

In the spring of 2015, a series of debt negotiations briefly claimed a share of the world's attention that normally goes only to events where celebrities give each other prizes. Syriza, a scrappy left wing party, had stormed into office in Greece on a promise to challenge the consortium of international creditors that had effectively ruled the country since its debt crisis broke out in 2010. For years, austerity, deregulation, the rolling back of labor rights and public services, the rule of money over society, had been facts of life. Now suddenly they were live political questions. It was riveting.

Syriza was represented in these negotiations by its finance minister, Yanis Varoufakis. With his shaved head, leather jacket, and motorcycle, he was not just a visual contrast to the gray-suited Eurocrats across the table. His radical but rigorous proposals for a different kind of Europe—one based on meeting human needs rather than rigid financial criteria— offered a daily rebuke to the old refrain “there is no alternative.”

The drama was clear, but the stakes were a little obscure. Why did it matter if Greece stayed in the euro? Orthodox economic theory, after all, gives little role for money or finance. What matters are real wants and real resources, for which money is just a convenient yardstick. University of Chicago economist John Cochrane probably spoke for much of the profession when he asked why it made any more sense to talk about Greece leaving the euro than about Greece leaving the metric system.

But money does indeed matter — especially in economic relations between countries, as Varoufakis himself has convincingly shown. In his three books—*The Global Minotaur* (2011), *And the Weak Suffer What They Must* (2016), and *Adults in the Room* (2017)—Varoufakis offers a fascinating lens on the euro system and its masters. While the first two books chart the history of the international monetary system from World War II up to the debt crisis, his last and most recent book is a reflection on his five months as Greek finance minister. Taken together, they read as if Varoufakis is the protagonist in some postmodern fable, in which he is transformed from a critic of the play to one of the main characters in it.

Greece today has 20 percent unemployment - the highest in Europe. It would be higher still if it weren't for the loss of a tenth of the working-age population to emigration. The most recent IMF projections say that unemployment will remain in the double digits well into the 2040s. Multiple rounds of bailouts and “reform” packages left its GDP a quarter below pre-crisis levels, and the IMF projects it will not regain the lost ground until around 2030.

And yet the Greek government is committed to sending 3.5 percent of national income abroad as tribute to its creditors each year, for the indefinite future. The battle by Varoufakis and his Syriza comrades against this intolerable state of affairs is, even in defeat, a rare spot of genuine heroism in today's discouraging political

landscape. There is plenty to question and criticize. But any political movement that hopes to reassert the values of European social democracy against its current legatees will have much to learn from his example, as well as his books.

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National economies are linked by a vast web of money flows — payments for goods and services, of course, but also loans, interest payments, asset purchases, profits on foreign investment, and so on. Since David Hume in the eighteenth century, theorists have looked for automatic mechanisms—changes in prices, or interest rates, or exchange rates—that would bring all these flows of money across borders into balance. If such a mechanism existed, then in discussing the economic relations between countries we could safely ignore money, and imagine a kind of international barter serving the needs of all sides. The central claim of Varoufakis in *The Global Minotaur*, however, is that there is no such mechanism.

In Varoufakis's story, money is not just an accounting device; real productive activity is organized—and disorganized—by flows of money. The stable reproduction of an international economy requires flows of money across borders to balance. But when this has happened over any significant period, it has either been through dumb luck or else because some more or less conscious “surplus recycling mechanism” moves money from countries gaining it back to those losing. Otherwise, human labor and other real resources must be sacrificed to bring the money flows into line, or else the imbalance will eventually end with a crisis.

Since World War II, there have been two main global surplus recycling mechanisms. The first, in the twenty-five or thirty years after World War II, is the Bretton Woods system, or what Varoufakis calls the “global plan.” During this period, the United States ran trade surpluses, but recycled them—plus whatever additional dollars the world needed—through a mix of foreign aid, military spending and foreign investment. During this period, exchange rates were more or less fixed; the first resort for a country losing hard currency was expected to be not devaluation, but capital controls—restrictions on financial flows out of the country. This system worked well, says Varoufakis, as long as the United States accepted responsibility for running it, managing the U.S. economy to maintain a sufficient but not excessive outflow of dollars to the rest of the world.

By the 1970s, this responsibility came to seem like too much of a constraint on achieving domestic policy goals. After a chaotic period of experimentation, the recycling mechanism shifted toward what Varoufakis calls “the global minotaur” and what others, less creatively, sometimes call Bretton Woods II.

Under this system, the pattern of flows was reversed: the United States runs a trade deficit, financed by foreign investment from the rest of the world. Capital controls were now verboten, and exchange rates were supposed to float; countries losing foreign exchange would solve the problem by allowing their currency to depreciate

until their exports were competitive enough to earn the hard currency they required.

Perversely, the new recycling mechanism, and the U.S. position within it, benefited from the now-frequent currency crises. Safe assets—meaning dollar assets—were in great demand by anyone who wanted to protect themselves against the vicissitudes of international markets. The United States could comfortably finance its trade deficits with financial inflows from the foreign central banks that desperately needed reserves in the new regime of capital-flow and exchange-rate uncertainty. The United States was, in effect, selling insurance against the instability it had itself created when it abdicated responsibility for the international order.

One way of looking at the financial crisis of 2008 is as a breakdown in the post-Bretton Woods surplus recycling mechanism. Mortgage backed securities had played a key strategic role in the system in which dollars flowed out of the United States to pay for imports, and then back in as investment in the safe financial assets the United States was uniquely able to provide. So when the U.S. mortgage market blew up, so did the international payments system.

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Europe at first seemed to better weather the 2008 financial crisis. But it soon suffered a financial breakdown and deep recession even worse than those in the United States. This crisis—and its deep institutional roots in the development of the euro system—is the subject of *And the Weak Suffer What They Must?*

The euro project, as Varoufakis tells the story, sprouted from the rubble of Bretton Woods. Elsewhere, the flexibility of floating exchange rates was supposed to help countries weather the rougher waters of the new international non-system. But in Europe's tightly integrated economies, the idea that stable trade flows could coexist with wild swings in exchange rates was a non-starter.

A vast array of cross-border links were “calibrated to function under the assumption that all European currencies moved gradually together.” (Weak, 63) If Europe was to be tightly integrated in terms of real productive activity—something no one had seriously questioned once plans for a permanently deindustrialized Germany were abandoned shortly after the war—then it needed a tightly integrated monetary system as well. When the global system of fixed exchange rates broke down, a European equivalent had to be built up.

With one difference: the New Dealers who set up “the global plan” at Bretton Woods recognized that someone had to actively manage the international monetary system. Their European successors did not. Obsessed with “the fantasy of apolitical money,” they placed at the center of their new system a central bank with no political oversight, and no responsibility for Europe's financial system.

The combination of maximally fixed exchange rates with maximally free trade led, inevitably, to the development of large trade imbalances within Europe— imbalances that were amplified by the otherwise desirable convergence of incomes across members of the union. (Despite the focus on competitiveness, faster growth probably played a larger role in southern deficits than did higher costs.)

For the corresponding financial flows from north back to south, the system relied on the private decisions of profit-seeking investors. This meant that when things broke down there was no one at the center focused on getting payments flowing again or maintaining the viability of the weaker partners, only a gaggle of burghers who wanted their money back.

The play-by-play of this breakdown is ably narrated by Varoufakis. The short version is that a number of poorer countries in Europe—Spain, Greece, Ireland, Portugal—enjoyed huge expansions of credit in the first decade of the euro, which financed (among other things) a big run-up in property values. The immediate lenders were the banks in the peripheral countries, but they in turn financed themselves by borrowing from elsewhere in Europe, an arrangement made much easier by the euro system.

The crisis saw an abrupt halt to these cross-border financial flows. The result was a steep decline in lending, in asset values, and soon in real activity. With incomes falling steeply and interest rates rising, the debts incurred by a number of governments — Greece, Portugal, Ireland, but also Spain and even Italy — threatened to become unpayable. The deep cuts in public spending these countries were forced to make in response — along with business-friendly reforms to boost their “competitiveness” — were an economic disaster, plunging millions of people into a new world of deprivation and insecurity.

They were also the euro system working as designed.

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Thomas Mayer, the former chief economist of Deutsche Bank, once described the euro as an attempt to create “the modern equivalent of a gold standard.” The goal was to subject the managed economies of postwar social democracy to a hard external constraint, outside the control of national governments. Forced to rely on money that “politicians could not conjure up from thin air” (Weak, 91), governments would once again be subject to the judgment of the market. Capital would be fully mobile, national governments would voluntarily surrender the tools once used to manage financial flows, and exchange rate adjustments would no longer be available as even a last ditch resort to cushion trade imbalances. Governments that wish to maintain a stable position in the international system would instead have to focus on two goals. First, to maintain an acceptable balance on the financial account, they

would have to maintain the confidence of the markets; and second, to maintain an acceptable balance on the trade account, they would have to keep wages down and productivity up. The narrowing of policy space for national governments was, arguably, not a bug but a feature—even the central one.

Some version of this analysis is widely shared by both supporters and critics of the euro system. It has an important element of truth. But reality isn't so simple, for a number of reasons. First, the role of exchange rates in stabilizing trade flows has been greatly exaggerated. It is simply not the case that Greece, for instance, could “pay its own way” before the euro by devaluing its currency, as is sometimes suggested. In fact, despite frequent devaluations Greece ran trade deficits continuously for decades before entering the euro. (As Varoufakis points out, the last time the country had a trade surplus was under German occupation in 1943.)

Second, financial flows often shift for reasons that have nothing to do with the policies of particular governments. The experience of peripheral Europe, like the experience of smaller countries around the world that have accepted free capital mobility, is not the strict but fair discipline of stern foreign investors, but rather of wildly unpredictable floods and droughts of money from alternately credulous and panicky markets, which depend more on financial conditions in the world's financial centers than anything happening in the receiving countries.

A third difference between the euro system and the gold standard ideal is more subtle. Under the gold standard, as under the dollar standard that most of the world operates on today, central banks are subject to the same constraints as national governments. The Bank of Mexico cannot print dollars, it can only acquire them in the same ways as anyone else in Mexico. The European case is different. Despite the common perception that the European Central Bank is, well, the central bank of Europe, national central banks still exist and perform almost all the routine functions of central banking. (Among other things, they literally print euros.)

The central banks, in turn, make payments to each other through the TARGET2 system. If, say, there are more payments from people and businesses in France to Germany in a given period than from Germany to France, the difference shows up as a credit for the German central bank in the TARGET2 system, and a debit for the French central bank. This system has one critical feature: no one has to approve a central bank borrowing through it, and there are no limits to the balances it can run up. In effect, each central bank in the euro area has an unlimited overdraft facility from all the others.

There were good reasons to design the system this way. Indeed, it is hard to see how one could have a monetary union without some mechanism to ensure that a euro in a bank account in one country can always be used to make a payment of one euro to any other. But from the point of view of creating a disciplining mechanism on states, it is a fatal flaw. With a cooperative central bank, it is impossible for a euro area government to ever run out of euros.

Whatever limits the system puts on public spending, then, do not come automatically, but must be actively imposed by central banks. Under the gold standard, central banks were inside the nation-state, sharing its international constraints. But in the euro system they are outside it, part of the machinery that imposes those constraints. This critical difference means that the euro area's crisis cannot be understood simply as bad institutional design, but only through the political choices of its central bankers. This is perhaps the most important lesson of *Adults in the Room*.

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In January 2015, when Varoufakis entered the stage, Greece was already on its third loan negotiations with its official creditors. The first one had swapped the Greek government's debt to private lenders elsewhere in Europe with debt to other European governments, to the ECB and to the IMF. The money loaned to the Greek government had been used to repay loans that private lenders were unable or unwilling to roll over. It was a bailout—but for banks in Germany, France, and elsewhere, not for Greece. From the point of view of the Greek state, their debts to private lenders had simply been replaced with debts to official lenders.

While the bailouts did not reduce the amount of debt owed by the Greek state, they did change its character. While private lenders are primarily interested in getting their money back, public authorities often have a broader set of interests in the behavior of their debtors. The new loans to Greece were governed by a Memorandum of Understanding (MoU) laying out a set of policy changes the Greek government had to make to receive the money. The loans were to be doled out in installments, with each new payment contingent on the “conditionalities” being satisfied.

This model followed a precedent set by numerous loans to developing countries since the 1970s. In principle, the goal was to not just solve the immediate crisis, but to make the “hard choices” necessary to put the borrower on a sound footing to avoid future payments crises—something that, by hypothesis, local political institutions would not be willing to do on their own. Whatever their intentions, these agreements necessarily involve a substantial transfer of authority from national governments to creditors..

By the time Syriza took office, the Greek state had already agreed to a long list of “reforms”—from banning collective bargaining to loosening restrictions on milk freshness—and had surrendered control over key government functions, including tax collection, to officials appointed from outside. Varoufakis describes the arrangement as “neocolonial,” and with reason. In the nineteenth century, turning over tax collection to European authorities was a penalty imposed on defaulting governments from China to Turkey to Egypt, often as a first step toward outright

subjugation. The central issue under dispute in the first month of negotiations was whether the new government would continue to be bound by the agreements signed by the previous one.

The bulk of *Adults in the Room* is a detailed account of the negotiations between the Greek government and its creditors between February and June of 2015. The creditors were, notionally, three public institutions—the IMF, the European Central Bank, and the governments of the other euro-area states as represented by the European Commission. It was this “troika” that had drafted the MoUs and appointed the officials running the Greek tax authority and other government functions under government control. The legitimacy of this body was immediately challenged by the new Greek government, leading to the famous exchange at the end of the first public meeting between Varoufakis and Dutch Finance Minister Jan Djisselbloem, who angrily told him “you’ve killed the troika!” before pointedly refusing to shake his hand. (In the end, the accusation proved premature.)

Confusingly, the negotiations themselves took place in the Eurogroup, an informal working group that included all euro-area finance ministers as well as representatives of the three troika bodies. Within these meetings, the dominant figures were Djisselbloem, as president of the Eurogroup, and perhaps the book’s most fascinating character, German finance minister Wolfgang Schauble.

Varoufakis’s description of his time in the Eurogroup meetings is never less than gripping. He is a master storyteller, and it is very rare to get such a frank and seemingly unfiltered account of the private conversations in which power is exercised. For this narrative alone, the book deserves a place on the short shelf of great political memoirs. The content of the negotiations described by Varoufakis—not to mention his own political role—will look very different in retrospect, depending on whether Europe continues down its current path toward a Hayekian prison of nations, changes course, or blows itself apart. But no matter what happens, this book will be read in fifty years by anyone who wants to understand how elite politics actually works.

Several lessons are clear from Varoufakis’s story. First, real power does not always lie where titles and organizational charts say it should. Neither Schauble nor Djisselbloem has, on paper, any more authority over the Greek debt than any of the other fifteen finance ministers. Nonetheless, their control of the proceedings is seldom questioned and never seriously challenged.

In one striking scene, Pierre Moscovici (representing the European Commission) initially agrees to replacing the existing MoU with language he and Varoufakis draft together and promises to get the new text through the Eurogroup. But the moment he presents their new language “in the room,” Djisselbloem swats it down. And “in a voice that quavered with dejection,” Moscovici meekly assents: “Whatever the Eurogroup president says.” (*Adults*, 261)

A second lesson is that the rigidity or flexibility of rules is a decision variable for whoever is in charge of enforcing them—and the more opaque and indirect the decision-making process, the more space for discretion there is. In a dramatic scene near the end, Djisselbloem announces that the Eurogroup will depart from its til-then ironclad principle of unanimity and issue an official statement over Greece’s veto. When Varoufakis asks how that is allowed, he gets this response from the EU secretariat: “The Eurogroup does not exist in law. . . . and therefore its president is not legally bound.” (447)

Third, arguments are seldom decided, or even debated, on the merits. Varoufakis’s main activity during his months in office seems to be putting together detailed “non-papers” (the EU’s suggestive term for unofficial proposals) on possible resolutions, which the other side simply ignores. As he puts it:

“On the assumption that good ideas encourage fruitful dialogue and can break an impasse, my team and I worked very hard to put forward proposals based on . . . sound economic analysis. Once these had been tested on some of the highest authorities in their fields . . . I would take them to Greece’s creditors. Then I would sit back and observe a landscape of blank stares. . . . Their responses, when they came, took no account of anything I had said. I might as well have been singing the Swedish national anthem.” (308-309)

Curiously, no matter how often it is repeated, this experience doesn’t lead him to question his assumption that good ideas are what matter. Even when Schauble tells him bluntly in a one-on-one meeting that “I am not going to negotiate with you,” (337) Varoufakis goes on gamely trying to make a deal. Right to his last days in office, he is offering new proposals, all vetted by the highest authorities.

At times the narrative has the feel of a horror story where the protagonist tries to operate by the rules of normal life, only to gradually discover the conspiracy all around him. In Berlin, for example, Varoufakis is invited to a dinner by a couple of leading figures in the Social Democratic Party. The Social Democrats are Merkel’s junior coalition partners but, they assure him, they see the insanity of what is being done to Greece and they want to support him in his struggles with their government. The dinner must be a secret of course—no aides, no press—so they can strategize together. Then, at the restaurant, one of the Germans’ phone rings. He hands it to Varoufakis: it is ECB president Mario Draghi, calling to say that assistance for Greece’s banks is being cut off.

The message is threatening enough, but it is doubly chilling that it is delivered through a supposed ally.

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What was it all about, then? More precisely: What did the creditors want? What leverage did they use to get it? And, could Greece have done any better?



The negotiations which dominated Varoufakis's five months in office were ostensibly aimed at a long-term resolution in which the Greek state could continue servicing its debts while getting the resources it needed to foster economic growth and development. But it would be a mistake to see the stakes as being whether the debtor could continue borrowing, or the creditors would get their money back.

For one thing, Greece already had a primary surplus—its revenues were more than enough to fund expenses other than debt service costs. No one on either side contemplated a return to primary deficits. So the funds being doled out or withheld by the creditors were not in any sense financing the activities of the Greek government. Quite literally, the creditors were lending Greece money only so that it could keep paying back those same creditors. In effect, the Greek state was paying a substantial tribute to its creditors each year for the privilege of remaining in debt to them.

The circularity of this arrangement in financial terms makes it clear that the financial side was never what mattered. As Varoufakis shrewdly notes, “we were dealing with creditors who did not really want their money back.” (20) The real issue was power—the power the debt gave the creditors to dictate to the Greek government, and the power they had to punish Greece if it didn't comply.

Concretely, this meant, on the one hand, acceptance of the existing MoU and everything it implied, including even deeper austerity, fire-sale privatization of everything owned by the public, a permanent end to collective bargaining, and steep cuts in public and private wages; and on the other hand, the ECB's ability to shut down the Greek banking system.

We will return to the second point—the key strategic role of the ECB. As to the first: why were the European authorities so insistent that Greece surrender control over domestic policy and accept the ultra-liberal program of the MoU? Varoufakis suggests two possible answers.

At some points, he argues that the MoU and the larger austerity agenda were embraced opportunistically by politicians who did not want to admit that the first bailout had handed over public funds to their own banks. Blaming Greek profligacy was the politically easier cover story. “The sole reason that the IMF and EU were asphyxiating us [was] because they did not have what it took to confess the error” of the earlier bailouts, he says. (197) Austerity, in this telling, is not a goal in itself, but merely “a morality play pressed into the service of legitimizing cynical wealth transfers from the have-nots to the haves during times of crisis, in which debtors are sinners who must be made to pay for their misdeeds.” (40)

A second possibility is that austerity and the rolling-back of social democracy were the goals all along, for which the Greek crisis simply provided an opportunity. In this version, Greece was subject to “fiscal waterboarding” not to avoid acknowledging

the earlier bailout, but precisely to force compliance with the MoU—and even more, to provide an example for other governments in Europe.

It is clear why Varoufakis prefers the first story: the logic of his position in government required something like it to be true. If austerity were not an accident, a mistake—if the authorities would not in principle be just as happy with an active, egalitarian Greek state—then what was he sitting in all those meetings for? You can't walk into negotiations unless you believe that a mutually satisfactory agreement is at least possible.

Unfortunately, Varoufakis's narrative doesn't cooperate with his analysis here. Just a few pages after the "sole reason" line, he describes a meeting with Pier Carlo Padoan, Italy's finance minister:

**QUOTE** Our discussion was friendly and efficient. I explained my proposals, and he signaled that he understood what I was getting at, expressing not an iota of criticism but no support. To his credit, he explained why: when he had been appointed finance minister a few months earlier, Wolfgang Schäuble had made a point of having a go at him at every available opportunity...

I enquired how he had managed to curb Schäuble's hostility. Pier Carlo said that he had asked Schäuble to tell him the one thing he could do to win his confidence. That turned out to be "labour market reform"—code for weakening workers' rights, allowing companies to fire them more easily with little or no compensation and to hire people on lower pay with fewer protections. Once Pier Carlo had passed appropriate legislation through Italy's parliament, at significant political cost to the Renzi government, the German finance minister went easy on him. 'Why don't you try something similar?' he suggested. **END QUOTE**

"I'll think about it," is Varoufakis' diplomatic reply.

A couple days later, he has his first meeting with the German finance minister himself. Schauble brushes off Varoufakis's suggestions for strengthening the Greek tax authorities, insisting instead on "his theory that the 'overgenerous' European social model was no longer sustainable and had to be ditched."

**QUOTE** Comparing the costs to Europe of maintaining welfare states with the situation in places like India and China, where no social safety net exists at all, he argued that Europe was losing competitiveness and would stagnate unless social benefits were curtailed en masse. It was as if he was telling me that a start had to be made somewhere and that that somewhere might as well be Greece. **ENDQUOTE**

Schauble's frank language is revealing, and we owe Varoufakis thanks for bringing it—and many similar statements by other officials—into public view. At the same

time, it is a problem for his argument that the only obstacle to a decent deal was the authorities' need to save face over the earlier bailouts.

The exchange with Schauble also makes clear how right Varoufakis is to dismiss as a “fundamental misconception” the idea that Europe’s crisis involves “a tussle between Germans and Greeks.” The battle in Europe may be between interests, classes or ideas; but it is not, except superficially, between nations. Whichever way the austerity machinery is pointed at the moment, it can easily be turned somewhere else.

During the debt negotiations, one of the rare moments of disunity on the creditor side is a shouting match between Schauble and the French finance minister Michel Sapin. Varoufakis, on the other side of the room, asks someone what is going on. “Wolfgang said that he wants the troika in Paris,” is the reply. (381) For German conservatives such as Schauble, Greece is indeed just somewhere to make a start; the real target is the larger and stronger welfare states of Europe—and ultimately their own working class.

The ostensible purpose of the negotiations was to resolve the crisis and stabilize payments by the Greek government to its creditors; austerity was supposed to be just a means to that end. In that case, if the same financial results could be achieved with a less brutal set of policies, everyone should be ready to sign on. But what if it is the other way round? What if the actual goal was austerity, and the crisis and unpayable debt just convenient openings to pursue it?

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One doesn't have to look far to find this argument being made quite openly. I suspect the real attitude of much of the European elites is well captured in a 2006 *Economist* editorial, which argued:

**QUOTE** The core countries of Europe are not ready to make the economic reforms they so desperately need—and that will change, alas, only after a diabolic economic crisis. ... The sad truth is that voters are not yet ready to swallow the nasty medicine of change. Reform is always painful. And there are too many cosseted insiders—those with secure jobs, those in the public sector—who see little to gain and much to lose. . . . The real problem, not just for Italy and France but also for Germany, is that, so far, life has continued to be too good for too many people.

If Varoufakis didn't want to take Schauble's word for the real stakes, he might have listened to the various representatives of the troika who repeatedly made clear that “labor reform”—specifically, a permanent ban on collective bargaining—was one of their red lines. Or he might have looked at the ECB's record as an enforcer of austerity in Ireland, Italy, Portugal and Spain, years before Syriza came into office.

In 2011, when the Italian bond market was in turmoil, the ECB intervened to stabilize it—but only after sending a private letter to then-prime minister Silvio Berlusconi demanding a long list of “structural” reforms, including “full liberalisation of local public services,” particularly “the provision of local services through large scale privatizations,” “reform [of] the collective wage bargaining system . . . to tailor wages and working conditions to firms’ specific needs,” “thorough review of the rules regulating the hiring and dismissal of employees,” and cuts to private as well as public pensions, “making more stringent the eligibility criteria for seniority pensions” and raising the retirement age of women in the private sector. (Strangely, this intervention and the similar demands by the ECB on the governments of Spain, Ireland and Portugal get almost no mention here.)

Privatization, weaker unions, more employer control over hiring and firing, skimpier pensions go well beyond what we normally think of as the remit of a central bank. And since the letter was private (it was published later) it can hardly be seen as a cover story for a bank bailout. The only reason for the ECB to make these demands is if they really wanted them met.

Looking beyond Europe, Varoufakis might have looked at the many structural adjustment programs promulgated by the IMF in countries of the South. Varoufakis is not wrong to liken Greece’s treatment to that of Europe’s colonies and protectorates in the age of gunboat diplomacy. But one needn’t look back to the nineteenth century for precedents. Since the 1980s, dozens of poor countries have been forced to sign humiliating agreements with the IMF, surrendering autonomy over economic policymaking and committing to brutal austerity. What was new here was just that this treatment was being applied to a country in the rich world.

Late in the book, Varoufakis has a meeting with IMF chief Christine Lagarde. Of the leaders on the creditor side, Lagarde comes off as the most sympathetic, and Varoufakis is cautiously optimistic he may be able to win her over. But when he gets his private meeting, what is the first thing she wants to talk about? Pharmacy deregulation! In a country with a quarter of the workforce unemployed, massive poverty, and public services in a state of collapse, that has already seen wall-to-wall deregulation, the most urgent problem she sees is that family-owned drugstores are still too sheltered from competition with international chains.

Stories like these — and the book is full of them — suggest that the creditors were not just looking for a politically palatable way to avoid responsibility for their earlier failures. They were sincere and consistent ideologues, striving to remake Europe in the model of an idealized free-market society. Varoufakis recounts these stories masterfully, yet curiously they never seem to shake his view that a mutually beneficial deal is just around the corner.

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If Varoufakis' account of his opponents' motives is somewhat unsatisfactory, his account of their means is lucid and compelling. One of the central points is that the European Central Bank is a thoroughly political actor. Its decisions to buy or not buy government debt, to lend or not lend to banks, are always described in terms of statutory rules, but in practice, the rules mean what the ECB wants them to mean.

Perhaps the most dramatic expression of this was Draghi's 2012 interventions to bring down rates on euro-area governments' bonds—something the ECB's charter was understood to explicitly forbid. In Greece, of course, the rules were bent the other way.

Varoufakis gets this exactly right: "In reality, after 2008, any attempt by the ECB to impose its charter rigorously . . . would have ruled out any of the various waivers, reinterpretations and extraordinary shenanigans that have so far prevented the eurozone from collapsing altogether. Far from being apolitical, the ECB's huge discretionary power over when to enforce its rules and when to circumvent them . . . make it the most political central bank in the world." (312)

The ECB was also the only one of the three troika institutions with direct coercive power. The other creditors could, of course, refuse to extend new loans. But by 2015, the funds Greece was receiving from its official loans were being used entirely to service their existing debt. So a threat to cut off lending would just mean that if Greece defaulted on its loans, it would have to default on its loans.

The ECB, on the other hand, had the power to withdraw liquidity assistance from Greek banks, forcing them to shut down. Indeed, even the threat that assistance might be withdrawn was enough to provoke a bank run. This was the creditors' only real stick, but it was a big one.

Dijsselbloem, who uses his first meeting with Varoufakis to deliver an ultimatum ("the current program must be completed or there is nothing else!" (167)) clearly expects that the mere threat of a bank shutdown will end all resistance. As Varoufakis observes, "Experience has taught functionaries operating on behalf of Europe's deep establishment [that] . . . government ministers, prime ministers, even the president of France, buckle at the first whiff of . . . the ECB's big guns." (168)

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Was there anything to be done? Could different choices by the Syriza government have allowed them to deliver on their promises? Or were the creditors always going to get their way?

Varoufakis's answer is unambiguous: Greece should have walked away from the negotiating table at the end of February, when the creditors withdrew an earlier offer to reconsider the policy commitments made by previous Greek governments,

and made it clear that the troika would not accept any modifications to the existing MoU.

If Greece had walked away at that point, the ECB and Bank of Greece would certainly have withdrawn liquidity assistance from the Greek banking system, forcing it to shut down—just as they eventually did in June.

But if the confrontation had come in February rather than June, Varoufakis believes, his colleagues would have chosen to fight rather than to surrender. Four months of fruitless negotiation, of “fiscal waterboarding” (letting the state get enough resources for minimal functions but not for any new initiatives), of vilification in the press, and of public and private pressure on individual members, left the Syriza government too demoralized and divided to resist when the ultimatum eventually came.

Varoufakis, to his great credit, takes responsibility for the decision to go on with talks even when it was clear that the other side would accept nothing but continued austerity. In a section entitled “*mia maxima culpa*,” he doesn’t mince words: “It was a tough call,” he writes, “but I should have made it. ... I failed to rise to the challenge.” (290-292)

Suppose the Greek government had refused to continue negotiations after February 24. What would have happened then? The ECB and/or the Bank of Greece would have announced an immediate end to emergency liquidity assistance (ELA) to Greek banks. The pretext would have been that the Greek government debt held by the banks, being rated below investment grade, was not acceptable as collateral, and that a waiver from this requirement could only be granted if an IMF program was in place and Greece was in compliance with it.

Without ELA, the Greek banks would have shut down and available cash would have had to be carefully rationed, just as eventually happened in June. At that point—as did *not* happen in June—the Syriza government would have activated its “deterrent.” The three key pieces of this were, first, a unilateral writedown or “haircut” of Greek bonds held by the ECB; second, the introduction of a parallel payment system, including both a system of electronic payments and certificates against future tax liabilities that could circulate in the place of cash; and emergency legislation to replace the head of the Bank of Greece, an establishment politician hostile to Syriza who had been appointed in the final days of the previous government.

Varoufakis is convinced that the bond haircut was seen as a serious threat by the ECB—not of course for the financial loss involved, which is trivial and anyway irrelevant for a central bank, but because of the administrative and political headaches it would cause. But given the ECB’s flexible approach to its own rules, it is hard to be convinced on this point.

Much more important is the second piece. If an alternative payments system could allow purchases to be made, workers to get paid, and businesses to buy needed inputs even with the country's private banks shut down, then the ECB would be largely defanged. With the creditors' threat to bring economic life to a halt removed from the game, Greece could return to the bargaining table in a much stronger position. And in the worst case, if the creditors still refused to accept anything but the existing package, the parallel payments system would become the basis for a new currency, allowing a gradual transition out of the euro instead of a wrenching leap. Obviously there are many devils in the details, but the logic of what Varoufakis describes seems sound.

The greatest strength of the political establishment in Europe—as of political establishments everywhere—is the perception that their rule is an unchangeable fact, that there is no alternative. The sight of Greece still standing—businesses running, people working and paying bills, public services functioning—after the ECB had done its worst would severely damage this aura of inevitability.

For precisely this reason, a Greek non-capitulation was directly threatening to conservative politicians elsewhere in Europe, especially those facing challenges from the left. As Varoufakis says, “What mattered to them was their authority, and that was being challenged by a leftist government whose success at negotiating a new deal for its country was the creditors’ greatest nightmare, as it might give ideas to other Europeans.” (115)

Spanish finance minister Luis de Guindos directly confirms this at one point, telling Varoufakis that his position in the Eurogroup meetings was dictated by fear that any Syriza success would give ammunition to his government's opponents in the leftwing party Podemos. Conversely, as Varoufakis observes, a hardline treatment of Greece served “as a deterrent to any other politician in Spain, Italy, Portugal or indeed France, who might be tempted” to challenge the reigning orthodoxy. (395)

In short, Greece had to be made an example of so people in the rest of Europe wouldn't get ideas. Varoufakis is bluntly told at one point that austerity is necessary not to improve Greece's repayment prospects, but “to demonstrate to Paris what is in store for France if they refuse to enact structural reforms.” (Weak, 193) Or as the Slovak finance minister—“Schauble's keenest cheerleader in the Eurogroup”—put it, “We had to be tough on Greece because of their Greek Spring.” (Adults, 305) But this dynamic might also have worked in Greece's favor if they had stuck to their guns. Rather than risk an example of successful noncompliance, the creditors might have compromised instead.

As for the third component of the Greek response—replacing the leadership at the Bank of Greece—Varoufakis doesn't think much of it. It is certainly true that Stournaras, the holdover governor, did everything he did to undermine the Syriza government, deliberately stoking panic in financial markets in direct violation of a central banker's core responsibility. And it is true that, officially, the final decision to

shut down the Greek banks was made by the Bank of Greece, not the ECB. But Varoufakis is convinced that Stournaras was just following instructions from his masters. Against those in Syriza who see control of the central bank as critical, he insists that it is just “a branch office of the ECB.”

I’m not sure he is right about this. On paper, at least, the euro system gives considerable autonomy to the national central banks, and it is easy to find examples of national central bank leaders defying the central authorities in Frankfurt (most visibly, Jens Weidemann of Germany). Any future European government considering a challenge to the authorities will need to explore whether, and how, the national central bank can become a strategic asset.

We’ll never know whether Varoufakis’s “Plan X” could have worked. When the moment came it was not activated. Faced with the troika’s final ultimatum in June, the Syriza government put it to a referendum—and then ignored the public’s resounding vote of “No.”

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Varoufakis makes a convincing case that, contrary to what some have alleged, he did have a coherent plan for dealing with a breakdown in negotiations. But it is also clear that he was not really prepared to use it. In a small but telling detail, the alternative payments system is always described as a “deterrent,” as if it is merely leverage to get a better deal from the authorities, not as a step toward greater independence from them. And while the basics of the plan were in place when he took office, neither he nor his staff seem to have put much effort into developing it further.

Despite all the evidence, he seems to have been convinced to the end that the creditors would eventually come around. It is striking that whenever he talks about the need for more time, the benefits of waiting just a bit longer, it is in the hopes that the creditors will at last see reason. Even after the “No” vote, preparing the alternative payments system is only one of four priorities for his staff; number one is developing yet another offer for the creditors to reject. When he assures Tsipras that Merkel will “100%” accept his new proposal if she is rational, one wants to reach through the page and shake him and say, “Yanis, haven’t you been reading your own book?” The dejected Tsipras has a clearer view of the situation when he replies that new proposals don’t matter: “They want to destroy us.”

It would be easy to cast Varoufakis as an academic out of depth in the deep waters of power. But I don’t think he is naïve. Rather, he is a believer in the European project.

The tension between believing in Europe and regarding its current stewards as enemies comes out clearly in his discussion of capital controls—the restrictions on financial payments across borders. Many people thought that the new Syriza government should have immediately limited payments from bank accounts in



Greece to accounts outside it, slowing the bank run and making the Greek banking system less dependent on emergency liquidity of ECB and BoG. But Varoufakis rejected this, writing “Capital controls are inconsistent with monetary union.” And later, “capital controls would be detrimental to the EU member states common interests and for that reason alone we had to oppose them.” (255) Here and elsewhere, he comes across as a committed European - an honorable stance but perhaps not the best fit for the position he occupied..

The same logic plays out with the Bank of Greece. Tsipras and the rest of the Syriza leadership urgently wanted to replace the hostile Stournaras as bank governor. But Varoufakis is against it: “For as long as the ECB negotiated with us in good faith, I argued, we needed to show respect for its Greek branch.” (303) It is an old story—the insurgent who unilaterally disarms in an effort to show good faith while the authorities have no intention of reciprocating.

Five months of being stonewalled, lied to, and vilified by the European establishment did nothing to diminish Varoufakis’s faith that the future of democratic, egalitarian politics lies at the European level. The book ends with him, now out of office, barnstorming France and Germany to build up a new Europe-wide political movement. His refusal to give in to cynicism or despair (or return to the safe harbor of academia) is inspiring, and indeed, there is no one better to make the case for a humane, democratic Europe.

But, from the outside, one might still wonder if his way is the only way. It is exhilarating to imagine a genuinely democratic Europe, one that reflects the collective choices of the continent’s people as a whole. But perhaps the best route to this model of integration would be, paradoxically, for some countries first to de-integrate—to reassert their sovereignty and reject the free movement of money and goods that have defined the European project in favor of a model in which economic ties are managed in the service of a national program of development.

The greatest strength of the deep establishment that Varoufakis struggled with so valiantly is the idea that there is no alternative. In Europe today, integration is presented not as something that will bring a better life for ordinary people, but rather something for which they must sacrifice—since the alternative is unthinkably worse. As long as there is no credible path to prosperity and sovereignty outside Europe, why should the authorities feel compelled to offer them inside? Game theorist that he is, Varoufakis must know that the bargaining power of the weak depends on their exit options.