

Europe Is Unprepared for the COVID-19 Recession

YANIS VAROUFAKIS

Project Syndicate, Mar 18, 2020

If there is one European body that has consistently demonstrated its lack of fitness for managing economic crises, it is the Eurogroup of eurozone finance ministers. True to form, it will respond to the COVID-19 crisis with heroic announcements heralding impressive numbers that disguise the irrelevance and timidity of the agreed policies.

ATHENS – The Eurogroup of eurozone finance ministers is struggling to agree on a macroeconomically significant coordinated fiscal response to the enormous recessionary effects of the COVID-19 pandemic. The result, I fear, will be heroic announcements heralding impressive numbers that disguise the irrelevance and timidity of the agreed policies.

The first indication of this comes from the recent announcement of the German government's financial aid package to the private sector. While the international media referred to it as a €550 billion (\$600 billion) bazooka, close inspection suggests it is no more than a water pistol.

Comprising tax deferments and large credit lines, the German package reveals a serious misunderstanding of the nature of the crisis. And it is the same misunderstanding that turbocharged the euro crisis a decade ago. Now, as then, companies and households are facing insolvency, not illiquidity. To arrest the crisis, governments must go “all in” with stupendous fiscal expansion. But that is exactly what the German package was meant to avoid.

Finance ministers from countries in deeper economic trouble than Germany (for example, Italy and Greece) will undoubtedly try to push for the necessary fiscal expansion. But they will hit the brick wall of opposition from the German finance minister and his loyal supporters within the Eurogroup. Soon the “southerners” will fold their tent, their acquiescence sealing yet another fiscally insignificant Eurogroup package that the oncoming recession will steamroll.

How can I be so sure? Because I've been there. I represented Greece at the Eurogroup meetings in 2015, where the defeat of our government's desperate struggle to avoid more loans at the expense of deeper recession was decided. The methodical manner in which those Eurogroup meetings closed down any avenue to a rational debate on the appropriate fiscal policies holds the key to understanding why the Eurogroup will also fail to mount an effective fiscal defense against the pandemic-induced shock.

One insight from those crucial Eurogroup meetings five years ago stands out: any finance minister from a struggling country who dares oppose the Berlin line, or to propose solutions that benefit the majority of Europeans rather than the financial sector, is in for a hard ride.

I came in for a very hard ride. Anyone listening to the long hours of the 2015 Eurogroup meetings, now freely available, will hear the President of the Eurogroup threatening to end the negotiations if I dared to table written proposals that Germany did not want discussed (only to brief the media later that I had arrived “empty-handed”).

Then there was the head of Europe's bailout fund, the European Stability Mechanism, accusing me of caring too much about indebted households and too little about the (already bankrupt) banks' capitalization. And let's not forget Germany's finance minister, Wolfgang Schäuble, demanding to keep for the German budget – “my budget,” as he put it – the European Central Bank's profits from trading in Greek bonds. The EU had agreed that this money should be returned to Greece; in the end, Schäuble did in fact keep it for the German budget.

All the while, Northern European ministers wielded the threat of “Grexit” and, equivalently, Plan B (an alternative currency for Greece) to force me to accept more loans. Rather than offering realistic debt relief and restructuring, we were hit with a barrage of “take it or leave it” ultimatums, and a long list of calamities that would befall our people if we did not borrow more and accept ridiculous levels of additional austerity that guaranteed Greece would never be able to repay.

The 2015 Eurogroup meetings offer listeners a front-row seat on the blood sport that is unaccountable power. It's all there: Crucial decisions flying in the face of science and simple mathematics. Bullying the weak until they surrender. Thinly disguised theft. Fake news weaponized against those who dare to resist. And last, but not least, contempt for transparency and the other checks and balances essential in any democracy.²

It is no coincidence that these themes are now so prevalent across the West. The Eurogroup meetings of 2015 were, I dare to say, the field of European democracy's defeat, which reverberated not just across Europe but also in the Americas and elsewhere. Within less than a year, Brexit and the election of Donald Trump were no longer amusing hypotheticals. The practices that the liberal establishment now decries were on vivid display in those Eurogroup meetings – the same institution that, today, is deciding on Europe's fiscal policy response to the coronavirus recession.

Euroskeptics, whether outside the European Union, like Trump and Russian President Vladimir Putin, or inside, like Hungary's Viktor Orbán, Italy's Matteo Salvini, and France's Marine Le Pen, will undoubtedly take heart from the release of the 2015 Eurogroup transcripts. But making them public is in the interests of Europeanism. Revealing to citizens the EU's decision-making process, warts and all, is a prerequisite for empowering democrats to save the EU by taking back control of our institutions.

Europeans are not stupid. Even if they do not know exactly what goes on behind closed doors in Europe's decision-making bodies, they can sense that the resulting decisions fail to use existing resources in the interests of a majority of Europeans in a majority of member states.

We have a duty to enlighten citizens about how, even in our liberal democracies, decisions are routinely made in their name, against their interests, and without their knowledge by functionaries who loathe democracy even as they pretend to defend it.

If we fail, the EU's decisions, especially during this pandemic, on fiscal policy, green investment, health, education, and migration policy are bound to be as ineffective as those that magnified the euro crisis ten years ago. Then, only the likes of Trump and Putin, and Europe's own Orbáns, Salvinis, and Le Pens, who want to dissolve our common institutions from within, will benefit.