozone can be respected? The answer to this question is not going to help overcome the crisis, it deepens it. It's like giving cortisone to a cancer patient. The denial of

the problem means that you perpetuate failed policies which create bad economic outcomes. At the same time, the political capital that has been expended on those policies means that there is an inertia and a need for the institutions to carry on with these policies. But the only way to carry on with these policies that are failing is to increase authoritarianism, so you have this negative feedback effect of mutual reinforcement. Is it any wonder that, as these processes are unfolding, the peoples of Europe are turning against the EU?

Of course, Europe is, and always was, a lot more than an economic project, but it began as an economic community, on top of which Europeans grafted their dreams of unity and shared prosperity of a political union: an end to war, peace, and common objectives.

After 2010 with the Euro crisis, Europe evolved, Merkel moved away from the no-bailout mentality and we have been having an institutional revolution. This is true, in a sense: the European Central Bank (ECB) has been doing a lot of things it was not doing before. We created the European Financial Stability Facility (EFSF); we created something called the banking union, and yet, in this institutional revolution every move has been in precisely the wrong direction. It is completely true that there have been many institutional developments in Europe, and indeed, if there weren't, then the euro would have collapsed.

Let's take the EFSF and the bonds it issued to finance the bailouts as an example. Recall the collateralised debt obligations (CDO) that led to the collapse of Lehman's and of the financial sector. The CDOs were pieces of debt containing lots of sub-debts each with different default probabilities and interest rates. But these probabilities and rates were correlated. This correlation caused the domino effect. And this is exactly how the EFSF bonds and bailouts were constructed in the Eurozone. We created a new toxic institution! Implicitly, intrinsically, and embedded within the EFSF was a domino effect; the process of disintegration. Similarly with the Banking Dis-Union that we called a Banking Union. We have a saying in Greece: to baptise meat as fish in order to eat it during Lent.

Why is it such an ill designed system?

YANIS VAROUFAKIS: There is an architecture in Europe, and the powers that be can't accept that that architecture is not fit for purpose, and they want to preserve it in spite of this. But they even disagree among themselves. The reason the Franco-German axis is falling apart is because we have an economic structure which has imploded. The key to answering your question is this: German and French Ministers of Finance, Mr Schäuble and Mr Macron, for instance, fundamentally disagree on what design is needed to replace the current model. And while the two elephants in the room are clashing, the mice suffer and,

instead of fixing the architecture, they buy time putting plaster on the cracks. It is a political failure. And this is where we, progressives from Europe and Europeanists, must come in, because these two will never get it together.

Starting from scratch?

YANIS VAROUFAKIS: No, we should never start from scratch. There has to be a radical confrontation with the powers that be. There are a lot of things that we should preserve, but we should move away, both from the French, Italian and Spanish elites' posturing, and also from German ordoliberalism.

So disintegration for you is endogenous. We put layers of plaster on the cracks.

YANIS VAROUFAKIS: Yes. We need to step back, to have a holistic approach. This is what we have not done in Europe. And we can do that.

And why do anything at all? Why not stop it here and go back to national borders?

YANIS VAROUFAKIS: In Indiana Jones, when he rushes into a temple, the path behind him on which he has been running begins crumbling, and that path doesn't exist anymore. You cannot backtrack or reverse. In exactly the same way, if Greece had not joined the EU or not joined the Eurozone in particular, we would not have had the good growth of the 1995 to

2008 period which gave rise to the economic crash. There would have been around 1% steady growth year-by-year throughout that period, like Bulgaria, and in 2008 there would have been a small recession. Within eight to ten months we would have recovered and continued slowly and steadily growing in spite of all of our corruption and faults. Greece would not have been in the news and would not be in the great depression that it is in now. But, given the choices that we made and the position we find ourselves in now, if we go out of the EU, we would have a major catastrophe.

Let's suppose we go back to nation states and we have free trade and a new forms of cooperation. If we disintegrate and go back to this, there's going to be a huge fault-line running across the Alps and up the Rhine. Germany is going to create a currency, but because it is so integrated with the Netherlands, Slovakia, the Czech Republic, they will share the same currency. This will create a space around Germany that will stretch to the Baltics and the edge of Ukraine. That currency will go through the roof immediately because there will be a capital flight into the currency area. You will immediately have 10 million unemployed people in that area. People who are now in precarious employment, but employed nevertheless, in these surplus countries, will be very soon unemployed, and that is a toxic development. The only beneficiaries that come out of that will be the political monsters.

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So the next step for you would be to have a common banking system?

YANIS VAROUFAKIS: If you want to change the treaties in order to stabilise Europe: forget it. Before that, we need to stabilise the current situation: imagine, tomorrow, in Brussels, a press conference held with the presidents of the European Council, the ECB, the EIB (European Investment Bank) and the ESM (European Stability Mechanism). They announce a new policy including four components: investments in green energy and sustainable technology to the tune of 6% of euro GDP every year; secondly, a policy for public debt; thirdly, a policy for banks; and fourthly, a policy for alleviating the poverty crisis. All together this would form a sort of New Deal. Everything I propose, that would come out of this hypothetical press conference, is already written in the existing treaties.

The first announcement would be that the Council agrees for the EIB to manage this expenditure of 6% on green energy and sustainable technology. How would it be funded? By the EIB issuing bonds on its own – no co-financing by Member States; they're bankrupt or fiscally stressed. Let's say they issue all these bonds, but remember next to the president of the EIB is that of the ECB standing by the secondary markets, waiting to purchase any bonds if the yields start going up. The ECB has 80 billion to do it. But EIB bonds are not government bonds, they're owned by everyone in Europe – effectively, it's the only euro-bond we have and it is completely within the charter of the ECB. So that's how we deal with investment. And I can assure you, these bonds will sell like hot cakes.

On debt, the announcement by the presidents of the ECB and the European Council would be that the debt of Member States are to be rolled into two parts. The master compliant part, the 60% of GDP allowed and the rest. The master compliant part will be from now on serviced by the ECB, not by printing but by issuing ECB bonds on behalf of the Member State. So effectively the ECB acts as a go-be-

tween for the money market and the Member State. So we use the ECB as a midway for the part of the debt that we are allowed to have, so we are strengthening Maastricht. It's like telling Member States that they will be penalised for every euro of debt they have over that limit, so we strengthen the rules, we do not do away with it. That way, 35% of the present value of Eurozone Member State GDP goes away and if you go away with 35% of the debt value, then the debt crisis goes away.

Third, the presidents of the ECB and ESM are sitting next to each other. When a bank is drenched, and needs to be recapitalised, the national government has the right to say that it will not touch the bank. Immediately, the following process would start: the ECB fires the board of directors and appoints a new one, without any member coming from that country, to break the cosy relationship with politicians. The ESM, under new management, and under Single Supervisory Mechanism and the ECB, recapitalises the bank and in return gets its shares. So the European taxpayer puts money in the bank under new management that the ECB decides and in return gets the shares. Within two years the taxpayer must get its money back. This way, you would have a new Eurozone jurisdiction for banks that opt out of the Member State banking system. This is a step-by-step banking union.

The last announcement concerns the creation of something that we borrow from the New Deal in the US and the Great Society of Lyndon Johnson, which is the food stamp system. In the US, poverty exists, as we speak, at 15%. It is clear that without them poverty would be 25% or more. So food stamps alleviate poverty by 10%. We need something similar, but the question is how you finance it. In the US they have the treasury. In the EU we have the European system of central banks. Every year, a lot of money accumulates in this system.

You have talked about disintegration while putting proposals forward. But what about democracy in all this? Can democracy be the core of a political project?

YANIS VAROUFAKIS: Yes, and I would go further. It is the only chance of putting the brakes on the disintegration of the EU and rise of the far-right. Think about it: democracy is not just a process or a mechanism. It's the idea that those who are in command are the demos, the people, the majority who happen to be the disenfranchised, the least powerful. Democracy is of course more than majoritarianism. It is also about rule of law, separation of powers and safeguarding minority rights, and all those things that are today in Europe being thrown out of the window.

What kind of democracy are we talking about?

YANIS VAROUFAKIS: Democracy is a combination of majoritarianism and rule of law and respect for individual rights. You cannot pick and choose. It's all or nothing. If you have a group of misanthropists, there is no system of government that can produce results. There is no doubt about it. The only reason that ultra-nationalism is raising its ugly head is because Europe is failing and because it has annulled European democracy in the centres of power. And whenever you do that, and you combine negative interest rates and inflation in some parts of the Union, then, just like in the 1930s, the scapegoating phenomenon will emerge. People will need to point fingers at somebody tangible next to them – they cannot understand an abstract concept like inflation or the capitalist crisis – so it's the Jew, the Greek, the German, the Syrian, the Other, that gets scapegoated.

One of the things you offer as a solution, and you talk at length about it, is transparency. We have talked about a democratic deficit since the first European Parliament in 1979. How do we solve that, concretely?

YANIS VAROUFAKIS: What is possible is systems of transparency. To connect cameras inside the Council of the EU with the internet and smart phones, so you know what is being said. This is the first step we need to take in

order to reenergise dialogue and debate in Europe. We need some checks and balances on our representatives within the existing framework. This can happen as of tomorrow. The next step is to stabilise. Afterwards you can have a press conference and it would inject a huge level of optimism, and suddenly the European agenda would be back, and the dream of shared prosperity would reappear. Negative expectations can cause an immediate relapse, but positive expectations can cause an immediate recovery. And after a year, we can start discussing how to institute a constitutional assembly, to come up with an EU constitution that replaces the treaties and creates a proper federation.



YANIS VAROUFAKIS

is a Greek economist and was Member of the Parliament of Greece between January and September 2015. In 2015 he was Minister of Finance and voted against the terms of the third bailout package for Greece and resigned in July 2015. In February 2016, Varoufakis launched the Democracy in Europe Movement 2025 – DiEM25. His most recent book is entitled *And the Weak Suffer What They Must? Europe's crisis, America's economic future.*