Dank einiger unserer Leser, die sich bereits heute Nacht an die Abschrift von **Roger Strassburgs** Interview mit dem Ökonomen **James Galbraith** gesetzt haben, liegt bereits heute ein komplettes Skript in englischer Sprache vor. Die deutsche Version folgt demnächst. Wir möchten uns an dieser Stelle herzlich bei allen Lesern bedanken, die uns ihre Hilfe angeboten haben. Von **Jens Berger**.

NachDenkSeiten: So, we're talking today with Dr. James Galbraith, Professor of economics of the University of Texas at Austin.
James, you just got done with a conference on "The Crisis in the euro zone". There's a lot of people here that I know, they hear a lot about that crisis, they hear that there's a rescue plan – one rescue plan after another – but I think there is a lot of confusion about just what that crisis is. How it got started, and so on. Can you give us some background.

James Galbraith: Yes. We had for two days at the University of Texas at Austin a group of roughly 20 specialists in the area, a very distinguished, articulate and knowledgeable group of people from all over Europe and Europeanists based in the United States. I could tell you that some of the people who were there: Yanis Varoufakis, who was our keynote speaker is one of the most prominent commenters and participants in the debate over the European crisis. Heiner Flassbeck, former deputy minister of finance of the Federal Republic came from Geneva, where he is with UNCTAD. Jan Toporowski of the University of London, Alain Parguez from Paris – a whole series of very interesting and capable people.
In terms of what the group as a whole considered to be the major elements of the crisis: I think first of all there was an understanding that while this is primarily a banking crisis, that this is a crisis of the financial system, it is a crisis which has …. It's major effect is to impose a vast divergence on the patterns of economic performance inside Europe. It is crushing the economies of the European periphery, while having relatively little effects, so far, on, let's say, Germany and her closest neighbors. It is a crisis which is built out of the inadequacies of the European architecture and the underlying ideology that prevailed at the time that the euro zone was created, which has been shown to be plainly inadequate to dealing with the debtor creditor relationships that presently exist inside Europe.

NachDenkSeiten: What do you see those inadequacies as being?

James Galbraith: Well, they are legion, but in some ways it's quite simple. When sustainable debt relationships build up between two partners, there's only two ways of dealing with them. One is for one of the partners can continually refinance, and that is what happens between China and the United States. The Chinese are in no position to demand any change in the form of payment they get. And the other is for the creditors to write down the debt, which is what has happened in, let's say, Latin America, after the crisis of the

1980s. Europe has been resisting both of those alternatives with the result of the attempt to pay the debt crushes the economies of the debtor zones.

NachDenkSeiten: How did this actually get started? We've discussed before the trade imbalances of Germany and other countries.

James Galbraith: Well, that was a major theme particularly of Heiner Flassbeck and of Jörg Bibow, the two participants who are from Germany. And what they showed in a very simple graphic form was that since the origin of the euro Germany has pursued a policy of essentially zero wage growth, zero growth in unit labor costs. So you're having one country that is acting as an outlier in Europe with very low growth of wages. France on the other hand was hitting roughly the targets, two per cent, that were built in to the way that the ECB is conducting business and the other countries were a little bit high, with the result of vast divergence between Germany and everybody else. A vast increase in German competitiveness and a vast increase in the German trade surplus. It's accounting correspondence is the emphasis of accumulating debts in all of the other countries.
So at some level it is the imbalances that give rise to the problems. The imbalances though are not themselves necessarily problematic, the United States has a massive imbalance with China and there is no crisis. It is the difference in the way in which the imbalances are handled. This is the most important thing.

NachDenkSeiten: Most Germans take pride in the fact that they're the so called "Exportweltmeister", the export champion in the world. They feel that that's sort of a sign of German industriousness and they're loathe to try to cut that back. How would explain to them the necessity of balancing it out to some extent? What would you give them as advice to sort of soothe out the effects of that?

James Galbraith: There is, of course, as Richard Parker pointed out in the conference, a certain reflection of the historic protestant ethic in this view, and many ways one has to sympathize with it, German success is the result of having a highly competitive industrial structure.
But a number of points can be made: First of all the process of European integration itself has moved both industry and agriculture from the peripheral countries to the core countries. This is something which is inevitable in the process of integration. It has happened in the United States, it happened in Latin America, it happened in China in the reform process, one aspect of which was removing the internal barriers of trade. So this is an inevitable process, the European Union understood it would occur, and in principle they understood that there should be compensation, compensating flows going in the other direction, that's what the structural funds are for. The structural funds however were totally

inadequate to deal with the scale of concentration of activity that's occurred. So more compensation, more of, and I don't mean that in a valuated sense at all, more offsetting financial flows are required. And the Germans can basically make this happen in one of two ways, or one of three ways, they could of course cut back in their competitiveness, that would be a rather foolish and wasteful thing to do. It's hardly the case that we should have less, fewer or less good German cars. Nobody would would make that argument sensibly. German workers could live better and German retirees could live better, in other words the social wage could be increased. Wages for people, who are not in the competitive industries and who are living substantially more precariously in Germany than was the case 15 or 20 years ago, could be increased. So that's a second possibility, that would increase imports and reduce the amount of the current account surplus in Germany.
And the third possibility is to facilitate financial flows to the countries that are in the debtor position. And that process, which is the recycling of money, can be done, well, there is no operational limit to it. The problem comes when it's done on terms that involve commercial credit and involve interest payments and an eventual prospect of repayment, which cannot be made, because these conditions are not going to change. As long as Germany has a strong industrial base it's going to be the surplus country in the euro zone. It's not going to be the case that there will be, say, in twenty years from now a German deficit and a Spanish, Greek and Italian surplus to offset it. So it has to be offset by either the first two means that I spoke out or by a routinization of the financial flows.

NachDenkSeiten: You mean something like a transfer union?

James Galbraith: Yes, certainly. I mean one way to do it, the United States became a transfer union after the New Deal and especially the Great Society. The New Deal created Social Security, which put pensions in the United States on a continental footing and gave a common standard. The pension payments, Medicare and Medicaid gave a common standard to healthcare provisioned particularly for the elderly and poor Americans. Of course we have a military budget which is regionally redistributed for this greatly supported investment in the south. The New Deal had a large component of regional reconstruction. Tennessee Valley Authority, agricultural adjustment rule, electrification, a whole series of things that basically rebuilt the south of the United States, or built it for the first time and industrialized it and gave that region the standing that it has now as basically an ordinary part of the United States. All of these things were a process of turning a non-functioning bi-regional economy in North America into a single, coherent national entity. And that of course is the process that has not been completed in Europe.

NachDenkSeiten: Partly because of the language barrier?

James Galbraith: Well, I think it's actually because of the national identification and also because of the flawed design of European institutions. The idea that one would keep the social Europe at the national level and have a financial Europe at the regional level is not a workable idea.

NachDenkSeiten: You've been talking at the conference about a paper that was put out recently about how to solve the Euro crisis. People hear, of course, about rescue packages and so on and they are kind of convinced that nothing is going to work and they are going to end up with paying everything in the end and the Euro is going to disappear. What would…

James Galbraith: Sorry, you're breaking up a little bit, can you say that again?

NachDenkSeiten: People are afraid that they're going to be, essentially the taxpayers, are stuck with the bill and this is not going to end anytime soon. If you were asked to present a solution to the euro zone crisis, what would you recommend?

James Galbraith: We spent a good deal of time on that, particularly on Thursday, and had a very strong keynote address from Yanis Varoufakis about what he calls the "modest proposal", which is a proposal prepared by him and Stuart Holland and with substantial backing now from senior former leadership in the euro zone.
That part of the discussion was focused on the very short term question of how one resolves the debt crisis, not necessarily one resolves all of the other structural and architectural issues and the policy issues of the euro zone. But focusing on the crisis the Varoufakis/Holland proposal is essentially first of all to have the Maastricht-compliant part of the first 60% of GDP of all the euro zone countries debt essentially converted into debts that would be issued by the European Central Bank on a common basis at a common low interest rate and yet serviced by individual governments as they are now. That would have the effect of greatly reducing and eliminating to a very large extent the credit market pressures on the euro zone countries.
Secondly, recapitalizing the banking system at the European level and thereby breaking the current quite pernicious link between national banks and national governments.
And thirdly using the European Investment Bank as the source of a program of investment and redevelopment on the ground that this is an institution with a large capacity, a lot of projects on the shelf that it could in fact bring off the shelf if it were not crippled by current co-payment requirements.
All of this was intended to work within the framework of the European institutions, the European law, a kind of minimally sufficient approach to resolving the immediate financial crunch and providing some foundation for economic expansion going forward.

NachDenkSeiten: One of the problems with having the ECB actually doing anything directly, actually loan money directly, is the opposition particularly coming from Germany. Do you understand what's behind that, why there's such an opposition to direct loans?

James Galbraith: There are a number of things here. One is the what is cited as the traditional fear of inflation which is based upon a clearly incorrect view of the consequences of a strategy like this. As we saw in the United States for the Federal Reserve expanded its balance sheet by trillions of dollars, there is no inflationary impact from this kind of purely financial change in arrangements.
There is, beyond that, people who are committed to the previous view of how the European Central Bank should function as a purely monetarist institution, purely focused on price stability, are having a hard time coming to grips with the world in which we actually live. The euro zone would have fallen apart already if the Central Bank had not stepped in to buy bonds which it is now doing, of course, and has been doing for some time.
And I suppose thirdly, there is a question of what adjustment would be imposed on the banking system and people are primarily concerned about that may be using the stated concerns about the European Central Bank which are not really meritorious to support an argument that they're actually making for other reasons.

NachDenkSeiten: People a lot of times ask the question, we certainly ask the question, what is actually the point of having the Central Bank of loan money to banks and they in return loan at much higher interest to sovereigns?

James Galbraith: Well, bankers like that.

NachDenkSeiten: Is there any social benefit to that or financially…?

James Galbraith: Ah, that's a different question. In principle you want to have private bankers in a framework in which they compete with each other in some substantial way making the underwriting decisions for private business. Someone has to do it. Bankers are in principle professionals trained to evaluate business risk and profit potential and decentralization and competition between them are in principle good things. Unfortunately, that is not a description of the banking system that we have.
The problem with the banking system that we have is that it is a compound of regulatory arbitrage, tax avoidance, the packaging and sale of doubtful, and in many cases, fraudulent instruments that originated in the United States and were peddled to European investors in the years before the crash in 2008, and zombie institution whose function is borrowing form the central bank at zero interest rates and lending to governments at much higher interest rates and pocketing the change and then, of course, sitting there in a position where they

need to be bailed out when the bond prices fall. This id, of course, … all of none of this has a particular social utility.

NachDenkSeiten: It is propably a good time to get back to what really started the financial crisis in 2008. The story that has been told here by the German government and german media is essentially that everything started in the US and it came over to Europe all the sudden just out of the clear . Peer Steinbrück, at that time the finance minister, said that. In other words this is not a European proble, this is something that came from the US.

James Galbraith: Of course, a lot of what went wrong did come from the US. We allowed the largest financial fraud in history to develop a housing finance market and allowed the counterfeit mortgages to be laundered and essentially fenced to European investors who were the marks in what was a colossal, an epic scam. However, I think it's also fair to say, that if you look at what was going on in Ireland, there was a qualitatively similar degree of lender irresponsibility… We now know that inside Europe a very qualitatively similar phenomenon was going on for instance in Ireland, with the underwriting of commercial real estate and shopping mall development, this kind of thing. The housing boom in Spain had, at least in macroeconomic terms, a similar characteristic. And one can go down the list.
I think it's fair to say that in all of these credit booms there is an incipient bust taking one form or another and in all cases the responsibility is to be divided between the debtors and the creditors. Sometimes perhaps a little more on the one side, sometimes perhaps a little bit more on the other. But people who have been in the financial sector for any length of time should know that this is the to be expected consequence of a credit driven expansion.

NachDenkSeiten: Getting on to current activities in the euro zone, what's your opinion about what's currently being planned? I mean, it is obviously not working. Do you think that a haircut is a good thing, a necessary thing, a useful thing? I asked you that before and you essentially said that unsustainable debt is unsustainable, it's just a question of who pays for it.

James Galbraith: That's correct and that is my view. I don't see how cutting the Greek debt is going to provide true relief in the Greek economy. What it does is to simplify the management problem facing the Germans and the French by reducing the amount they have to cycle through Greece in order to pay the bond holders on the Greek debt, which they have been doing.
That being so, the losers from the haircut are the Greek pension funds and Greek banks. At least in some nominal sense, the loss of value there becomes recognized and you have an understanding that these assets are going to be worth a lot less than people hope they would be worth.

But it doesn't get to the problem of the Greek economy, which is an economy that needs two things: It needs reform and it needs money, and you cannot have reform effectively without money. If you simply pursue the policy of austerity, the policy of cutting back everything, the policy of cutting back public institutions, schools and hospitals and university and public transport and so on, they just get worse. And the consequence of getting worse is a less competitive economy, not a more competitive economy, an economy less prepared to face the challenges that it faces and one in which the people with fewer opportunities are going to more prone to emigrate.

NachDenkSeiten: So what's your view on the calls for the Greeks to privatize, to privatize much of their public works and so on?

James Galbraith: The ostensible motivation here is to provide money to the Greek government. That's a one-off proposition, because then the revenue stream that the public services may bring in is not going to be available. But at the same time, what's going to happen is that the private companies are going to raise prices and going to raise fees and so forth, or impose fees if the aren't already being imposed. And the access to, let's say, higher education or other services, health services, to the Greek population will shrink dramatically.
So this is not a policy which is going to rejuvenate the Greek economy, it is simply going to reconfigure it, so that it becomes something from which who ever buys these assets at fire-sale prices will be able to make a profit for a while.

NachDenkSeiten: So that really would be a short term thing, not looking too far in the future?

James Galbraith: Well it's not going to provide benefits to the Greek population except to a narrow strata who maintain their fortunes outside the country and would be able to pay for what survives of, these services. It's not a way to run, for example, a public health service, that's truly public in any meaningful sense.

NachDenkSeiten: What's the general consensus among American economists on how this is all being handled in Europe?

James Galbraith: I wouldn't have any idea, if there's a consensus or not, and if there were, a consensus of economists is not worth a tinkers damn and I wouldn't pay any attention to it.

NachDenkSeiten: So, getting to… a little bit more on the light side. What's your opinion of

your German colleagues? Do you have an opinion?

James Galbraith: Well, certainly I have the highest view of the two that came to my conference, Heiner Flassbeck and Jörg Bibow, both of whom gave very crisp and succinct and persuasive presentations that were really in many ways deep analyses of this problem. If you're asking me about the advisory board of the Bundesbank or …. That's a subject which I would not be willing to address in terms that might be quoted.

NachDenkSeiten: I can understand that. Alright, I think we're probably done here.

James Galbraith: Okay, I hope that helped.

NachDenkSeiten: Thanks very much for your time.

James Galbraith: Very good! I enjoyed it.