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‘This is a different type of crisis’

George Papaconstantinou, Greek Minister of Finance when the Eurocrisis began in 2010, on the EU response then and now

Ten years ago the Greek Prime Minister George Papandreou asked the European Union and the international community for financial support. The pictures of him standing in front of the idyllic island of Kastellorizo mark the official start of the European sovereign debt crisis of 2010. George Papaconstantinou was his Finance Minister from 2009 to 2011 and served later as Energy and Environment minister.

George, is the 10-year anniversary of Papandreou’s announcement an issue these days in Greece?

No, I wouldn’t say that it is – though it does remain an important symbolic moment in the national consciousness, understood and interpreted differently by different people. We have moved beyond the sovereign debt crisis; the economy was growing and after the end of the third bailout as well as the last election, people generally felt that we had turned the page. And now the anxiety about the current crisis and its aftermath is greater, and it is obviously going to be very difficult.

In his announcement in Kastellorizo, the Prime Minister compared the crisis that was about to begin with a long and difficult journey. He used a classical metaphor and said that Greece was embarking on a “new odyssey”. Has the country now reached a safe haven or is it still in heavy waters?

We are certainly in a better place than we were even a few years ago. A lot has happened, a lot of the fundamental problems that sparked the crisis such as the twin deficits of the budget and of the external account have been tamed. Of course, the crisis was caused by underlying structural and institutional problems. Some of those have been addressed – but not all. Many structural reforms in areas of the economy have been completed, but some of the broader institutional reforms that gave birth to the economic problems in the first place

have not been dealt with. I would like to think that the glass is half full rather than half empty. But to say that we have reached a safe haven would be an exaggeration.

If we turn our eye from Greece to Europe this is also an ongoing process. In the epilogue of your book, published in 2016, you write "the hard work has just begun" referring to strengthening Europe and further integration of the EU. Is the glass also half full in this case, or a bit emptier?

The reforms in the institutional architecture that started in 2010 were long overdue even before the crisis. And once the crisis hit, the reforms were late, because it took a long time to realise the systemic elements of the crisis, which went far beyond Greece. But unfortunately, we pretty much stopped reforming around 2013. Since then we've been in a phase of economic recovery (right up until now), but this recovery kind of blunted the incentives for further reforms.

Take the completion of the banking union for example: We still do not have a European Deposit Insurance Scheme. We also do not have a Central Stabilisation Function, we do not have a European Safe Asset – all of these are necessary to complete the EMU. Many of the things that were described in various papers and proposals over the years have been left undone. Yes, we do have the ESM, we do have crisis instruments and we have a better functioning infrastructure. But, as we are seeing right now, we still have to invent new tools in an flawed institutional governance infrastructure, including perhaps new instruments and even new institutions. So it would be fair to say, even before the current crisis, that the job was not finished. The current crisis exacerbates that.

As you say, Europe is again in crisis, this time a different one caused by a deadly virus. But there was no immediate European response, rather a range of national initiatives to deal with the crisis. And when it came to the question of how to react, a big fight broke out between the European South and the European North. Are we reliving the divides of the Eurocrisis all over again?

With a twist, this time. Everyone recognises that this is a different type of crisis. It's a symmetric crisis, the origins of which cannot – by any stretch of the imagination – be traced to flawed economic policies. However, even though it is a symmetric crisis, it can have asymmetric effects, depending on the economies that it hits and their capacities to deal with it.

So, while we have seen some repeat of the conversation and posturing of a decade ago, it is not the same. Even though there has been some

discussion about whether one can or should insist in these circumstances on the conditionality of the ESM loans, it is not the same kind of moral hazard rhetoric that we had seen between 2010 and 2016. The European institutions reacted also much faster than in 2010. Partly, because this crisis hit much faster. What took two years back then happened in two months this time around. So, the institutions had to adapt and react more quickly. For instance, the ECB reacted within a few weeks, whereas it took two years from 2010 until it finally made the "whatever it takes" statement.

So we have learned. I wouldn't say we have learned enough in the sense that some remnants of that North-South division are still there and in certain countries, like the Netherlands, it unfortunately dominates the political discourse. For the moment this division means that the decisions that need to be taken at EU level for a collective fiscal response have not yet been made. Now, having said that, I am heartened by the fact that in Germany a part of the press and of the political establishment has taken a clearly different approach to this crisis than it did during the sovereign debt crisis.

Concerning the current European divide, maybe best symbolised by Italy and the Netherlands, you are in a unique position to understand the differences: you are Greek, you have experience of participating in the Eurogroup discussions as finance minister for your country and your wife is Dutch. What would be your recommendation for going forward?

There is the traditional kind of positioning: The South usually tends to invoke solidarity and the North tends to invoke self-reliance. But like in the sovereign debt crisis, collective European decisions are also promoting enlightened self-interest. It is true that the Union will be much better off if the countries that have been hurt most, and do not have the fiscal space to deal by themselves with it, are helped. At the end of the day, this will make for a better functioning internal market and will preserve the stability of the Eurozone, which is as good for the North as it is for the South.

That argument was valid then and it is doubly valid now because today it doesn't have the riposte of the moral hazard problems. There is a way out if you design instruments which are forward looking, deal only with new debt that is created to get a recovery going, and do not touch legacy debt. That's how you can evacuate the moral hazard discussion and find common ground even with countries that start from a very different point of view. At the same time, I don't think it is helpful to insist on an all-encompassing eurobond proposal as Italy seems to be doing. It is not going to fly. You have to find a solution in the context of a dedicated recovery fund that takes the sensibilities of

the different countries into account. In the end, everybody has to move from their red lines.

Adam Tooze mentioned in a recent interview one of the lessons of the Eurocrisis: "It matters what every country does but it matters more what Germany does". Following this logic and since IPS is the journal of the German Social Democracy: What should Germany be doing now?

In my book, I wrote that during the Eurocrisis nothing happened until Germany had weighed up every possible option, made up her mind and communicated it to the rest. So, I think to a large extent it is true. Now one difference this time around is the fact that France has sided more with the rest of Europe. For example, the proposal of the nine-country "coalition of the willing" changes the dynamic around the coronabond somewhat.

I would not council any part of the German political establishment, but I think that the Social Democrats clearly have a bigger responsibility and a bigger role to play. They are part of the coalition government; they are in control of the finance ministry, which is a dominant voice in the German political discussion. The Ministry of Finance has moved extremely fast and effectively in this crisis, throwing out of the window tenets of orthodoxy, which were just not commensurate to the times and to the challenges at hand. So, to the same extent that they did this for Germany, I think they should push for doing it for Europe as well. And if Germany moves on this, I think that other countries sharing a similar starting point will move as well.

This interview was conducted by Christos Katsioulis.



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