A Modern Greek Tragedy

Adam Tooze, New York Review of Books, March 8, 2018

Adults in the Room: My Battle with the European and American Deep Establishment
by Yanis Varoufakis

On January 25, 2015, after five years of debt crisis and economic and social decline that left half the country’s young people unemployed, the Greek electorate handed power to the most radical coalition to govern a European country in decades. Under the leadership of the youthful Alexis Tsipras, the Coalition of the Radical Left (Syriza) won 36.3 percent of the vote, qualifying it for the fifty-seat bonus awarded to the party with a plurality. To the horror of bien pensant opinion in Berlin and Paris, it chose as its partner in government a right-wing nationalist party, the Independent Greeks (ANEL).

In Greece the left was jubilant. The memory of the heroic anti-Nazi resistance, the civil war, and the students who rose up against the dictatorship of the colonels in the 1970s was vindicated. Syriza was the toast of the radical chic from Berlin to Brooklyn. Centrists were bemused. Had such left-wing enthusiasm not had its day? NATO hawks were up in arms. With Ukraine and Syria in mind, columnists fretted over Syriza’s possible ties to Moscow. The oligarchs who controlled much of the Greek media were on the warpath. Tens of billions of euros fled Greek bank accounts.

Meanwhile, Greece’s new finance minister, the ferociously charismatic and thoroughly Anglophone Yanis Varoufakis, became a global celebrity. His glamorous lifestyle, motorcycle, and tight T-shirts delighted the media. In Brussels, European officials still fume about his disruptive impact on their staid proceedings. In Greece he would face charges of treason. The appearance this fall of Varoufakis’s memoir, Adults in the Room, stirs old memories. The legendary Greek-French filmmaker Costa-Gavras has pronounced himself so “enraged by the violence and indifference of the Eurogroup members [i.e., the eurozone finance ministers], especially the German side, to the…unsustainable situation in which the Greek people live,” that he will turn Varoufakis’s exposé into a film.

1. The financial situation Syriza and Varoufakis inherited in January 2015 was dire. The outgoing conservative government of the New Democracy party had failed to satisfy the demands of the troika of Greece’s creditors—the International Monetary Fund (IMF), the European Central Bank (ECB), and the European Commission (EC). As Tsipras and his cabinet took office, the EC was withholding €7 billion that Greece urgently needed to make payments on debts owed to the IMF and the ECB.

The Syriza administration did not dispute the need for reform. Indeed, it was far less entangled with Greece’s old corruption than were the established parties it displaced. But Syriza demanded that it be allowed to put a priority on the Greek social emergency and that it be treated as a government among governments, not as an object of the troika’s administrative discipline. Most
fundamentally, Varoufakis insisted, the creditors had to acknowledge the obvious fact that the restructuring of Greece’s debts in 2012 had been inadequate. At over 170 percent of the country’s GDP in 2015, the debts were unpayable. They needed to be rescheduled and reduced. Varoufakis suggested separating out the cost of recapitalizing Greece’s banks or linking debt service to future economic growth. In any case, before Syriza would make further rounds of painful social and economic changes, Varoufakis demanded a promise of long-term sustainability.

For six months the Syriza government held out, demanding changes to the Memorandum of Understanding with the troika. To bolster its position, on July 5, 2015, the government staged a referendum in which 61 percent of Greeks voted to reject the creditors’ terms. France and Italy might have been willing to grant concessions, but a bloc of conservative Eurogroup members, led by Germany, took a hard line. Although the IMF publicly declared that Greece’s debt was unpayable, the EC, the ECB, and Germany held firm. Rather than face expulsion from the eurozone, after a draining marathon of negotiations, on July 13 Prime Minister Tsipras accepted further concessional loans in exchange for another round of troika discipline. There was no debt writedown, only the promise that one might be considered at a later date.

The hashtag #ThisIsACoup spread across Twitter. Jürgen Habermas proclaimed in an interview that Germany had forfeited any claim to moral authority. The intransigent Greek far left split away to form a new party, Laiki Enotita (Popular Unity). Varoufakis resigned in July and in February 2016 launched his own pan-European movement, DiEM25. Meanwhile, Tspiras lost his majority and was forced to call new elections. But the Syriza story was not over. On September 20, 2015, Tspiras was reelected. In the face of immense external pressure, he remains in power today.

Even the party’s most severe critics acknowledge that the survival of the Syriza government is a remarkable feat. But is it any more than that? The European mainstream welcomes the humbling of the radical left and looks forward to a future in which a tamed Greece may finally be released from its debt program. For many of the left-wing activists who rallied to Syriza’s cause in January 2015, Tspiras presents a sad spectacle. His government is yet another example of social-democratic betrayal, a repeat of the cycle that brought ignominious electoral defeat not just to the Panhellenic Socialist Movement (PASOK), which before 2015 had been one of Greece’s two major parties, but also to French, Dutch, German, and British socialists. Not everyone on the left shares this view. Syriza retains the loyalty of articulate spokesmen such as Costas Douzinas, another Greek expat academic and member of the Greek parliament, who rejects any thoroughgoing condemnation of the party. For Douzinas the Syriza project was always multipronged and must be judged accordingly.

The recalcitrant working-class culture of Syriza’s strong labor wing, rooted in the docklands of Piraeus and northern Thessaloniki, is far removed from the globe-trotting, cosmopolitan milieu of Varoufakis and Douzinas, but also from the Marxist intellectualism of Popular Unity. But Syriza is also a party of the rainbow coalition. It is committed to environmentalism, prison reform, and LGBT rights and seeks a humane solution to the refugee crisis. Though the government’s resources are pitiful and the “deep state” is profoundly uncooperative, these are the issues on which Syriza has made the most difference, at least by holding at bay far worse
alternatives. But to operate with any real freedom the Greek government needed to do more. It needed to loosen the troika’s financial discipline. Above all it needed to achieve debt reduction. It was on this front that Varoufakis’s battle was fought and lost.

If one asks European officials, the consensus is harsh: Varoufakis was a self-aggrandizing time waster who helped ruin the Greek economy before Tsipras got rid of him. The hard-edged intellectuals of Popular Unity agree that Varoufakis was as much a part of the problem as he was a part of the solution. They also agree that it was a mistake for Syriza to have haggled with the eurozone creditors. Their preferred option was for Syriza to have broken with the creditors from the beginning. A “rupture,” an exit from the eurozone, in January or February 2015 might have sustained the momentum of Syriza’s election victory.

The opportunity for a break was there. Germany and its allies seemed ready to countenance immediate Grexit. But on February 20, Varoufakis thought that he had found the basis for a serious renegotiation of terms. Days later it was clear that the creditors had no intention of making the least concession. Why did the Greek government not simply walk away? Why did it stay at the table in a doomed attempt to reason with the Eurogroup? Given his identification with the left, Varoufakis is haunted by these questions. It is the struggle to answer them that makes his frank memoir not only engrossing but an important contribution to the library of modern politics, as a case study in the limits of radicalism and the forces that hold the status quo in place.

2.

To understand Varoufakis’s motivations, we have to understand how he defines what was at stake in the battle between Greece and its creditors. For many on the left, the struggle was between the “forces of capital” and democracy. That made a good rallying cry. But it is far from the situation that Syriza actually confronted in 2015. Due to the 2012 debt write-down, when Syriza took power three years later only 15 percent of Greece’s debts were owed to banks, insurance funds, or hedge funds. Eighty-five percent were debts to official agencies and other European governments. The struggle was not with the capital markets but with official creditors and the other national governments assembled in the Eurogroup.

Disconcertingly for the left, Varoufakis turned the tables. Rather than confronting “capital,” he started the negotiations by going to London to reassure the remaining private holders of Greek debt that their interests would be protected. Cultivating the Anglophone media, Varoufakis pitted market rationality against the conservative dogma of the creditors who demanded that Greece pay the unpayable. His aim was to align global business opinion with the Syriza government in demanding a fresh start for both Greece and Europe.

But this invites the question: How had the eurozone crisis become so confused? The creditors pointed to decades of Greek financial incontinence. It was a mistake to have admitted Greece to the rich club of the eurozone in the first place. On the need for domestic reform, the radicals of Syriza did not disagree. Their discredited predecessors had presided over a shambles from which the Greek upper class profited more than anyone. But for Varoufakis, the real origin of the eurozone imbroglio was to be found not in Greece but in the creditor countries. The huge losses suffered by German, French, and Benelux banks between 2008 and 2009 forced their
governments into ruinously unpopular bailouts. Twelve months later, when the Greek crisis hit the headlines, it was the same German, French, Dutch, and Belgian banks that were on the hook.

In order to avoid a comprehensive restructuring of their banks, the governments of Northern Europe decided to, as they viewed it, rescue Greece. They funneled funds to Athens, most of which then flowed back out to Greece’s creditor banks in Northern Europe. The troika staffers who swept through Athens in what Varoufakis calls their “convoys of Mercedes-Benzes and BMWs” were claiming to bring rational reform to a backward Greece. In fact their program was illogical. It was neither sustainable for Greece nor did it deliver stability for the eurozone. Its ultimate rationale, dictated by political convenience, was to give Northern Europe a roundabout bank bailout.

Extending Greek debts and pretending that they were payable became the basic modus operandi of the eurozone. It is this pattern of denial, which persists today, that Varoufakis repeatedly encountered when negotiating with his European counterparts. In private, government ministers, EU commissioners, and IMF economists would agree that Greece’s debt had to be restructured. But once in public they reverted to the familiar mantra that Greece must prove its “credibility” by “reforms” and “savings” that tore apart the social fabric of Greece and wrecked its economy.

Beyond the self-serving logic of a bureaucracy bent on preserving its own authority and control, what wider purpose has this strategy served? It is essential to the interpretation of the crisis offered in *Adults in the Room* that this question has no clear or good answer. In Varoufakis’s rendering, Europe’s “bailoutistan” is a madhouse, an Alice-in-Wonderland world. It is propelled by the narrow self-interest of politicians, oligarchs, and small-minded technocrats. It is perpetuated by the exclusion and opacity that define the “black boxes” of modern power networks. But the system in its entirety lacks all logic. Greece, Europe, and the world economy would all be better off if the eurozone would sort itself out.

This conclusion ultimately justified Varoufakis’s determination to negotiate. Perhaps, with his brilliance and clarity, and armed with his personal proposal for an overhaul of the eurozone, little Greece and its left-wing government would lead Europe out of confusion and impasse, back toward freedom and prosperity. Not for nothing did Christine Lagarde of the IMF once tease Varoufakis that he sounded like John Maynard Keynes. She apparently did not mean it as a compliment.

It was certainly a bold gambit. What Varoufakis does not openly contemplate, even in his memoir, is the alternative. What if there was no misunderstanding, no muddle? What if there was method to the apparent madness of the eurozone’s actions? Only in passing does Varoufakis allow his readers to glimpse that grimmer scenario. The most important flash comes early on in the book, during his first encounter with Angela Merkel’s finance minister, Wolfgang Schäuble. To Varoufakis’s surprise, Germany’s elder statesman did not dwell on day-to-day affairs. Schäuble wanted to talk about more fundamental issues, particularly the cuts that Europe had to make to its welfare state for it to compete with India and China.

Varoufakis was ready with the standard progressive answer. If welfare costs are the issue, the obvious solution is to raise wages and welfare benefits in the emerging markets, such as those of
India and China, not to lower those in the advanced economies. But Schäuble was unrelenting. As Helmut Kohl’s interior minister during reunification, he had had a hand in winding up the German Democratic Republic’s economy. If Western Europe did not make the necessary adjustment, Schäuble opined, it would follow the Communist Eastern bloc into oblivion.

Once again Varoufakis had a quick comeback. To compare Greece’s welfare state with communism was tendentious. The democratic socialists of Syriza had as much in common with the GDR as Germany’s ruling Christian Democratic Party (CDP) did with General Pinochet’s dictatorship in Chile. Tired of arguing, Schäuble backed off, leaving Varoufakis to congratulate himself on having disposed of his opponent’s anachronistic views. In retrospect Varoufakis is so anxious to convince us that he won the argument that he fails to convey Schäuble’s message: restructuring first Germany and then Europe was a historic project that would not stop at the behest of a radical left-wing government in Greece.

At the height of the crisis—between 2010 and 2012—there was indeed a spectacular confusion in the eurozone that might have been resolved by means of a grand bargain. But even then, the idea that the solution could have come from Greece was fanciful. In 2012, it took the combined weight of France, Italy, Spain, the European Central Bank, the European Commission, and the Obama administration to convince Germany to accept the ECB’s commitment to do “whatever it takes” to save the eurozone. What emerged in the aftermath of that crisis was neither a muddle—as Varoufakis suggests—nor a conspiracy. Europe’s political economy came to be dominated by the “reform” project first launched by Germany’s main political parties in the early 2000s, which centered on labor market liberalization and fiscal consolidation.

This project was motivated by the lessons from the aftermath of communism and the perceived pressures of globalization—precisely the themes that Schäuble was harping on and to which Varoufakis turned a deaf ear. In 2015 no one in the Eurogroup wanted to revisit the mess of 2010–2012, certainly not at the behest of a Greek government that rejected the entire premise on which the eurozone had finally been stabilized. Why should the Eurogroup make concessions to such a government in Greece when they had been denied to far more cooperative partners in Ireland, Portugal, and Spain? If Greece was still struggling, what it needed was not radical experimentation, but more reform. First of all, Syriza would have to be ground down.

Europe’s bureaucrats are masters at the dark arts of prevarication and obfuscation, and the ramified and opaque structure of the EU offers them every conceivable device for diversion. One favorite maneuver in 2015 was to ping-pong Greece back and forth between the national governments assembled in the Eurogroup and the institutions that make up the troika. When Varoufakis attempted to cut a deal with Schäuble, the German would refer the Greeks to the “institutions.” Following this lead, Varoufakis would then enter into amiable discussions with the European Commission. Assuming he had an agreement, he would then arrive at the Eurogroup, where the Commission would be overruled by a conservative bloc of national governments, led by Germany. Varoufakis’s efforts to propose “constructive” modifications of the troika program were met with silence. As Varoufakis discovered, it is a breach of protocol in the Eurogroup to present formal proposals, since doing so would require that national parliaments be notified. It might even require that the status of the Eurogroup be clarified. Already prepared and overly
substantive contributions from those actually attending the Eurogroup meetings are therefore frowned upon.

Seeking an escape from the claustrophobia of the EU, the Syriza government went beyond it. The old left wing of the party looked to Russia. Varoufakis, with an eye to the shifting balance in the twenty-first-century economy, sought to make a deal with the Chinese. But from Moscow and Beijing, Greece received the same answer: you must come to terms with Germany. The same message came from Washington.

Varoufakis leans toward Britain and the US. His closest advisers were Americans: James Galbraith and Jeffrey Sachs. Adults in the Room starts with a Chandleresque description of an encounter in a D.C. bar with Lawrence Summers, whom Varoufakis invokes as a remote but authoritative mentor. When Syriza took office, Obama made sympathetic comments. But when Germany made its position clear, the US pulled back. As one American official told Varoufakis, Washington would not meddle. Greece belonged in Germany’s “sphere of influence.”

3.

Did Greece have any way of breaking out of Germany’s grip? The common criticism of Varoufakis’s period in office is that he was an intellectual who took the knife of logic to a political gunfight. He was ill equipped from the start. Adults in the Room is at pains to show that this interpretation is mistaken. Varoufakis insists that he had prepared a response in case his efforts to negotiate a debt write-down with Germany failed. Indeed, it was only because he had this weapon on hand that he was willing to accept Syriza’s invitation to become finance minister and to enter the labyrinth of negotiations in the first place.

The plan that caused a scandal in the summer of 2015 and earned Varoufakis notoriety was a scheme to replace the euro with a new drachma. That scheme was in fact little more than due diligence, a reserve measure Varoufakis held on to in case the negotiations took the worst possible turn.

The far more dangerous weapon was one that Varoufakis proposed to direct against the European Central Bank. In a coincidence that would prove fateful, three days before Syriza was elected in January 2015, the ECB’s president, Mario Draghi, announced a new policy of quantitative easing for the eurozone (purchasing bonds in order to reduce interest rates). Long resisted by Europe’s monetary conservatives, notably in Germany, this was the ECB’s way of keeping deflation from spreading to Europe from the ailing emerging-market economies of Latin America and Asia.

By buying sovereign and private bonds, the ECB propped up their prices, pushed interest rates down, and flushed hundreds of billions in euro liquidity into the financial system. The primary aim was to stimulate the eurozone economy, but quantitative easing also had political ramifications. As long as the ECB kept buying their bonds, Spain, Italy, and Portugal were immune to contagion from the uncertainty surrounding Greece. Quantitative easing thus deprived Syriza of one of its chief bargaining weapons. Ironically, it was the ECB’s action—made in defiance of the conservatives in the Eurogroup—that freed those conservatives to lay siege to the left-wing government in Athens. They could force Greece to the brink of a disorderly Grexit
without fear of destabilizing the rest of the eurozone and fight Greece’s political contagion without having to worry about the financial kind.

The response that Varoufakis devised to break out of this siege was truly Machiavellian. Draghi’s bond-buying had a fragile political and legal basis. The German Supreme Court and the European Court of Justice had only grudgingly approved it after repeated legal challenges by German right-wing euroskeptics. What Varoufakis proposed was to unhang that delicate legal and political equilibrium. To do so Greece would default on the Greek bonds that the ECB had purchased in 2010 and 2011 during earlier rounds of bond market stabilization. That part of Greece’s sovereign debt had not been written down in 2012. The bonds were under Greek law. Their face value was roughly $33 billion. If Greece defaulted on all or part of those bonds, the ECB would be forced to reevaluate its entire portfolio of eurozone sovereign bonds, and the door would be thrown open to a new legal challenge from the German right wing, putting quantitative easing into jeopardy.

Varoufakis had outlined a strategy of this type on his blog as early as 2012. It was vaguely hinted at in the press in 2015. But Adults in the Room gives the first full-fledged account of his intent. Varoufakis wants us to know that whatever we may think of his bargaining tactics, he was not so naive as to go into the Eurogroup negotiations unarmed. The question is why his weapon was never used.

The answer turns on the cabinet politics around Prime Minister Tsipras. Conservative elements in the Greek state bureaucracy put powerful pressure on Athens not to break with the eurozone. They were joined by members of the Syriza coalition that had too much at stake in the status quo. When Varoufakis and his team were absent from Greece, Tsipras fell under the influence of more cautious advisers.

In April Varoufakis was dispatched to Washington with orders to inform the IMF of a pending default on Greece’s latest debt payment. But when he arrived in Washington his orders were revoked. Repeatedly, Tsipras shrank from the ultimate confrontation. By May he had succumbed to pressure from Germany to remove his troublesome finance minister from the front line of the eurozone negotiations.

Varoufakis gives an engaging picture both of the palace politics within Athens and of his desperate willingness to believe in Tsipras’s historic mission that held him in place. What he does not discuss are the wider implications of his proposed strategy of confrontation with the ECB, notably its likely repercussions for the other stressed peripheral borrowers. Had Greece defaulted, it is hard to say whether the loss would have been inflicted on the ECB or merely on the Greek central bank. But as far as Portugal, Spain, and Italy were concerned, the Greek strategy carried considerable risks. The entire point of Varoufakis’s proposal was to put them in harm’s way and to widen the Greek crisis, thereby forcing Draghi and the Germans to back off. His plan was to deliberately unleash a civil war in Europe over the one promise that since 2012 had been holding the European currency together—Draghi’s commitment to do “whatever it takes”—thus exposing the other weaker eurozone members to the full force of the bond markets.
How this would have worked out politically and what consequences it might have had for the left in Portugal and Spain are not questions that Varoufakis takes up. That he even considered such a tactic points to the extraordinary pitch of tension that eurozone politics had reached. Given Greece’s subordinate position, it would be bombastic to call his scheme a “nuclear option.” But it was certainly a dirty bomb.

4.

From its inception after World War II, the European Union has always been marked by a combination of high ideals, economic logic, and power politics. The balance has shifted over time depending on circumstance. In the early 2000s Brussels preened itself as the capital of the “good Europe”: a prosperous, unified, peaceful Rechtsstaat of continental scale. It was saccharine. But Europe was making up with soft-power appeal for what it lacked in hard-power clout.

That self-image did not survive the crisis of 2008. The EU today is no longer the “good Europe” of a decade ago. But neither is it the technocratic and neoliberal machine that it is variously caricatured to be. As Varoufakis’s memoir starkly reveals, it has become an arena for a political clash between contending visions of socioeconomic change. As is commonly observed, the EU does not have a democratic constitution. But to harp endlessly on the fact that Europe has no demos is an obfuscation in its own right. Like any large, complex polity, it is made up of multiple constituencies governed by different and conflicting logics. National politics today, whether in Greece, Germany, France, or the Czech Republic, take place within a European force field.

Within that force field, Syriza’s challenge mattered. It still does, as does the lower-key progressive project in Portugal. But both of these challenges are small, weak, and opposed by powerful enemies. The idea that countries like Greece and Portugal have an equal voice in the EU is a pious fiction. To make themselves heard, they have to use means fair and foul. One should not be scandalized by the lengths to which Varoufakis was willing to go. They suggest what he was up against: the dogged determination of the Eurogroup, its conservatism, and also its contradictions.

The divide between the European Central Bank and the factions that influence policymaking in Germany has strategic implications. Europe’s rescue from the acute phase of the eurozone crisis between 2010 and 2012 depended on Merkel and Draghi’s ability to balance the demands of such factions. Varoufakis’s threat to expose the contradictions in that balance was well directed. But it was also dangerous, and for that reason Tsipras pulled back.

Varoufakis clearly considers Tsipras naive for imagining that he could strike a deal with Germany. But Tsipras was at least half right. On the night of July 12, 2015, at the climax of the Greek debt crisis, Merkel did not push Schäuble’s proposal to exclude Greece from the euro for a “time out.” As Tsipras correctly judged, the majority of the Greek population did not want to risk a rupture, and Merkel knew that the same was true in Germany. Tsipras and Merkel struck a deal that would allow both countries to muddle through. The fury of the German right says as much about the nature of that compromise as does the disappointment of the Greek left.
For Germany’s new right, Merkel’s surrender over Greece was a prelude to her impetuous open-door response to the refugee crisis. Both constituted a betrayal of the conservative foundations of the Federal Republic. The Alternative für Deutschland was founded in the spring of 2013 not as a party of anti-immigrant resentment. The “alternative” it purported to offer was an escape from Merkel’s endless compromises over the eurozone. The huge losses suffered by both the Social Democratic Party and Merkel’s CDU in the Bundestag election of September 2017 confirm how deeply the crises of 2015—Greece on top of Ukraine topped by the refugee crisis—shook even the most stable European polity. That the future of Europe now hangs on Merkel’s ability to construct yet another unlikely coalition in Berlin suggests the extent to which the status quo in Europe depends not only on economic interests and technocratic calculations—however those may be defined—but also on the endlessly shifting play of electoral politics and governmental negotiation.

Varoufakis adorns his narrative with references to Greek tragedy mixed with denunciations of the black boxes within which technocracy conceals its power. As far as the eurozone is concerned these are largely beside the point. What he has actually given us is something more prosaic but no less important: a deeply reflective, first-person insight into the workings of modern power and politics.

1. 1


2. 2


3. 3


4. 4