

Roger Strassburg: Can you tell us a little about what Syriza has for plans if it were to get elected, what the platform is. You are an advisor of Tsipris currently?

James Galbraith: I'll start out by qualifying my role. I consider that I'm a friend of the movement for a change of government in Greece, and specifically a friend of Alexis Tsipras. I've been a colleague for the last couple of years of Yanis Varoufakis, who is now running for parliament in Athens at the moment on the Syriza ticket. He was preselected by Syriza for what is the largest multi-seat constituency. The night before the vote in Parliament, where the third round of the presidential selection precipitated this election, I sent a personal note of encouragement to Alexis Tsipras, which they released to the Greek press. So my position is known in Greece.

What is the platform of the Syriza movement? Let me just summarize it without going into the details of the various measures that they propose to take. I think the fundamental point is that the Greek nation has been subjected to conditions for the continuing provision of financing, including the restructuring of the debt in 2012. These were the Memorandums, which are manifestly unsuccessful as an economic recovery program. That point is now abundantly clear to the Greek electorate, which is why the party that has rejected those conditions is in the leading position. So the basic provision of the Syriza platform is that those conditions will no longer be agreed to as a position of the Greek government.

Roger Strassburg: Which means?

James Galbraith: Let me carry on for a little bit on how best to think of those provisions.

The superficial presentation one reads in the press is: financial assistance, but in order to qualify for it you have to make certain reforms, and the point of the reforms is to put your economy back into a position of being competitive and on the path of growth. And that's been going on for six years, and the results are what we see: Instead of a growing economy you have an economy and a society stressed to the point of breaking, with massive unemployment and the emigration of substantial parts of the professional class especially, and the weakening of the core social institutions, education, health care, urban services and everything else to the point where they are actually a barrier to investment and economic success. And you have the impoverishment of large sections of the population, especially the elderly population. It's at every level a failure. Then one has to ask, was there a bona fide program for economic recovery in the first place? And I think it's clear that even if those who argued for this program believed it might produce recovery and growth, these objectives were very secondary or even tertiary considerations in their minds. It is clear that the policies that were specified as a condition were at bottom not recuperative, but punitive in character. Punitive in character against the whole Greek nation, and on an improper principle of collective responsibility for the admitted mismanagement of the affairs of the Greek state by previous governments and by the Greek political class.

Roger Strassburg: Schäuble has said as much.

James Galbraith: Yes. If you read Timothy Geithner's memoir, it's clear that he was very struck by this attitude, which reflected a moralizing indifference to the future of Europe.

Roger Strassburg: That's the attitude of most of the German government and the press.

James Galbraith: That fact was not concealed by them. I'm obviously not one of most the unqualified admirers of Secretary Geithner, but on this point, clearly he had recorded an accurate perception and an admirable reaction to that way of conceiving things.

Roger Strassburg: He was rebuffed by the Europeans.

James Galbraith: Yes, sure he was. So we have it on the record in an irrefutable way that it was a punitive rather than a recuperative strategy. I don't think anybody can really argue otherwise. A punitive strategy that was in place partly because of the interests of creditors in getting assets at fire-sale prices. That's basically a debt collector's attitude. And partly because of the internal politics of the German state at that time, in which a moralizing narrative was politically more useful than a more generous one would have been.

Roger Strassburg: I don't think that's really changed.

James Galbraith: Perhaps not, but it is one of the considerations that went into the implementation of the policy in the first place.

Roger Strassburg: Of course now they can't change that because they've essentially given the public...

James Galbraith: Let's get to the question of whether things can change a little bit down the road. I think one negotiates with people you disagree with. You don't negotiate with people you agree with. We'll just establish this as the starting point for the conversation. In that case, having recognized this, that we're no longer playing the games that the incumbent government at the moment has been playing, of pretending that the policies that you're signing on to are growth and recovery and reform policies when you know that they are simply the conditions for the financial policy of "extend and pretend" that has been underway for quite a long time.

That said, what is the leverage that would be applied to the Greek government if it chooses to recognize this reality and take a different path? In fact the leverage available is not zero, but it's limited to some measures that would be fairly extreme in ordinary conditions. On the one hand, there are certain parts of the debt that should ordinarily be rolled over. Since the debt is now almost all – all the significant parts of it are in the hands of public authorities, the question of whether they would roll it over is a policy question for them. In some sense they have the ability, if they were to choose, to place the Greeks in technical default, but one has to ask what happens under those circumstances, and the answer is, I would think, not very much. If I owe you a note, and

my ability to pay it depends upon your willingness to roll it over, then if you, say, you don't roll it over, and I don't pay you, well, you still hold the note and it's still accruing interest and it's still an asset. It's not an economic issue between us, except that you don't have the cash. But the European Central Bank and other European authorities are not in need of cash. It's not like a private debt. So that's a bit of an artificial question.

And the other point of leverage is the Emergency Liquidity Authority, which backstops the Greek banking system. To cut the ELA would be to pull the plug on the Greek banking system and effectively to force a crisis in the affairs of the Eurozone. If the attitude of the creditors is "my way or the highway", that you can have an election, but you may not change your policies, well then the burden of historical responsibility will be on them. We shall see. However my basic view is that Germany, having been one of the central countries at the origin of the European Union and at the origin of the Eurozone, will wisely not take the step of blowing up the European Union and the Eurozone over an argument about the conditionalities attached to past financial bargains.

Roger Strassburg: That depends on how they estimate the risk that that will happen. I'm not sure how they're estimating it.

James Galbraith: That is, of course, the question, but when you go into a poker game, you don't go in showing your cards. Obviously the German government would like the potentially incoming Greek government to fold its hand. I think they can reasonably expect that the incoming Greek government, unlike the previous Greek governments, won't do that. A major difference is that previous Greek governments had large internal factions fundamentally aligned with the policies of the Memorandum and the Troika. This was certainly true of the Papandreou government. George Papandreou was surrounded by neoliberal fellow travelers. And that won't be true of the incoming government, assuming Syriza wins the election. So the European partners can reasonably expect that the poker game will have to be played for a while. We'll see if it can come to some kind of a reasonable agreement. You have two sovereign countries with a difference of view, and one of them has a very strong case in equity for taking a different route after six years of good-faith effort to make the other route work when it was manifestly not a workable route.

Roger Strassburg: I know Yanis Varoufakis made it very clear about that when we talked to him a little over a year ago. He said that he would simply not pay as long as the conditions weren't right.

James Galbraith: If you look at the Greek government debt in accrual accounting terms, if you look at it under the terms of IPSAS, the restructuring in 2012 was already very fundamental. This is a debt which exists on very long terms at low interest rates, but the most important thing is that it's in the hands of public creditors. The stuff that's in the hands of private creditors can be paid without difficulty, so there isn't a risk of a generalized private credit market debacle. The stuff in public hands is an accounting matter, which has to do with the rules of the Eurozone that you can't actually write down the debt because that would make it too easy to escape from the conditionalities.

In any event the conditionalities are going to be essentially a dead letter once the new government gets its policies in place. Let's just take one example I'm a little familiar with. If you go out to the Greek islands, they each have their own electric power generation station, which is in the nature of islands. They're all monopolies. Do you allow those monopolies to be sold off to foreign investors in order to satisfy your debts, in which case you're putting the residents of each of these little islands at the mercy of a tiny little electric power monopoly? That's from a public policy standpoint not a very good idea. It has nothing to do with economic growth. It has to do with the capacity of what's equivalent to a local landlord to charge an unlimited amount of rent. It's like the city of Chicago selling its parking meters to a private company. It meant that there are no more street fairs in Chicago because you have to pay the company for its lost parking meter revenue. That's not an economic growth strategy.

Roger Strassburg: That's a typical arrangement, though, that's been happening in Germany, as well – Public-Private Partnerships.

James Galbraith: Yes, but that has material consequences, which have nothing to do with economic growth, but a good deal to do with the viability of community life.

And we're talking also about questions about regulations governing the labor market. There might be some negotiating room there. For instance, there's a provision in Greek law, dating from the time of Andreas Papandreou, which limited the fraction of your labor force that you can lay off at any given time. That provision is hard to maintain when a large fraction of your businesses are going bankrupt. So there's some negotiating room about labor market rules. As you go through these things, you say, okay, is there any merit to the substance of the provision, and if not, what's a better provision?

Parts of the Syriza program are to relieve some of the pressure on the most vulnerable parts of the Greek population, people who don't have access to electric power, people who need food in schools. In Greece today there are significant portions of the population which are in serious distress. Dealing with that is a part of the program. It would be nice for Greece to have some more fiscal room to implement changes, but there are significant changes even if there is no effective or very little effective new fiscal room. Greece has already reduced its trade deficit, it's actually running a primary surplus.

Roger Strassburg: The trade deficits have been reduced because of reduced imports, right?

James Galbraith: Yes, it's primarily due to reduced imports, the point being that at the current level of activity, there's not an immediate need for new fiscal resources in order to just simply carry on. And so a leverage over a change of policy in that respect is not going to be decisive.

So that's the basic scene-setting. Then you have the question of what is it that the European Union could do if it were truly motivated by good will to help not only a

partner state in particular, but perhaps more generally, to move from a policy of debt collection and punishment to a policy of stabilization and expansion. That would also, I think, be on the agenda.

Well then we get into the terrain of the Modest Proposal. The Modest Proposal is a proposal for the whole Eurozone, but it would certainly have some applicability to the Greek case. The nature of the proposal has evolved a bit since publication of the last version of the Modest Proposal, thanks to Sr. Draghi and his moves toward Quantitative Easing. A sensible way forward, in which there's been some interest in other governments of Europe, would be to launch a larger investment program through the European Investment Bank and for the ECB to guarantee the price of EIB bonds. Taking account of the fact that the rhetoric of Europe has moved very much in favor of an investment program, and certainly at the rhetorical level Juncker's 315 billion euro program establishes that this is a legitimate need, an important need. But of course Juncker's proposal is not an effective policy.

Roger Strassburg: Is this another matching funds problem?

James Galbraith: It's a leverage problem. In the case of the Juncker program there's only a small amount of public money, and the idea is that this is going to incentivize a large amount of private investment. It's not really very plausible, but let's take the fact that he's acknowledged the need for a program and also has acknowledged at least a fraction of the scale that's actually required. So we've put some large-looking numbers on the table. These are steps in the right direction. Now we can haggle over what it takes to make it work. It's a bit like George Bernard Shaw and Lady Astor. You know that story, right?

Roger Strassburg: No, I don't.

James Galbraith: It's one of the old stories. Shaw turned to Lady Astor at a dinner party and said, "Madame, would you sleep with me for a million pounds?", and she said, "I'd consider it". Then he said, "How about ten pounds?", and she said, "What do you think I am?" Then he said, "Well we've established that, now we're just haggling over the price." Having established that we need the investment program, we can now talk about how to achieve it.

The other item that would be extremely useful for the European Union to act on quickly would be to get some measures for income stabilization and humanitarian assistance for vulnerable populations.

Roger Strassburg: Transfer programs.

James Galbraith: I wouldn't call them transfer programs. I'd call them social insurance programs. Transfer implies that somebody rich is paying for somebody poor. But when you're taking a resource which is presently out of use and bringing it back into use, that's not what you're doing. You're actually stabilizing the social and economic situation in the recipient country at no real cost to the larger European economy.

Roger Strassburg: You're reinstating the insurance programs.

James Galbraith: Yes, exactly. And doing it on a sustainable basis. Unemployment insurance has been discussed as a potential Europe-wide initiative, but you could also have nutrition assistance. I've over the years proposed a few other things, but those two would be immediately practical, and the discussion of how to fund them is in the Modest Proposal.

So I think what one can expect, and I'm not speaking for Syriza in any sense by saying this, and I do want that to be clear, but I think one can expect a constructive negotiating position to be developed by a new Greek government. And a constructive and reasonable one, one that is based on principles that have been applied at every level in the construction of Europe.

The European Union and German Unification were both brought into being on principles of social solidarity and common progress; the Federal Republic in the first place, German unification and the European Union, all constructed on a language of principles of inclusion and solidarity and mutual support.

Roger Strassburg: The Unification was all Germans.

James Galbraith: That was all Germans, yes. But it's okay, it's a principle that has been articulated in Germany, that is understood in the German political community, and that is, I think, the principle on which progress for Europe, or for that matter, the stability of Europe depends.

Roger Strassburg: That would require a lot of convincing. The Reunification was one thing...

James Galbraith: We're not asking for a referendum, a plebiscite in the German population. This is a question to be decided between governments. We don't need to convince people on the principles of this, one simply needs to have an agreement about an acceptable way to proceed.

Roger Strassburg: It's really not that simple in Germany – or anyplace else, for that matter.

James Galbraith: Nobody claims simplicity. Speaking now, as I have been all along, for myself here, I've always as a general rule felt that one negotiates with people you disagree with, not with people you agree with, and you negotiate in good faith. It's an obligation on both sides that you negotiate in good faith, otherwise there's no point in having the negotiation. And I would always choose as a negotiation partner a political authority that has real authority. Certainly the leader of Germany is a person in that position, I would say the most successful and dominant political personality in modern Europe. When you're negotiating, you negotiate with the top person. That makes you more likely to have a favorable result than if you negotiate with someone who is in a very weak internal position, and not able to make changes in policy.

Roger Strassburg: One of those things that's been kicked around for a while, is there going to be such a thing as a United States of Europe, and that's not going to happen.

James Galbraith: It's certainly not part of the Syriza program. The Syriza program is a pro-European program. It is, and I think Europe and Europeans, people are committed to the European project, can consider it a great stroke of luck that there has arisen in Greece, and consequently, partly consequently and subsequently, in Spain, as well as in the present government of Italy, a pro-European set of parties, whose objective is change, constructive change, to make the European project viable. That's in many ways the last line that will be there. If those movements are not successful, then you have the Five Star movement in Italy, and you have, I suppose, the Golden Dawn in Greece. So good luck to you if you go from where we are now to that. And I'm not saying that the Five Star and the Golden Dawn are equivalent, they're not, but they're anti-European.

Roger Strassburg: A little like AfD in Germany.

James Galbraith: I wouldn't even say that. I think that all three are really quite different, but you're going to move toward politics which is much nastier, much more vicious and anti-European in character rather than constructive and pro-European in character.

Roger Strassburg: You have those trends in the UK, as well.

James Galbraith: Of course. So with that in mind, you have here a chance, at least in principle, to create a window of, let's say, constructive hope in the European case.

Roger Strassburg: Do you think Syriza has a chance of winning? I'm asking for your prophetic powers here...

James Galbraith: It's not necessary to hope in order to persevere. It's the motto of William of Orange, I learned some years ago from my friend Bill Black. I maintain that, let's pursue a line as long as there is some prospect of success.

Roger Strassburg: This is the best chance that they've had in, well, ever.

James Galbraith: Yes. As a small "d" democrat I find the situation in Greece quite inspiring because you have here something really very rare in any country in recent years, which is an election in which the public is making a choice that matters. The outcome is not a question of some manipulation among existing political classes, or even the evolution of a previously existing party system, which was the case in Italy. They have a clear-cut choice, and they're making it. This is what democracy should be about. Often it is some very blurry version of that at best.

Roger Strassburg: It appears at the moment that Syriza won't be able to govern without a coalition.

James Galbraith: Yes, I'd agree with that. If you just look at the math of the polls, my guess is that they'd need somewhere up to twenty seats.

Roger Strassburg: Given the bonus of fifty.

James Galbraith: Yes. They'd get a base of eighty, then a bonus of fifty, and then they need up to twenty more, depending on what the actual margin of victory is. And then what actually happens depends on what happens to the representation of the smaller

entities in the Greek system, given the three percent threshold to get into the parliament, so you don't know which of the various other players will be represented and at what numbers. That's all in flux, so we'll see.

Roger Strassburg: It remains interesting.

James Galbraith: Oh, it will remain interesting, but you need to have, say, the acquiescence of twenty members, and if you don't get them, then there's another election. And the typical pattern of a second election is to reaffirm the first, and the electorate can either go forward or backwards. It's generally likely in the second case that you'd get a coalescence of people who say, enough of this nonsense, and move into the Syriza camp.

Roger Strassburg: People will vote for the one more likely to win.

James Galbraith: Yes, exactly. Also, when you have an election, and you have this outcome of where the party which was just a few years ago at very low levels has moved up into the high twenties, and in terms of popular support is the largest single political entity in the country, then the perception of the party and its leader changes. It was just a few years ago, nobody would talk to Alexis Tsipras. He was considered kind of a dangerous figure who should be kept isolated. Then he became the leader of the Greek official opposition, which made him at least a presence on the local scene. And then with the European parliamentary elections he became the largest party, which created a kind of presumptive possibility that he would, that Syriza would win the election. And then there was the question of whether there would be an election, and then it became clear that the government could not muster 180 votes to elect a presidential candidate, and there we are. This is a cumulative, ongoing process.

Roger Strassburg: They now appear to be viable.

James Galbraith: They are, as a political force in Greece, viable.

Roger Strassburg: How is the press treating him. Are they treating him fairly?

James Galbraith: These are tests. I don't begrudge the forces of the status quo their stratagems. I think that there are such things as pariahs in politics. It's not unreasonable to draw distinctions between the mainstream and the fringe, and make it difficult to cross that barrier to become a mainstream political force. Which means, when you have a movement that achieves that, that is something to be taken seriously. It's not a freak phenomenon, it's not something which is achieved easily. It's a process of years. And that's what we've observed in Greece, something which was at one point a minor player of dissidence in a country dominated by New Democracy and PASOK, two very long-established political parties with high dynastic traditions going back to the end of the civil war, and especially to the end of the junta in 1974. And that political order has crumbled, first PASOK, and now you see the relative decline of New Democracy. So something new has emerged.

Roger Strassburg: Isn't PASOK now so low that they may not even make it into the parliament?



James Galbraith: What has happened in PASOK is that George Papandreou has left to form his own formation, and we shall now see what happens there. I'm not actually close enough to be able to judge, but it might be one or the other, Venizelos vs. Papandreou. Or the other two possibilities are that it might be both or it might be neither. We'll see.

Roger Strassburg: Tsipras appears to be somewhat charismatic.

James Galbraith: I've seen him up close on a couple of occasions at important moments where the eyes of the country were clearly on him. I've spoken to him on a number of occasions, he was in Austin at a conference a few years ago, and I have a sense of him as a thoughtful presence in private, and a rather impressive one in public.