Review of James Galbraith, *Welcome to the Poisoned Chalice* (Yale University Press, 2016)

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Galbraith's articles and interviews collected in this book (ending in October 2015) traces his growing exasperation at the "troika" – the European Central Bank (ECB), IMF and EU bureaucracy – which refused to loosen their demand that Greece impoverish its economy to a degree worse than the Great Depression. The fight against Greece was, in a nutshell, a rejection of parliamentary democracy after the incoming Syriza coalition of left-wing parties won election in January 2015 on a platform of resisting austerity and privatization.

The world has seen the result: In contrast to the support given to countries with right-wing regimes, the ECB and IMF tightened their financial screws on Greece. The incoming finance minister, Yanis Varoufakis – who had been Galbraith's faculty colleague at Austin, Texas – asked Galbraith to join him in February to help develop an alternative to the austerity being demanded. They were optimistic that reason would prevail: an awareness that the creditors' program of "cutting wages and income without providing any relief from private debts (such as fixed mortgages) merely deepens debt burdens and forces people into bankruptcy and foreclosure."

This book reflects Galbraith's disappointment at how matters turned out so disastrously. In early June, a month before the July 5 referendum in which Greek voters rejected ECB-IMF demands by a heavy 61.5 percent, he thought that the government would fall if it capitulated. "So this option is not a high probability." But that is just what *did* happen. Tsipras surrendered, prompting Varoufakis to resign the next day, on July 6.

A week earlier Galbraith had spelled out what seemed to be the inherent logic of the situation: Tsipras "could not yield to the conditions being demanded. So then the onus will be back on the creditors, and if they choose to destroy a European country, the crime will be on their hands to all to see." Tsipras did yield, and the Greece's economy was destroyed by the Eurozone getting its way and imposing insolvency *within* the euro, not by forcing it out of the euro and leaving it bankrupt resorting to anti-Cuba or anti-Iran-type sanctions. Galbraith's book presents the prosecutor's case for what ensued. By May 3, he wrote to Varoufakis that he found "no prospect for development inside the current economic structures of the Eurozone."

The essays in this book present Greece's experience as an object lesson for other countries seeking to free themselves from right-wing financial control. The IMF and ECB do not even consider their destruction of Greece's economy to be a failure. They continue to impose an austerity doctrine that was shown to be fallacious already in the 1920s.

The EU Constitution imposes debt deflation and austerity

Galbraith expressed his "epiphany" already in 2010 that a "market-based" solution was a euphemism for anti-labor austerity and a reversal of political democracy. "In a successful financial system, there must be a state larger than any market. That state must have monetary control – as the Federal Reserve does, without question, in the United States." That was what many Europeans a generation ago expected – for the EU to sponsor a mixed public/private economy in the progressive 20th-century tradition. But instead of an emerging "European superstate" run by elected representatives empowered to promote economic recovery and growth by writing down debts in order to revive employment, the Eurozone is being run by the troika on behalf of bondholders and banks. ECB and EU technocrats are serving these creditor interests, not those of the increasingly indebted population, business and governments. The only real integration has been financial, empowering the ECB to override national sovereignty to dictate public spending and tax policy. And what they dictate is austerity and economic shrinkage.

In addition to a writeoff of bad debts, an expansionary fiscal policy is needed to save the eurozone from becoming a dead zone. But the EU has no unified tax policy, and money creation to finance deficit spending is blocked by lack of a central bank to monetize government deficits under control of elected officials. Europe's central bank does not finance deficit spending to revive employment and economic growth. "Europe has devoted enormous effort to create a 'single market' without enlarging any state, and while pretending that the Central Bank cannot provide new money to the system." Without monetizing deficits, budgets must be cut and the public domain sold off, with banks and bondholders in charge of resource allocation.

As long as "the market" means keeping the high debt overhead in place, the economy will be sacrificed to creditors. Their debt claims will dominate the market and, under EU and ECB rules, will also dominate the state instead of the state controlling the financial system or even tax policy. Galbraith calls this financial warfare totalitarian, and writes that while its philosophical father is Frederick Hayek, the political forbear of this market Bolshevism is Stalin. The result is a crisis that "will continue, until Europe changes its mind. It will continue until the forces that built the welfare state in the first place rise up to defend it."

To prevent such a progressive policy revival, the troika promotes regime change in recalcitrant economies, such as it deemed Syriza to be for trying to resist creditor commitments to austerity. Crushing Greece's Syriza coalition was openly discussed throughout Europe as a dress rehearsal for blocking the Left from supporting its arguments. "Governments from the Left, no matter how free from corruption, no matter how pro-European," Galbraith concludes, "are not acceptable to the community of creditors and institutions that make up the European system."

Opposing austerity is called "contagion," as if prosperity and rising living standards are an economic disease, not national bankruptcy being enforced by the ECB and EU bureaucracy (and the IMF). To prevent Podemos in Spain and similar parties in Portugal and Italy from mounting a recovery from eurozone austerity, these financial institutions support right-wing governments while tightening the screws on Left governments. That is what happens when central banks are made "independent" of democratic electoral politics and parliamentary control.

Galbraith's month-by-month narrative describes how the IMF and ECB overrode Greek democracy on behalf of creditors and privatizers. They sought to undermine the Syriza government from the outset, making Greece an object lesson to deter thoughts by Podemos in Spain and similar parties in Portugal and Italy that they could resist the creditor grab to extract payment by a privatization grab and at the cost of pension funds and social spending. By contrast, conciliatory favoritism has been shown to right-wing European parties in order to keep them in power against the left.

On the surface, the troika's "solution" – paying creditors by bleeding the economy – seems obviously self-defeating. But this seeming failure appears to be their actual aim: foreclosure on the assets of the indebted economy's public sector under the banner of its version of R2P: Responsibility to Privatize. For Greece this means its ports, islands and tourist centers, electricity and other public utilities.

The ECB and IMF accelerated Greece's economic collapse by demanding a rise in the VAT from 23 percent, making tourism in the islands more expensive. "The plain object of the creditors' program is therefore *not* reform," Galbraith points out. Instead of helping the economy compete, "Pension cuts, wage cuts, tax increases, and fire sales are offered up on the magical thought that the economy will recover *despite* the burden of higher taxes, lower purchasing power, and external repatriation of profits from privatization." Privatized public utilities are turned into "cash cows" to enable buyers to extract monopoly rents, increasing the economy's cost of living and doing business.

The European Union's pro-creditor policies are "written into every European treaty from Rome to Maastricht," overriding "the vision of 'sustainable growth' and 'social inclusion'" to which they pay lip service. Reinforcing the ECB's monetary austerity is the German constitution, imposing fiscal austerity by blocking funding of other countries' budget deficits (except for quantitative easing to save bankers).

The financial warfare being waged by the ECB and IMF

This is not how the EU was supposed to end up. Its ideal was to put an end to the millennium of internecine European military conflict. That was fairly easy, because warfare based on armed infantry occupation was already a thing of the past by the time the EU was formed. No industrial economy today is politically able to mount the military invasion needed to occupy another country – not Germany or France, Italy or Russia. Even in the United States, the Vietnam War protests ended the military draft. Warfare in today's world can bomb and destroy – from a distance – but cannot occupy an adversary.

The second argument for joining the EU was that it would administer social democracy against corruption and any repeat of right-wing dictatorships. But that has not happened. Just the opposite: Although the European Union treaties pay lip service to democracy, they negate monetary sovereignty. The IMF, ECB and EU bureaucracy have acted together to collect the bad debt left over from their reckless 2010 bailout of French, German, Dutch and other bondholders. In behavior reminiscent of Allied demands for unpayably high German reparations in the 1920s, their demands for payment are based on predatory junk economic theory claiming that foreign debt of any magnitude can be paid by imposing deep enough austerity and privatization sell-offs.

So the arena of conflict and rivalry has shifted from the military to the financial battlefield. Along with the IMF and ECB, central banks across the world are notorious for opposing democratic authority to tax and regulate economies. The financial sector's policy of leaving money and credit allocation to banks and bondholders calls for blocking public money creation. This leaves the financial sector as the economy's central planner.

The euro's creation can best be viewed as a legalistic coup d'état to replace national parliaments with a coterie of financial managers acting on behalf of creditors, drawn largely from the ranks of investment bankers. Tax policy, regulatory and pension policies are assigned to these unelected central planners. Empowered to override sovereign self-determination and national referendums on economic and social policy, their policy prescription is to impose austerity and force privatization selloffs that are basically foreclosures on indebted economies. Galbraith rightly calls this financial colonialism.

The asset grab promoted by the IMF and ECB is incompatible with reviving Greece or other southern European economies (not to speak of the Baltics and Ukraine). The theory is unchanged from that imposed on Germany after World War I – the theories of Jacques Rueff, Bertil Ohlin and the Austrians, controverted by Keynes, Harold Moulton and others at the time.[1] Their victorious role in this debate has been expurgated from today's public discourse and even from academia. What passes for economic orthodoxy today is an unreformed (and incorrigible) austerity economics of the 1920s, pretending that an economy's debts can all be paid simply by lowering wage levels, taxing consumers more, making workers (and ultimately, businesses and government) poorer, and selling off the public domain (mainly to foreigners from the creditor nations).

Galbraith contrasts economists to doctors, whose professional motto is "Do no harm." Economists cannot avoid harming economies when their priority is to save bankers and bondholders from losses – by bleeding economies to pay creditors. What the IMF calls "stabilization programs" impose a downward spiral of debt deflation and widening fiscal deficits. This forces countries to sell off their land and mineral rights, public buildings, electric utilities, phone and communications systems, roads and highways at distress prices.

At first glance the repeated "failure" of austerity prescriptions to "help economies recover" seems to be insanity – defined as doing the same thing again and again, hoping that the result may be different. But what if the financial planners are *not* insane? What if they simply seek professional success by rationalizing politics favored by the vested interests that employ them, headed by the IMF, central bankers and the policy think tanks and business schools they sponsor? The effects of pro-creditor policies have become so constant over so many decades that it now must be seen as deliberate, not a mistake that can be fixed by pointing out a more realistic body of economics (which already was available in the 1920s).

Given the eurozone's mindset, Galbraith asks whether Greece may be better off going it alone, away from the IMF/ECB "hospice" and its financial quack doctors. Saving the economy requires rejecting the body of creditor demands for austerity by central planners at the IMF, ECB and other international institutions.

Any sovereign nation has the right to avoid being impoverished by creditors who have lent sums far in excess of the amount that can be paid without being forced to engage in privatization selloffs at distress prices. Such demands are akin to military attack, having a similar objective: seizure of the indebted economy's land, natural resources and public infrastructure, and control over its government.

[1] My book *Trade, Development and Foreign Debt* (2002) reviews the German reparations debate over "capital transfers" with regard to how austerity actually reduces the ability to pay.

These demands are at odds with parliamentary democracy and national self-determination. Yet they are written into the way the eurozone is constructed. That is why withdrawal from the current financial regime is a precondition for recovery of economic sovereignty. It must start with control over the money supply and the tax system, followed by control over public infrastructure and the pricing of its services.

The future of Europe's Left

What led governments (although by no means all voters) to accept a supra-national pan-European authority was the trauma of World War II. It seemed that nation-states were prone to making war, but a United States of Europe would not fight – at least, not internally. But the authority that has been put in place is financial, pro-creditor and anti-labor, empowered to impose austerity and turn the public domain to into privatized monopolies.

The EU cannot be "fixed" by marginal reforms. Greece's treatment shows that it must be recast – or else, countries will start leaving in order to restore parliamentary democracy and retain what remains of their sovereignty. The financial sector's ideal is for economies centrally planned by bankers, leaving no public infrastructure unappropriated. Privatized economies are to be financialized into opportunities to extract monopoly rent.

The gauntlet has been thrown down, posing a question today much like that of the 1930s: Will the alternative to austerity, debt deflation and the resulting economic breakdown be resolved by a pro-labor socialist alternative, or will it lead to a victory by anti-European right-wing parties?

What makes the situation different today is the remarkable extent to which today's European parties calling themselves Socialist, Social Democratic or Labour have accepted privatization and opposition to budget deficits. This shift reverses what they urged at their origins more than a century ago. So the problem is not only to resist the right wing of the political spectrum; it is to reconstruct a real European left.

Galbraith's book has important implications for the policies needed to save the eurozone from being turned into a dead zone along the lines of Latvia's disastrous oligarchic "success" story. (Drastic emigration and declining after-tax wages are the "Baltic Miracle" in a nutshell.)

If European Left does not succeed in creating an alternative to eurozone austerity, right-wing nationalists will lead a withdrawal campaign. Golden Dawn in Greece, France's National Front, along with Hungarian, Austrian and Polish nationalist parties and Britain's UKIP are moving to fill the vacuum left by the absence of a socialist alternative to financialization under ECB and IMF *dirigisme*.

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SUGGESTED CITATION:
Michael Hudson, "Review of James Galbraith, *Welcome to the Poisoned Chalice* (2016) Yale University Press", *real-world economics review*, issue no. 76, 30 September 2016, pp. 124-128,
http://www.paecon.net/PAEReview/issue76/Hudson-2-76.pdf