



Book Review

James K. Galbraith, *Welcome to the Poisoned Chalice: The Destruction of Greece and the Future of Europe* (New Haven, NJ: Yale University Press, 2016), 232 pp.

Reviewed by Peter Bratsis

That a major U.S. economist would publish a collection of essays on the economy of Greece could not have been imagined even a few short years ago. That it would include previously secret emails and memos written by said an important economist when he served as a special advisor to the Greek Minister of Finance would be even less possible to imagine. Of course, the situation in Greece from 2009 onwards has been anything but normal and a small economy that had been of little consequence to broader European and, certainly, global finance has come to be one of the most important and most discussed economies in the world.

Certainly one key goal in this collection of editorials, emails, and memos is to make sense of this strange turn in Greece's fate, to understand why Greece has come to be such a central case for global capitalism. Here, Galbraith's core argument, well known by those who follow the debates on Greece and one that he shares with his good friend and collaborator Yanis Varoufakis, is that the economic crisis in Greece has little to do with its internal weaknesses, laziness, tax avoidance, or other similar particularist or culturalist explanation. For Galbraith the key problem for Greece is the stark austerity measures its eurozone partners have imposed. As Galbraith asks, "Why did the crisis hit the peripheral countries of the euro and not so much those, such as Poland or Croatia, which had retained their national money?" (p. 2).

The argument that the imposition of austerity upon Greece is the main cause of its economic plight is a most compelling one and the many predictions that curtailing public spending so severely would result in a drastic economic depression in Greece has certainly been validated by its record setting and still continuing economic contraction of over twenty-five percent. The more controversial claim is that exiting the euro zone would allow Greece to overcome the effects of austerity and return to economic growth.

Various blog posts and editorials on the situation in Greece and Europe constitute the first part of Galbraith's collection, all written before 2015. It is the second section of the collection and an appendix that chronicles the victory of Syriza in January of 2015 and the subsequent attempts of Galbraith, Varoufakis, and rest of the first Syriza government, to undo austerity in Greece that

is the more intriguing part of the book. Here, much of the discussion revolves around the question of so-called Plan B (or, at times, Plan X). Galbraith's main function as an advisor to Greece Minister of Finance was to plan and prepare for Plan B, the exit of Greece from the euro zone or, at the least, the ability of the Greek economy to run in the absence of liquidity in euros. The question of Plan B was a question of what Greece would or could do if its creditors, the infamous "troika," could not be persuaded to loosen the austerity measures that they had imposed on Greece. Did Greece have a choice? Could they default on the debt and still keep the economy afloat? In the absence of support from the European Central Bank, would Greece be forced to abandon the euro and introduce its own currency? These questions were doubly difficult because any hint of the possibility that Greece would leave or be forced out of the euro zone would have engendered a massive exodus of capital from Greece and also the idea that Greece would leave the common currency was very unpopular with the Greek people. Thus, the Syriza leadership consistently held to the line that it would negotiate an end to austerity but would not resort to a Plan B, European leaders would necessarily agree with policies that were immensely logical and would never risk destroying Europe by forcing Greece out of the euro zone. Thus, no need for a Plan B.

Varoufakis and Galbraith understood very well, however, that "Grexit" was indeed a real possibility and it would be prudent to plan accordingly. As Galbraith documents, great measures were taken to ensure that the work he was doing on Plan B would stay secret. The result of this research was a report that Galbraith and his small team put together and presented to Varoufakis in early May (summarized in the appendix). Although Galbraith and Varoufakis understood that the problems associated with attempting to eliminate austerity were fundamentally political, not technical, the content of the bulk of the discussion in his email and memos are, unsurprisingly, about the mechanics of how an economy could function during the transition to a new currency or by way of using a temporary currency or IOUs.

The real limitation in the whole analysis, however, was that the substantive limitations to such a Plan B were never seriously examined. For example, why were so few Greeks and even fewer members of the Syriza government willing to go down the path of leaving the eurozone? Unless there was some public debate and discussion on the matter to change people's ideas and perceptions, it is certainly the case that there would be no possibility of Plan B short of it being imposed from the outside. Moreover, given that it was very clear that there was no support for a Plan B from within the Tsipras administration and given that Varoufakis and Galbraith knew full well that many in Europe wanted to shut down the Greek banks as a pressure tactic and that there was no political support for reopening them with new forms of liquidity, why would Varoufakis push for a referendum on the offer made to Greece by its creditors in June of 2015? As it may be recalled, the delay in negotiations created by the call for a referendum resulted in the European Central Bank freezing its lending to Greek banks, which resulted in the temporary closing of Greek banks and the imposition of still ongoing capital controls, a very severe and unnecessary hit to the Greek economy. Even with the resounding victory of the Oxi vote in the referendum of July 5, Tsipras was forced to accept a new round of austerity demands only a few days later.

Apparently, the closing of banks and capital controls were a more persuasive argument than pointing to the obvious, that most Greeks would prefer not to have austerity.

One curious omission in Galbraith's analysis was the folly of the Papandreu regime in accepting the initial agreement that would impose austerity in Greece. Galbraith, who was an advisor to Papandreu at the time, understands very well what happened in the Greek "bailout" is that the Greek debt was transferred from private banks to the public by way of the loans from the ECB, EU, and IMF: "So the French and German banks were saved, along with the Greek subsidiaries of the French banks, on whose books rested a good share of the Greek public debt" (p. 6). Why would Papandreu accept such a horrible deal when he held so much leverage given that a Greek default at that time would have resulted in great damage to the German and French banking systems? What was Galbraith's advice then to the Greek government? He does not say other than noting that his role was "insubstantial." By the time that Syriza came along and tried to reverse the situation, there was little leverage left as measures had been taken to minimize such possible leverage and exposure to Greek debt.

In addition to making public some of the internal discussions and struggles going on behind the scenes during Varoufakis' tenure as Minister, the Galbraith collection demonstrates just how poor and incapable economic thinking is in understanding and dealing with complex political problems. The current Varoufakis project "Democracy in Europe 2025" in which Galbraith is an active member, supports the democratization of Europe as a way out of the current technocracy and elitism that characterizes the European Union. Again, as with the idea of a Plan B, a very simple solution is presented to a very complex problem with little regard for the deeper forces at play. If we had more democracy today in Europe and those Europeans in the north were asked to vote on eliminating the Greek debt and undoing austerity how would they vote? Very likely they would be even more harsh and nationalistic than the technocrats have been. So, the deeper and more concrete questions, the deepening of individualism and nationalism in Europe for example, are glossed over in favor of formalistic and formulaic solutions. In short, Galbraith's *Poisoned Chalice* stands as one very important view of an intense and eventful six months in the history of Greek politics and also as an example of just how limited economic thinking is when attempting to address and analyze complex social and political phenomena.

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