A Single Currency Challenges National Sovereignty. The Defeat of Europe

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The Eurogroup — which has no legal standing — is anti-democratic, disdainful of the European Commission, which it now commands, and internally fractured. This is what it did to Greece.

In 2010 the Greek state lost the capacity to service its debt. Put simply, it became insolvent and thus lost access to capital markets. To prevent a default on fragile French and German banks that had irresponsibly lent billions to irresponsible Greek governments, Europe decided to grant Greece the biggest loan in world history on condition of the largest ever fiscal consolidation (better known as austerity) which, naturally, resulted in a world-record loss of national income — the greatest since the Great Depression. And so began a vicious cycle of austerity-driven debt deflation, spearheading a humanitarian crisis and a complete inability to repay the nation's debts.

For five years the troika of Greece's official lenders (the International Monetary Fund, European Central Bank and European Commission, representing creditor member-states) were committed to this dead-end strategy that financiers label "extend and pretend": lending to an insolvent debtor more and more money in order to avoid having to write off a bad debt. The more the creditors insisted on this strategy, the greater the damage to Greece's social economy, the less reformable Greece became, and the larger the creditors' losses.

This is why our party, Syriza, won last January's election. Had the electorate believed that Greece was on the mend, we would not have won. Our mandate was straightforward: to stop the "extend and pretend" loans and the associated austerity, which were driving Greece's private sector into the ground. And to lift the fog of doom in which it was impossible to carry the people with us along the road toward the crucial, deep reforms that Greek society needed.

In my first Eurogroup meeting (1), on 11 February, I delivered a simple message: "In our government you will find a trustworthy partner. We shall strive for common ground with the Eurogroup on the basis of a three-plank policy to tackle Greece's economic malaise: deep reforms to enhance efficiency and defeat corruption, tax evasion, oligarchy and rent-seeking; sound state finances based on a small but viable primary budget surplus that does not impose too heavy a burden on the private sector; *and* a sensible rationalisation, or re-profiling, of our debt structure so as to allow for the viable primary budget surpluses consistent with the rates of growth necessary to maximise the true value of our repayments to our creditors."

A few days earlier, on 5 February, I paid my first visit to Dr Wolfgang Schäuble, the German finance minister. I reassured him that he could expect from us proposals aimed not at the interests of the average Greek but at the interests of the average European — German, French, Slovak, Finn, Spaniard, Italian, etc.

But none of our noble intentions were of any interest to Europe's powers-that-be. We were to find this out the hard way during the five months of ensuing negotiations.

Threats

On 30 January, a few days after I became finance minister, the president of the Eurogroup, Jeroen Dijsselbloem, paid me a visit. Within minutes he asked me what I was planning to do vis-à-vis the Memorandum of Understanding (MoU) that the previous government had signed up to. I explained to him that our government was elected to re-negotiate that MoU; that is, we would be asking for an opportunity to re-visit the blueprint of fiscal and reform policies that had failed so spectacularly over the past five years, having diminished national income by one third and turned the whole of Greek society against the very notion of reform.

Dijsselbloem's response was immediate and crystal clear: "That won't work. It is either the MoU or the programme crashes." In other words, either we would have to accept the failed policies that were imposed on previous Greek governments, and which we were elected to challenge, or our banks would be shut down — for this is what a "crashed programme" entails in the case of a member state that has no market access: the European Central Bank removes financing of the banks, whose doors and ATMs then shut down.

This blatant attempt at blackmailing an incoming, democratically elected government was no one-off. At the Eurogroup meeting that followed 11 days later, Dijsselbloem's disregard for democracy's most basic principle was confirmed, and enhanced, by Schäuble, who spoke immediately after Michel Sapin, the French finance minister. Sapin had just argued in favour of discovering common ground between the validity of the existing MoU and the right of the Greek people to mandate us to re-negotiate crucial parts of the MoU. Schäuble lost no time in giving short shrift to Sapin's reasonable point: "Elections cannot be allowed to change anything," he said, with a large majority of finance ministers nodding along.

At the end of that same meeting, while negotiating the joint statement to be released, I asked that the word "amended" be added in front of "MoU" in a sentence that was meant to commit our government to the latter. Schäuble vetoed my proposed phrase, saying that the existing MoU was not to be negotiated just because the Greeks had elected a new government. After a few hours of the resulting standoff, Dijsselbloem threatened me with an imminent "programme collapse" (which translated into bank closures by 28 February) if I insisted on adding "amended" in front of "MoU". On instructions from my prime minister, Alexis Tsipras, I left the meeting without a communiqué being agreed to, ignoring Dijsselbloem's threat. Although the threat proved empty, it soon returned with a vengeance.

Time and again we would be threatened with bank closures when refusing to endorse a programme, the MoU, which had so demonstrably failed in every possible way. The creditors and Eurogroup refused even to engage with our economic arguments. They demanded that we capitulate. They even accused me of daring to "lecture" them on economics!

And so it was that Greece's negotiations with its creditors were conducted — under a dark cloud of threat. That the threat was credible we knew from the outset, even though we were not prepared to stand down or to lose hope that Europe would change tack.

A month before we were elected, the previous Greek government, in cahoots with the governor of the Bank of Greece (who had previously served as that same government's finance minister), had already sparked off a mild bank run. After our election, the ECB began to signal that it would steadily switch off the flow of liquidity to Greece's banking system, reinforcing the deposit flight that, at a time of the Eurogroup's choosing, would "justify" the closing down of the banks — as Dijsselbloem had threatened.

Stonewalling, propaganda and fragmentation

The negotiations, once they commenced at the "technocrat" level, confirmed our worst fears. The creditors publically proclaimed their concern for getting their money back and for reforming Greece. In truth, however, they only cared about humiliating our government and forcing us to choose between resignation and capitulation, even at the cost of ensuring that creditor nations would never get their money back and jeopardising a reform agenda that only our party could convince Greeks to adopt as their own.

Time and again, we proposed that legislation should be passed on three or four areas that we agreed with the institutions — measures to tackle tax evasion, shield the tax authority from both political and corporate influence, address corruption in procurement, reform the judiciary, etc. Their reply was: "No way!" Nothing should be legislated before a "comprehensive review" was complete.

During the Brussels Group negotiations, we would be asked to present our plans for VAT reform. Before we could pin down an agreement on VAT, the troika representatives would shift to pension reforms. They would immediately rubbish our proposals before moving on to, say, labour relations. Once they rejected our proposals on that, they would shift to privatisations. And so on, ensuring that the discussions moved from one topic to another before anything was agreed, without any serious negotiation on any topic, creating a process that resembled a cat chasing its tail. For months the troika representatives stonewalled, insisting that we should talk about everything, which is equivalent to negotiating on nothing at all.

Meanwhile, without having put forward any proposals of their own, and while threatening us with a cessation of talks if we dared publish our proposals, they would leak to the press that our proposals were "weak", "ill-thought-out" and "not credible". In the hope that they would, at some point, meet us halfway, we went along with this impossible process.

Perhaps the greatest impediment to a sensible negotiation was the fragmentation of our interlocutors. The IMF was close to us on the importance of debt restructuring but insisted that we should remove any rights that organised labour retained while destroying the surviving protections of middle-class professionals. The Commission was far more sympathetic to us on these social issues, but forbade any talk of a debt restructuring. The ECB had its own agenda. In short, each of the institutions had different red lines, which meant that we were imprisoned in a grid of red lines.

Even worse, we had to deal with our creditors' "vertical disintegration", as the bosses of the IMF and Commission had a different agenda from their minions, and the German and Austrian finance ministers had an agenda totally at odds with that of their chancellors.

Defeated friends, defeated Europe

Perhaps the most dispiriting experience was to be an eyewitness to the humiliation of the Commission and of the few friendly, well-meaning finance ministers. To be told by people holding high office in the Commission and in the French government that "the Commission must defer to the Eurogroup's president", or that "France is not what it used to be", made me almost weep. To hear the German finance minister say, on 8 June, in his office, that he had no advice for me on how to prevent an accident that would be tremendously costly for Europe as a whole, disappointed me.

By the end of June, we had given ground on most of the troika's demands — with one exception: we insisted on a mild debt restructuring that would involve no haircuts, and smart debt swaps. On 25 June I attended my penultimate Eurogroup meeting where I was presented with the troika's "take it or leave it" offer. Having met the troika nine tenths of the way, we were expecting them to move towards us a little, to allow for something resembling an honourable agreement. Instead, they backtracked in relation to their own, previous position (on VAT). Clearly they were demanding that we capitulate in a manner that demonstrated our humiliation to the whole world, offering us a deal that, if we had accepted it, would have destroyed what was left of Greece's social economy.

The following day, Prime Minister Tsipras announced that the troika's ultimatum would be put to the Greek people in a referendum. A day later, on Friday 27 June, I attended my last Eurogroup meeting, which put in train the foretold closure of Greece's banks — a form of punishment for our audacity in consulting our people.

In that meeting, Dijsselbloem announced that he was about to convene a second meeting later that evening, without me: without Greece being represented. I protested that he could not, of his own accord, exclude the finance minister of a eurozone member state, and I asked for legal advice.

After a short break, the advice came from the Secretariat: "The Eurogroup does not exist in European law. It is an informal group and, therefore, there are no written rules to constrain its President." In my mind, that was the epitaph of the Europe that Adenauer, de Gaulle, Brandt, Giscard d'Estaing, Schmidt, Kohl, Mitterrand, etc had worked towards. Of the Europe that I had always thought of, ever since I was a teenager, as my point of reference, my compass.

A week or so later, despite the closed banks and the scaremongering of the corrupt Greek media, the people of Greece delivered a resounding no in the referendum. On the following day the Euro Summit responded by imposing on our prime minister an agreement that can only be described as our government's terms of surrender. And the weapon of choice? The illegal threat of severing Greece from the eurozone.

Whatever one thinks of our government, this episode will go down in European history as the moment when official Europe, using institutions and methods that no treaty legitimised (the Eurogroup, the Euro Summit, the threat of eviction from the eurozone), dealt a major blow to the ideal of an ever-closer democratic union. Greece capitulated, but it is Europe that was defeated.

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