Unser Kollege Roger Strassburg hatte die Gelegenheit, sich am Rande des IG-Metall-Kongresses "Kurswechsel für ein gutes Leben" ausführlich mit dem Ökonomen James Galbraith zu unterhalten. Wir freuen uns, Ihnen das umfangreiche Gespräch in mehreren Teilen präsentieren zu dürfen. Heute starten wir mit dem ersten Teil in englischer Sprache, in dem sich Galbraith unter anderem Gedanken zur Zukunft der Eurozone macht. Ohne einen deutlichen Schritt in Richtung mehr Solidarität drohe laut Galbraith das Ende des europäischen Projektes. Der Impuls zu einem Wechsel müsse von Deutschland ausgehen, doch ausgerechnet Deutschland sei immer noch weit davon entfernt, Europa auch als solidarisches Projekt zu begreifen.
Morgen wird der zweite Teil des Interviews in englischer Sprache erscheinen und in der Weihnachtswoche werden wir Ihnen das komplette Interview in deutscher Sprache nachreichen. Die Rede, die James Galbraith in Berlin gehalten hat, ist sowohl als Videoaufzeichnung als auch als Transkript verfügbar [PDF – 95.7 KB].

NachDenkSeiten: What's your impression so far of the conference, the situation with the IG-Metall?

Galbraith: I was here to give one of the keynote speeches, and my exposure to the rest of the meetings has really been to listen to several of the other opening lectures and to participate in a very interesting seminar on the future of growth following my speech.

As it turned out, my speech paralleled, I think in a quite useful way, the executive board's statement of the IG-Metall at the end of October on solidarity in Europe – something actually that I only saw after I had substantially drafted the speech I was going to give. There was a convergence of views, I think, that the principles outlined by the union are basically exactly right. You have to have the significant move toward European solidarity or the European project is going to be finished. The significance of it is that a change of view has to come, if it is to have any impact on the European situation, it has to emerge in Germany. I mean, and you can say that it's extremely difficult for that to happen…

NachDenkSeiten: It's a long ways away from that.

Galbraith: They're a long ways away from that, but that's where it has to come from, because, well, the rest of Europe and the countries affected can protest, and they can even resist. But the change in climate and the change in perspective cannot come from the weak countries, and unfortunately there's no sign that it's going to come from France, either.

NachDenkSeiten: I'm disappointed there. Is Hollande caving in?

Galbraith: That's hard for me to judge from a distance, but one interpretation is that he's essentially the captive of the Treasury, of the high French bureaucracy in these matters, and one can see how that happens. It happened also in the United States with President Obama. It's extremely hard for a president to break out of the mind meld of the top echelons of the government, no matter what his individual preferences may be. It doesn't matter, even if the president has well-developed contrary ideas. The classical case in U.S. history is Kennedy and Vietnam. Government is set on a certain path, it takes an enormous effort for the president to move it.

NachDenkSeiten: So you're talking about the career bureaucrats as opposed to appointed people?

Galbraith: In the French case it would be the permanent bureaucrats, yes. In Kennedy's case it was people he brought in with him, but nevertheless reflecting the establishment views.

NachDenkSeiten: That seems to be the case with Obama, too, isn't it?

Galbraith: Yes, it was people he chose, but they were people he chose from within the existing hierarchies.

NachDenkSeiten: With respect to solidarity in Germany, so far, anytime there's a protest in the south, it just gets people riled up here – sort of a long the lines of "hey, we're giving you guys money, and now you're protesting against us, with Nazi signs and this sort of thing".

Galbraith: Right. People in Germany are not, I think, fully aware of what's happening on their southern border.

NachDenkSeiten: Well, the German press hasn't really helped that much. Politicians haven't really helped that much. They've been pretty much pushing the idea, "hey, you know, we did this right, they should follow our example".

Galbraith: Right. And of course the reality is that what has been presented to the German public as a rescue of Greece or Spain is in fact a rescue of the banks that have lent to Greece and Spain. Add the other countries in as you wish, but it's essentially the same story everywhere. And that rescuing process can go along as Signor Draghi wishes to support it, which he will do because otherwise there's no more euro zone. But it does not amount to actual support for the, well I won't say that it doesn't amount to any support for the

underlying economies, but it is designed in such a way that those economies will continue to decline. It's basically a punitive level of support.

NachDenkSeiten: Essentially they have to accept the conditions, which is austerity, austerity, austerity.

Galbraith: That's right. And the problem is that you've stressed the institutions which are the infrastructure of an advanced economy to the point where they're no longer really viable, at least to where they are in certain cases severely impaired.

NachDenkSeiten: Do you think Greece has a chance at all? I mean, right now they've cut 14 percent or so of their deficit.

Galbraith: What I've been saying about the Greek situation is that – and it's not just Greece – that the dynamic has an end state for which there is a model, and that model is Yugoslavia.

NachDenkSeiten: How do you mean, a downward spiral?

Galbraith: A downward spiral leading to an explosion of violence. And the thing about violence is that it happens quickly, and that it happens along very dirty lines, and it can be provoked. Once you start having the presence of factions that understand the power of violence, it becomes very hard to control. So I think that, as I said this today, this is something that Europeans all remember, that they all observed pretty much directly, pretty close, quite recent, but has been isolated as a historical experience. It's not considered to be European, but it is European.

NachDenkSeiten: It's still isolated and it's still far away. Germans do not see it. They see pictures, but here things are pretty much normal.

Galbraith: That's right. However, one can get to Yugoslavia, or the former Yugoslavia in less than an hour.

NachDenkSeiten: How do see the IG-Metall trying to change its directions now. It initially has pretty much gone along with the reforms that have gone on in the last ten years, the Agenda 2010. Are they turning away from that now, do you think? The SPD isn't yet, but do you think the union is, or didn't you really get into that?

Galbraith: I haven't spoken with the officials about their attitude towards the Hartz reforms and so forth, but I think, well, the title of the conference is "Changing Course".

NachDenkSeiten: And like I said, they invited you…

Galbraith: Yeah, they invited me. This is the information I have that bears on it, and I'm encouraged, I think having, let's say, a highly-respected German institution taking a different position in these matters would be a significant development.

NachDenkSeiten: I would be, but unions aren't as strong as they used to be.

Galbraith: That's true. Nevertheless.

NachDenkSeiten: Still, Michael Sommer, the head of the DBG, still favors a grand coalition in the next parliamentary session. The idea – what scuttlebutt says essentially is that, the idea is, well, if we cooperate with Merkel, if we're nice to here, that we can influence her.

Galbraith: I think I should stay away from German politics simply on the grounds that I'm not an authority on it, but what Europe needs to begin with is a change of ideas. Without a change of ideas, nothing will happen. That's the starting point. The most effective way to get a change of ideas is to open up the dialog with people who have not previously been heard. And if all you are is an academic voice like me the opportunity to have the dialog opened up, to be part of that, was a development of note. I'm not going to claim too much for it. You never know where things are going to go, but this is how I see how I can be useful.

NachDenkSeiten: What would be your vision of where this could go. What would you recommend to the European Union if you were to try to propose a plan to fix the euro zone at this point, given what's happened so far.

Galbraith: I think that the principles laid out in the IG-Metall document are pretty good to begin with. They're principles of solidarity and justice and generosity. These are exceptionally important, because this is not a question of compassion, this is a question of making things work, and this is the only way you can make things work.

The specifics of this begin with the question of the debt, and recognition that you cannot adjust your way out of a debt that can't be paid. A debt that can't be paid won't be paid. The sooner you relieve the burden of that debt, the better off you are.

Now there are technical ways of doing that which could be done within the European charter.

I think the next step is to recognize that you need to have stabilizing institutions in the euro zone as a whole of the same kind that have existed for a long time within the northern

European countries. Not necessarily the whole spectrum of them. This is not about having a federal government in Europe, but there are steps you can take that would help stabilize things. I spoke today about mechanisms that might be effective.

Yesterday, Jill Rubery, who was one of the other keynoters, suggested that a European-wide unemployment insurance scheme would be a good idea. I think this is an excellent idea because it basically says you're going to provide direct support to the people who are the most immediate victims, wherever they may be located, the most immediate victims of the crisis. And since those people are located in the indebted countries to a significant extent, it would help stabilize their economies. That would be a good thing. I've suggested the same principle be applied to pensions, and I would apply it to some of the lowest wage rates in the European Union.

So you can proceed step-by-step, and see that there are ways of doing which are run in parallel with most of the existing institutions to strengthen and stabilize them. If there's a will to proceed, there are ways to proceed.

NachDenkSeiten: Would you replace the national pension?

Galbraith: No, not immediately. I think that anything that can be done by adjustments at the margin should be done that way, because first of all you want to assure people that the institutions that they are familiar with will continue. And secondly, you don't want to have an impossible political battle on your hands every time you try to do something. So I think the way you would do these various things is by appropriate institutional design, not all of which I want to do myself.

NachDenkSeiten: Well, certainly one of the reasons that California isn't Greece is the fact that pensions come from Washington.

Galbraith: Precisely, and therefore California's debt is a small fraction of Greek debt in relation to California's GDP, which of course is a very large fraction of Greek GDP, multiple, shall we say, large multiple.

NachDenkSeiten: That would imply, though, that you'd want to have a European-wide pension system, European-wide unemployment insurance…

Galbraith: But those are things that require really quite a modest staff and a really powerful computer. We set up Social Security continent-wide in the United States in 1935, was done on index cards.

NachDenkSeiten: We didn't replace anything there, though. In this case, there are institutions that are already there.

Galbraith: Right, but we have the capacity to work with the existing institutions now. I agree with you, Social Security was quite simple, but still, it is within the skills of a competent programmer to come up with the right sort of system.

NachDenkSeiten: You mentioned the low wages. Would you try to have a European-wide minimum wage, considering that right now one of the problems is the productivity differences.

Galbraith: You want to have the wages more compressed than the productivity differences. What that does is support purchasing power and improve productivity where it's weak.

You don't what to impose highly disruptive changes. What you want to do is to set a direction that provides for gradual narrowing of differences over time. And the purpose of this is to make it possible for social institutions to function in the poorer countries, and to stabilize people in there homes so that they aren't given the same radical incentive to migrate that they presently have. Basically, you want people who are competent and skilled to be available in their home communities, and not simply sending checks home from a high-income city somewhere halfway across the continent.

NachDenkSeiten: It sounds like Greece is emptying out in that respect, in that the talented people are leaving. A lot of them are coming to Germany, and Germany is just tickled pink about that.

Galbraith: When you have this kind of disruption, this is the first group of people that leave, and the Greeks have diasporas also in Australia, also in the U.S., and of course in…

NachDenkSeiten: Those aren't new, though.

Galbraith: No, they're not new, but it gives a channel for people to leave, and actually a second place that people can go back to, and there's a lot of that. And, of course, also capital flight. It's all a sign of the declining conditions in the edges of the euro zone.

NachDenkSeiten: One of the news items of the past few days is that American companies are leaving southern Europe – without necessarily intending to go back.

Galbraith: Yes. You have a situation where companies are going to leave when they consider the social situation as unstable, when they consider the medical care is not

tenable, and their top employees don't want to stay there, when the schools aren't any good or it's too stressful for their kids, all of these things. But it's also just a question of whether there's any hope for a profit in the markets.

NachDenkSeiten: That's Greece…

Galbraith: Yeah.

NachDenkSeiten: That doesn't seem to be understood here, it's still kind of the mercantilist idea, keep your labor costs cheap and export.

Galbraith: Right. Greeks could work for free and I think that BMW would not locate to Thessalonika.

NachDenkSeiten: You said that the debt, as long as the debt is not repayable, that you should essentially write it off and take a much larger haircut at this point.

Galbraith: Yes, of course.

NachDenkSeiten: It's fairly controversial among many economists and politicians. The economist Gustav Horn, for example, says, no, that would disrupt everything, there'd be a domino effect

Galbraith: All debt crises end in a write-down, all of them. I don't know of a single example, except maybe when Mexico got a brief reprieve in 1978 when it discovered oil in the Gulf. But that's the only counterexample I can come up with. They all end that way, because once you've moved into a crisis, you are in a situation which gets worse as time goes on. So it's only a question of now or later.

NachDenkSeiten: How would you go about doing that. One idea would be for the ECB to buy up a lot of the outstanding bonds, and just letting them sit in the books.

Galbraith: So long as they are in existence at unsustainable interest rates, they are what an IMF economist in the 1980's described to me as an unfunded tax liability for the debtor. They just sit there, and they act as a burden on economic activity. You never know at what point you are going to have to actually dip into whatever later growth you might have in order to pay them off. So you have to get rid of them.

NachDenkSeiten: There's considerable confusion here about what happens if the ECB buys up the bonds and the debts don't get paid off. The general myth around here is that the

taxpayers would have to jump in and feed the ECB money.

Galbraith: Well the taxpayers don't have the money, the ECB has its own money, so that's not a logical inference.

NachDenkSeiten: It's a very hard myth to kill, though.

Galbraith: When you talk about the ideas that I've just been laying out on unemployment insurance, for example, that question is who's paying for it. What you have to explain is that purchasing power is created by this. What it does is absorb resources, mostly human labor, which is already unemployed, so it's moving things from the non-productive to the productive category, that's how it's being paid for. It's being paid for by work which would otherwise not get done. Then there is a small amount of extra groceries, maybe the people are not as cold as they otherwise would be, small comforts that are achieved by this. But the main benefit is that people who were previously unemployed do something useful, and they do something in the service of other people who now have purchasing power to handle it. That's a very useful thing.

NachDenkSeiten: This has been a hard thing to get across, not only here, but in the U.S., there's a similar problem in the U.S.

Galbraith: Oh, sure. Though I really think that in the U.S. attitudes are more elastic. People understand that you don't want to leave a large part of the population without unemployment insurance for a long period of time. You don't have the same kind of deep resistance to paying those bills because people have paying them for a very long time and everybody sees that the world isn't ending as a result of it.

NachDenkSeiten: That sounds awfully Keynesian for Germany. That's part of the problem. It's very orthodox.

Galbraith: I read some Keynes this morning in my speech. I read from the Economic Consequences of the Peace.

"If the European civil war is to end with France and Italy abusing their momentary victorious power to destroy Germany and Austria-Hungary now prostrate, they invite their own destruction also, being so deeply and inextricably intertwined with their victims by hidden psychic and economic bonds"

And then there's another passage later in the book which goes, "The policy of reducing

Germany to servitude for a generation, of degrading the lives of millions of human beings and of depriving a whole nation of happiness should be abhorrent and detestable – abhorrent and detestable! – even if it were possible, even if it enriched ourselves, even if it did not sow the decay of the whole civilized life of Europe.

NachDenkSeiten: That was after World War I.

Galbraith: Yes.

NachDenkSeiten: And how right he was!

Galbraith: Yes, it's a stunning passage.

It's one of those books that deserves a careful reading – frequently. I also read something that I like very much, I'll read it for you, too, Lincoln's message to the Congress in December of 1862:

"We can succeed only by concert. The dogmas of the quiet past are inadequate to the stormy present. As our case is new, so we must think anew and act anew. We must dis-enthrall ourselves, and then we shall save our country. Fellow citizens, we cannot escape history. We will be remembered in spite of ourselves. No personal significance or insignificance can spare one or another of us. The trial through which we pass will light us down in honor or dishonor to the latest generation. We say we are for the union. The world will not forget that we say this. We know how to save the union. The world knows that we do know how to save it. We even we hear we hold the power and bear the responsibility. The way is plain, peaceful, generous, just, a way, which if followed, the world will forever applaud."

This passage in December of 1862 was about emancipation, so it was about giving freedom to the slaves and preserving it for the free. And there is a parallel to the relationship between debtors and creditors.

NachDenkSeiten: Yeah, very much – you're not really free if you're a debtor.

Galbraith: That's correct.

NachDenkSeiten: That is something that's well understood in Germany, which is part of the reason Germans have so much against debt., which is very understandable.

Galbraith: Now the other piece of this is that it's accounting – if you have a surplus,

somebody else has a deficit.

NachDenkSeiten: That's not quite been understood yet, I don't think.

Galbraith: Every shopkeeper, of course, knows it.

NachDenkSeiten: Heiner Flassbeck is actually more or less resigned and has said, go southerners, get out of the euro, because it's not going to get any better for you. Others are saying, of course, no we've got to hold it together.

Galbraith: I think that the commitment to save the euro zone has to come from the north. What the southerners should be concentrating on is developing a coherent alternative. If you broke it up and you had six distinct new national currencies, Greece, Italy, Spain, Portugal, Ireland, that's five, and, ok France, maybe. Then first of all you have a lot of potential for speculative instability. And you could have a competitive devaluation situation, and that is not a happy scene.

NachDenkSeiten: I don't see this as being happy, either, because, of course, it's not going to get them out of the debt situation, it'll just make it worse. Debt is denominated in euros.

Galbraith: Yes, they would have to be defaulting on that.

NachDenkSeiten: Which has precedence.

Galbraith: Of course. I think the essence of it is that you devalue and you default. But of course you have a lot of private debts which are denominated in euros, and then there's a whole question of which courts have jurisdiction and how those matters get resolved. It's not cheerful. It's very hard to see how the European Union economy survives a kind of legal donnybrook that a breakup would involve.

NachDenkSeiten: The only thing that could work is the other way around, actually, is if Germany left the euro.

Galbraith: Right. The other possibility is that other model that I mention occasionally, which is the Czechoslovak model, which is to say, a velvet divorce, a negotiated divorce, and into two coherent blocks. And the only way that happens is if France assumes the leadership of the southern block, because it's not a coherent block without France. At least I don't think it is.

NachDenkSeiten: France is in the middle.

Galbraith: France's problem is that it really wants to be with Germany, but it would be better from a French standpoint for it to be the leading country of southern Europe.

NachDenkSeiten: It would probably be better for everyone if nobody was hooked up to Germany, because Germany is going to try to keep the currency strong.

Galbraith: The Dutch and the Austrians are going to try to stay with Germany on that.

NachDenkSeiten: They can afford to. They have similar economies.

Galbraith: Sure. But if I were in a position to try to influence developments in the south of Europe, I would be saying you should be thinking about how to do this, and how to do this in the way which is least likely to cause the entire system to disintegrate on you, recognizing that there's a considerable risk of that.

NachDenkSeiten: Do you think it's possible to design something like that?.

Galbraith: It's not obvious to me, but I don't have the range of knowledge that requires. But I would start assembling working groups to provide some baseline of knowledge about this.

NachDenkSeiten: I'm not sure what Flassbeck has in mind for how to go about doing that, but he's saying that the alternative is worse. And there are people who have let these thoughts run through their heads. Even Paul Krugman has at times said, well, you know, the alternative might actually be worse.

Galbraith: I have a lot of respect for Heiner, but it's not my approach. I would say that the thing you need to do is fact-finding, legal opinions, constitutional opinions. You need to have a much clearer sense of what is involved before making the move. But the fact is that the move to determine what is involved itself a very significant political gesture. And what you do while you are determining what is involved is you remain open to an offer from the other side. That's how you move toward the Czechoslovak solution – or reconciliation. That's how you develop a coherent bargaining position. At the moment the notion that the alternative is that we've got a hand grenade in our hand, and if we don't get something, we're just going to let it go off. Well, the hand grenade, it might kill you and it might not…

Lincoln made a comment in his speech at Cooper Union that the Southern position was the highwayman who holds you up and says, "stand and deliver or else I shoot, and then you will be a murderer".