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Greece

The good drachma? A modest contribution to the debate

- Debate - Perspectives in Greece -

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The Tsipras government's surrender to the diktats of the troika is a painful defeat for all supporters of an alternative to neoliberal austerity in Europe. The reasons for this defeat can be summarized roughly: under-estimation of the violence of the "institutions", this mixture of economic fanaticism and political will to smash any alternative; lack of preparation of the material components of a rupture particularly by a unilateral suspension of debt payments; non-construction of the internal relationship of ideological forces necessary for this break; inability to take forward the referendum "no" vote, instead passing the measures that the government had asked the citizens to reject within a logic of national unity; absence of political relays from other governments and weak support from the social movement.

The conclusion often drawn from this observation is that there is definitely no alternative policy possible inside the euro zone. For Stathis Kouvelakis, "it became clear that to break with the neo-liberal, ultra-austerity policies of the memorandum in the context of the euro area was a very costly chimera. The idea of the "good euro" and "making Europe move forward", the obstinate refusal of a plan B and confinement in a gruelling process of pseudo-negotiations have led to the greatest disaster of the left of social transformation in Europe since the collapse of the USSR". [1].

Jacques Sapir draws the same conclusion: "in reality, no change in the EU from the interior is possible. The "Radical Left" should set as its primary objective rupture, at least with the institutions whose semi-colonial content is the greatest, that is to say, the Euro, and it must think about its political alliances from this objective. For this left, the time of choice has come; it will break or be condemned to perish". [2].

It is possible that there is no other choice than Grexit, in Greece, today. This can be discussed. But this does not imply a new strategic direction for the whole of Europe. This binary choice - either a form of capitulation or Grexit - is a shortcut that eliminates all intermediate items of construction of the relationship of forces.
Certainly, the debate has often been raised in these terms, and for a long time. In the light of the Greek experience, many now align themselves around euro exit as the only alternative way. But this mixes two debates: the first concerns Greece, now; the second is more general and focused on the strategy of rupture in Europe.

I will start here from a comment to my article, "The political economy of crime" [3]. As I have been directly involved in the debate in Greek as a member of the Commission for Truth on the Greek Debt, I am speaking here in the first person]]. "Interesting, but then why have you always argued against euro exit? You seem to have taken time to understand that the euro and the adjustment plans imposed on Greece go hand in hand. Your point of view lacks consistency". In fact I have never been "against euro exit", as evidenced by, among other contributions, this extract from an article published in 2011: "Euro exit is no longer, in this schema, a prerequisite. On the contrary, it is a weapon to be used as a last resort. The rupture should rather be around two points which would generate real margins of manoeuvre: nationalization of the banks and renunciation of the debt" [4].

The key issue for Greece, as everyone will agree, is the unsustainable nature of the debt. The priority measures to be taken are then a unilateral moratorium, and then a complete or partial cancellation of the debt. But why do these measures require an exit from the euro? I have never been able to understand how one could establish a logical link between these two types of measures.

Suppose that Greece leaves the euro. First case: it continues to pay the debt. This is absurd, you would say, but a lot of advocates of euro exit, strangely, did not specifically exclude this hypothesis. If the debt was to be repaid in Euros, its real weight (in drachmas) would increase because of devaluation. If it was repaid in drachmas, this would be tantamount to a partial cancellation, of 20% if for example the drachma was devalued by 20%, but this hypothesis is excluded legally: the *lex monetae* does not apply.

In any case, the creditors will not accept such a haircut without reacting and without taking retaliatory action involving speculation against the new currency. This same comment applies to the second case where euro exit would be accompanied -logically - by a complete or partial cancellation of the debt. As John Milios notes [5], it is easy to imagine “a situation where Greece, once out of the euro, could not find the necessary reserves to support the exchange rate of its new currency and has to borrow in the euro area or elsewhere. But any loan in the current phase of capitalism leads to a program of austerity. So who is going to finance the country in order to support the exchange rate of the new currency?”

The creditors would therefore still be there, and the passage to the drachma would give them a sizeable weapon. This weapon would lose its effectiveness if Greece’s foreign trade was balanced. This is the second argument in favour of euro exit: thanks to devaluation, Greek exports would be boosted and foreign trade would be permanently balanced.

But this scenario forgets at least two things. The first is the dependency of the Greek economy [6]: any recovery in activity would result in an increase of imports including food, medicines and oil (whose prices would be increased by devaluation). We can and must, of course, imagine industrial and agricultural policies that would reduce this dependency, but their effects would not be immediate.

The other oversight concerns the behaviour of capitalists whose priority is to restore their profits. Recent experience shows that a reduction in wages in Greece has not translated into lower prices but an increase in exported profit margins, to such a point that the European Commission has questioned Greece’s “missing” exports [7]. This point is important: by making the currency the alpha and the omega of the Greek question, the class relations internal to Greek society are ignored. However, euro exit as such does not call into question the oligarchic structure.

The other advantage of euro exit would be to make possible again central bank financing of the government deficit, regardless of the financial markets. But, here too, euro exit is not a prerequisite to the search for other modes of financing. The nationalization of the banks, with an imposed quota of government securities, would be another possible channel of financing, or again the requisition of the central bank. This would be another form of rupture that would have nothing to do with the call for a “good euro”.

The supporters of euro exit have managed to lock up the debate in this binary choice: the idyllic “good euro” or euro exit. That the balance sheet of the Greek experience leads to confining the strategic debate to this binary choice is understandable but it is facile.

There is no easy way out of the dramatic situation in which Greece is today locked. Euro exit, now, for Greece, would perhaps be less costly than the application of the third memorandum, still more monstrous than the previous ones. But this is not a royal road, and this should be said, honestly. Then, there is the risk of making it the solution to all the problems of the Greek economy, whether they concern the productive structures or the power of the oligarchy.

Euro exit is almost always presented as a sort of magic wand to escape the domination of financial capitalism, as well as the internal contradictions between labour and capital. As if euro exit was equivalent to exit from neo-liberal policies. Will the big firms and the Greek rich then by some miracle stop their large scale tax evasion? Will Greek ship-owners by some miracle agree to finance pensions?

This fixation on the question of the currency is, therefore, dangerous to the extent that it relegates to the second rank a whole series of issues which have to do with class relationships that do not stop at the borders. Greece is not a "proletarian nation" subjected to the yoke of the euro, it is a social formation structured by class relations. The cumulative total of capital flight for ten years is of the same order of magnitude as the total Greek debt, this has nothing to do with the euro and the return to the drachma would not change it. It would even enable the tax evaders to repatriate a portion of their capital, realizing capital gains proportional to the rate of devaluation.

We are of course in favour of tax reform and many other things, retort the supporters of euro exit. But these programmatic elements are in practice relegated to the second rank, and in addition, it is not possible to demonstrate that euro exit would make them easier to implement. Rather than criticizing Tsipras for not having prepared a plan B, assimilated with euro exit, he should be criticized for not having established capital controls from the first day, which he refused to do in order to reassure the institutions of his goodwill.

The argument in favour of euro exit ultimately rests on a fundamental postulate, thus formulated by Jacques Sapir: "the questions of a change of currency and of default are closely related" [8]. He lists the problems to be dealt with in case of "Grexit": 1. the question of the Central Bank reserves; 2. the question of liquidity; 3. the question of debt; 4. the question of the commercial banks. And he stresses that "it is very important that the Greek government announces the default on its debt at the same time that it notes that the Euro can no longer be legal tender on its territory."

It is this simultaneity between default on the debt and abandonment of the euro which is debatable. Logic would suggest a different sequence: first default on the debt, because that is the necessary condition for a reorientation of the Greek economy. Then, the accompanying measures which derive from this, namely the nationalization of the banks, the requisition of the central bank, capital controls, and the possible creation of a parallel currency. It is a program that has consistency, which involves fundamental rifts with the European rules of the game, but which does not require a priori exit from the euro.

Euro exit is not in itself a program, it is only a tool to be used where appropriate, and it must demonstrate its necessity, beyond incantation. This fetishization of the currency unbalances the construction of such a program, develops illusions on the "good drachma" that are equivalent to those about the "good euro" and ties the social issues to a national-monetary logic.

John Milios, the former "chief economist" of Syriza, explains it very well: "There is no reason for the social movement which opposes neoliberalism and capitalism to stop because Greece has the euro as currency. If that was the case, a new currency could be required to support this new path. But we must start from this movement, not the reverse. It is for this reason that I consider that the question of exit from the euro is secondary. From a point of view which is not theoretical but political (how to change the relationship of political and social forces), I consider the euro as a false problem. I do not participate in the debates on the currency because they evade the main question, which is, how we reverse the long-term strategy of Greeks and European capitalists in favour of austerity." [9].

27 July

Alencontre

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[1] Stathis Kouvelakis, "Il faut s'opposer Ã ceux qui mènent la Grèce et la gauche grecque Ã la capitulation", July 24, 2015

[2] Jacques Sapir, “La Grèce, la gÃ´che, la gauche”, *El Correo*, July 25, 2015

[3] Michel Husson, “Grèce: l’économie politique du crime”, *A l’encontre*, June 29, 2015

[4] Michel Husson, “Euro: en sortir ou pas?” *A l’encontre*, July 18, 2011

[5] John Milios, “Ils pensaient pouvoir gouverner de la mÃªme façon qu’avant la crise”, *A l’encontre*, July 22, 2015

[6] Michel Husson, “Grèce: une économie dépendante et rentière”, *A l’encontre*, March 12, 2015 ; George Economakis, Maria Markaki, Alexios Anastasiadis, “Structural Analysis of the Greek Economy”, *Review of Radical Political Economics*, Vol. 47(3), 2015

[7] Uwe Böwer, Vasiliki Michou, Christoph Ungerer “The Puzzle of the Missing Greek Exports”, *European Economy*, 2014

[8] [Jacques Sapir, “Les conditions d’un â€˜Grexit’”, July 11. 2015

[9] John Milios, op cit.