

“Grexit is not good for the European Union as a whole”

Interview for *Efimerida Ton Syntakton*, Athens, Greece, published 16 April 2015

1. We are in the middle of difficult negotiations between Greece and its lenders. Do you believe that the Greek government will have to "capitulate" and "retreat" from its electoral program?

Let me first say that the new Greek government has experienced extraordinary pressure to comply with the dictates of the Troika. The European Central Bank has made strategic moves to stress that there are no alternatives to meeting the terms of the Troika. While Greek bank deposits plummeted, the European state-leaders have stressed that only cosmetic changes to the agreed conditions and terms are possible.

Under these circumstances, the Cabinet of Alexis Tsipras has succeeded remarkably well in making their points heard across Europe and beyond, gaining a lot of sympathy from many citizens, movements and parties. What I find especially important is the European and global ethico-political perspective. It is imperative to tackle the economic tragedy of Greece, but in a generalized way. It is in the interest of the Union to revise some of the rules and principles of the EMU. Moreover, common European responses to the still on-going Eurocrisis and future situations are required. These responses would include using the ECB resources to enable a European-wide investment programme.

Will is related to power. To have narrow power means not to have to give in, and capacity to force the others and their context to do so. As Karl Deutsch, a favourite political theorist of mine, has argued, power in this narrow sense is the priority of output over intake, the ability to talk instead of listen. In a sense, it is the ability to afford not to learn. This is the way I see the actions of the EU decision-makers, whether we are talking about the Government of Angela Merkel or the leaders of the ECB. For them, the Greek government will have to capitulate and retreat from its electoral program.

I see cracks in the monolith, however. Even within the European Commission there are some interesting discussions about such proposals as automatic stabilisers (for example, a European-wide unemployment benefit scheme) and about the need to find resources for public investments. Despite the ideological and economic interests at stake (the German trade surplus and so on), surely Merkel and other European leaders must be concerned about the spectre of partial disintegration of the Union. All this may still make some sort of a compromise possible.

2. Some analysts also say that the only mutually beneficial solution is a "Grexit". Do you agree with this opinion?

Assuming that the EU-system is characterised by a hardened will and narrow power, a “Grexit” may be the only alternative left to capitulation and retreat from Syriza’s electoral program. This would be a very difficult ethical and political choice, given Syriza’s commitment to the euro and common European cause.

If it comes down to this choice, I would favour the “Grexit” option. For the Greek people, it might create even more hardship in the very short run, within the first year or so, but it would also open up new opportunities to economic recovery through debt restructuring, devaluation and national central bank funding.

I do not agree, however, with the idea that “Grexit” would be beneficial to the EU. Although by now Greece may be largely insulated from the European commercial banking system, “Grexit” would certainly create a precedent case for others to consider and possibly follow. Different governments may have somewhat different reasons for considering the possibility of following the Greek example, but countries such as Hungary, Italy or Spain could well follow suit. The euro would suddenly appear as a temporarily fixed exchange rate system, rather than a permanent single currency of the federalising European Union. Moreover, there is also the case of Britain, considering a referendum over exiting the Union itself.

3. The government of Finland is regarded as one of the most "strict" political powers in EU institutions. Alexander Stubb is frequently making harsh comments on Greece's efforts on the economic level. Can the forthcoming elections change its stance towards the solution of the economic crisis?

Alexander Stubb is indeed a hardline neoliberal, frequently representing political issues in stereotypical black-and-white terms. In general, there is a close connection between one’s attitude towards Greece and one’s preferred economic policy line at home. For instance, if one assumes the household analogy for public finances, states must adjust their outlay (including debt repayments) in accordance to the level of income they are able to generate at the moment. The effects of public expenditure on the economy are not seriously considered, or the fiscal multiplier is assumed to be very small indeed.

With these kinds of analogies and frames in place, it is easy to create simplistic moralising narratives for instance about the Greek crises, especially if that narrative fits comfortably with established cultural prejudices and stereotypes. Because of

these analogies and frames, austerity is also the preferred policy at home, especially under the conditions of an extended recession.

It is ironic that the conservative party in Finland uses a traffic sign as their main ad in the April 2015 elections. The arrow-plate to the left is “the Greek way” and to the right “a move of repair”. They cannot contemplate the possibility that austerity policies may have similar effects in Finland and Greece.

The next government will probably be formed by the Centre Party and the Social Democratic Party, together with a couple of smaller parties. It is most unfortunate that the Centre Party is hardly distinguishable from the conservatives in terms of their economic policy. Antti Rinne, the Chair of the Social Democratic party, was mildly critical of austerity before he became the Finance Minister, but during the past six months he has sided Finland with the Merkel-line even more strongly than before.

4. In spite of its "ideal" image, Finnish economy is beginning to go through recession. Is there an alternative way to get back to growth?

Yes, there is, a large-scale public investment programme, reversing cuts in social spending too. I have participated in planning such a programme within the Left Alliance and written a book on the future of Finnish economic policy that was published in January. Relying on estimates and qualitative assessments that the fiscal multiplier is relatively high at the moment, I (and we) argue that such a programme would be self-financing, even though in the beginning more debt must be taken.

The idea is not only to organise and stimulate investments – investments conceived widely, including human capital – but also to steer economic growth towards ecologically and socially sustainable direction. Careful planning is required to minimise the resulting trade deficit. One of the key ideas is that one’s comparative advantage in world markets is something that has to be constantly re-created also by deliberate policies. Also, efficiency gains are sought for example through motivating people better through more authentic forms of participation.

There are of course various external constraints such as the powers of the Commission (Finland’s gross public debt is already about 60%) and credit raters (Standard & Poor lowered Finland’s credit rating from AAA to AA+ in October 2014), but these can be handled. It would help enormously, however, if the EU changed its course in economic policy. I participate in a network of European left political economists developing ideas about progressive institutional and policy changes on a European level. But even the European scale is too small. We need also a global perspective on economic governance.

5. Has the recent electoral victory of SYRIZA influenced the political debate towards the finnish parliamentary elections?

The effect of Syriza's victory turned out to be rather temporary. For a few of weeks the new Greek government drew a lot of attention, and also positive attention even in the main media, but again Greece has faded in the background. Many of the more recent op eds and other commentaries have been somewhat harsh about Greece and the Tsipras Cabinet. For instance, Tsipras' recent visit to Russia led to a call in *Helsingin Sanomat* (the main national newspaper) for Greece being punished for acting against the unity and interests of the Union. But as said, Greece has not been a major topic in these elections, to the surprise of some commentators.

6. Left wing politicians claim that the economic crisis is a European problem and not a problem that applies in some particular European countries. On the other hand most European governments deny this opinion? Are these leaders just enough stubborn not to see that the ongoing "solution" is leading to a dead end?

Apparently the crisis has not been deep enough for any genuine learning to take place. A rational democratic society learns and transforms itself easily, whereas a non-learning society becomes, with no trouble at all, so blind that it can learn only after a major catastrophe. The EU seems to have adopted the latter course.

The problem does not lie in Europe only. The US can no longer act as the demand engine of the world economy. New common institutions would be urgently needed. Instead, what we have been seeing is negotiations about further "free trade" agreements, combined with a slide towards traditional geo-politics and arms race.

In this context, any successful attempt to act otherwise by any particular country could be enormously significant, especially if linked with a transformative vision of the wider context of European and global political economy.

7. In your books you propose that a reform of global financial and democratic governance should take place. Isn't this proposal some kind of a utopic goal, since the political balance of power is in favour of the neoliberal policies?

I would rather argue that many of the current policies and institutions are based either on a short-sighted individualistic perspective or a free market utopia, or both, and, therefore, are not sustainable. In contrast, those democratic global-Keynesian transformations that I have been proposing are based on a holistic perspective. For

instance, we know that trade deficit and surpluses cancel out, and thus it is not sustainable that some countries such as Germany or China aim at constantly high trade surpluses. We need mechanisms of adjustment and redistribution in order to overcome this problem.

The question is whether what seems like a viable future is achievable or not? In fact, even this is a slight misformulation of the problem. World history is open ended and humanity can and does learn. The real question is whether genuine collective learning can take place – also via political struggles – in the absence of a major catastrophe. On this question the jury is still out. It is our moral duty to develop ways in which strategies of smooth and peaceful transformations can become more feasible.