

CNN –Amanpour Show – 7th May 2012

CHRISTIANE AMANPOUR, CNN HOST: Good evening, everyone. I'm Christiane Amanpour, and welcome to the program. Austerity can no longer be inevitable. Those are the fighting words of France's president-elect, Francois Hollande. And today, German chancellor Angela Merkel shot back, "We welcome Francois Hollande with open arms," she said, "but the austerity pact is non-negotiable."

My brief tonight: austerity showdown. What happens when not inevitable meets non-negotiable? The two leaders will meet for the first time next week, but they seem worlds apart right now.

Hollande campaigned on a platform of renegotiating Europe's austerity pact, and he says that he can save the French economy by hiking taxes on the wealthy and providing economic incentives to get older and younger people back to work, but at a Berlin press conference today, Angela Merkel insisted again that austerity is the only way.

Meanwhile, in Greece, another powerful rejection of austerity, no party there won a clear mandate in parliamentary elections this weekend, and thus at the moment Greece is a rudderless ship. The two leading parties are trying to form a coalition, but a majority of voters expressed their anti-austerity rage by gravitating to the political fringe, the far left and the far right.

Look at these pictures of neo-Nazis marching last night. They won 21 seats in a 300-member parliament. Today, the leader of that party, Nikolaos Michaloliakos took to the streets of Athens with his followers.

(BEGIN VIDEO CLIP)

NIKOLAOS MICHALOLIAKOS, GOLDEN DAWN LEADER: The Europe of the nations returns. Remember this, that Greece is one, is only the beginning.

(END VIDEO CLIP)

AMANPOUR: And his followers answered by shouting, "Greece belongs to the Greeks." All of this in a country where a newspaper featured a picture of Angela Merkel in Nazi garb. So how can Germany get a rebellious Eurozone back in line?

Later in the program, I'll have an interview with the German foreign minister Guido Westerwelle. But first, we have an analysis of the European political earthquake. And for that, I'm joined by French political

scientist, Yannick Mireur, and the Greek economist, Yanis Varoufakis.

Gentlemen, thank you both very much for being here.

Let me go straight to you, Yannick. Hollande staked a huge amount on his promise to renegotiate the austerity pact. Is that a lot of campaign rhetoric or is that what he's going to really be able to do?

YANNICK MIREUR, FRENCH POLITICAL SCIENTIST: I think a little bit of both. I think that is what he will be willing to do, and it was -- would be one of his objectives. Now the reality from that would be probably different what you might expect from the campaign rhetoric. That's the major difference, I would say.

AMANPOUR: But how will he be able to step back from that, since it seems to have won him the election?

MIREUR: Well, you know, in this European negotiation, which is pretty much domestic affairs for all European countries now, given the interdependence and along this European construction, the cosmetic is always important.

So the announcement will be probably different than the reality. But I think certainly that they can have perhaps in addition to what has already been negotiated, which is called the fiscal pact in February, which will be (inaudible) coming months, perhaps add to that sort of an addendum on growth measures that may not be that significant. The devil will be in the details, as always.

AMANPOUR: And Yanis, the much beleaguered Angela Merkel, who sits astride the strongest economy in Europe, and yet is really taking all the slings and arrows of all of this discontent. Once President Hollande meets with her. what's going to come out of that? Who's going to meet -- win this fight?

YANIS VAROUFAKIS, ECONOMICS PROFESSOR, UNIVERSITY OF ATHENS: I think we're entering a game for the long term. The first meeting is going to result in an amicable agreement that we need to bolster stability and growth but, of course, the devil will be in the detail.

The way that the Eurozone is going to handle the inevitable cascade of insolvencies beginning with states like Greece and then later on actually quite soon Spanish banks and some Italian banks, whether the Eurozone matures enough to be able to handle these insolvencies, without being in denial about it, and the way that it will manage to do that is going to determine the relationship between Hollande and Merkel.

AMANPOUR: And you don't -- when you say insolvency, you're not talking about a default?

VAROUFAKIS: I'm talking about defaults.

AMANPOUR: Really? Because not everybody agrees with you there -- with you on that.

VAROUFAKIS: Greece already defaulted two months ago. And we're going to very soon realize that it is impossible to have what the Spanish government is doing today. It is trying -- an insolvent state is trying to salvage an insolvent bank, the third largest bank in Spain.

And unless the Eurozone, just like the 'dollar zone', I mean the United States of America, manages to handle, to absorb the shocks of insolvencies without being in denial that it can ameliorate them by means of more loans to the insolvent, the Eurozone will not have a chance to recover.

AMANPOUR: Yannick, when the last socialist president was elected back in 1981, he also did a huge program of spending, of nationalization, of doing all those kinds of things --

MIREUR: We implemented it.

AMANPOUR: And it didn't work.

MIREUR: No, he --

AMANPOUR: He had to retract -- he had to retreat --

(CROSSTALK)

MIREUR: -- and this is not -- this is internal sort of French discussion. That was in '81.

AMANPOUR: (Inaudible) --

MIREUR: -- going to -- this is not '81 redux. The situation is very different. The ideological charge is very moderate, and that is an important thing to say before jumping into action about what's in the decision with Merkel is going to be.

I think this victory of Mr. Hollande, 51.7 percent, which is a decent victory, not a landslide, actually quite a good score for someone who was

supposed to be, you know, a landslide out of office as Mr. Sarkozy was supposed to be, is a reflection of essentially, first of all, a rejection of Mr. Sarkozy's perhaps authoritative, sometimes very energetic style of government --

AMANPOUR: People just didn't like him in the end.

(CROSSTALK)

MIREUR: -- detriment of the balance between president and prime minister and all that. I won't go into the details. But that factor was the key factor for the election.

In other words, there was not a wide subscription to the socialist as such. That tells you about the programs and Mr. Hollande himself is someone who hasn't promised that much, except a few chunky (ph) things that may not be implemented the way they were presented (ph) --

AMANPOUR: (Inaudible) certainly thinks (inaudible) big, new taxes on the wealthy. He's promised a 75 percent (inaudible) --

MIREUR: That actually concerns -- this is more of the rhetorical -- I regret that, because it (inaudible) some time (inaudible) --

AMANPOUR: Well, what about renegotiation --

MIREUR: -- of tension between --

AMANPOUR: -- (inaudible) than --

MIREUR: That would be one of the key things, and I am not sure that we'll have the leeway to do that, that's why perhaps is rather comfortable victory makes it sort of his -- a bit independent from the left leaning part of his coalition, well, we'll see that.

AMANPOUR: In the end, I mean, the real question, isn't it, is how to spur growth.

MIREUR: Yes.

AMANPOUR: That's what's the legions of people on the streets are worried about. I mean, it is shocking, Yanis, to see in your country these people marching around with Nazi salutes and the people saying, you know, Greece is just the beginning. This is the first time this far right group, I think, has got seats in parliament.

VAROUFAKIS: Ever.

AMANPOUR: Ever?

VAROUFAKIS: It's extremely scary and but what scares me even more than that is that the influence of these neo-Nazis are having already in shaping the mainstream parties's policy shifts towards the ultra right.

For instance, two weeks ago, we had the socialist minister of public order asking the police -- instructing police -- to carry out brutal HIV tests on paperless prostitutes and then publish their photographs on official websites. This is Nazism managing to influence power without gaining power. This is extremely worrying.

AMANPOUR: So two changes and, I mean, I'm not going to call Marine Le Pen a neo-Nazi, but certainly front -- certainly far right. And got an enormous amount of votes and that is affecting the debate. It's affected the elections. Her voters didn't go to Mr. Sarkozy.

MIREUR: To some degree, did of course. The question is how much, 50 percent, or much more than that, perhaps a little (inaudible) as expected, 75 percent expected. That makes a difference to the .1, .2, .3, and then you have a defeat.

The question is, I think, one important thing to our watchers is to say that institutions are still solid in most parts of Europe. I mean, you have to take into account the issue of each country.

And as far as the French are concerned, I think it's now a movement of despair and anxiety and, as I said again, I think the numbers after the -- from yesterday, after Mr. Hollande's election, I brought up the fact that the people in France and the rest of Europe, I believe, but France certainly, are pretty much conscious of the fact there is a strong need for cutting spending.

That doesn't mean they don't lose all hope that growth will come around, and in fact, the growth for Hollande is actually a sort of fact that it's the other side of the story, they also hope growth, they hope for good news. You know? But they are pretty conscious of the fact and pretty serious about it. And the institutions are pretty strong. There is no revolution coming.

AMANPOUR: Yes.

VAROUFAKIS: Yes.

AMANPOUR: We have a -- yes, as you say. We have an interview in this program, as I said, with the German foreign minister. And you'll hear him talk about not just austerity but growth-based policies. He says, look, we were the sick man of Europe, and we had to implement flexibility in the labor market.

We had to do all sorts of reforms, structural reforms, that will work if only these countries have some, as he will say, strategic patience.

Does Greece have the strategic patience to take this medicine and get better?

VAROUFAKIS: If that was medicine, rather than poison, I think already Greece would have taken it. The problem with this particular German view is that it's utterly false, profoundly wrong. The reason why Germany managed to grow the way it did was because it increased its competitive advantage vis-a-vis the rest of the Eurozone, by pushing labor unit costs below those of the rest of the Eurozone. And by keeping inflation lower than everybody else -- if everybody did exactly the same thing, the German strategy would not have worked. It is impossible for one country to maintain a surplus, a healthy surplus in exports, within the Eurozone without the rest having a deficit vis-a-vis that very country.

So the German strategy worked only to the extent that it was not implemented by anywhere else. And trying to make everybody behave and grow like Germany is simply mission impossible.

MIREUR: The key point, though, here to say is that at least they have been able to negotiate social (ph) agreements so that the lower the labor, the cost of labor, which the French haven't been able to do, and that's one of the -- Yes, but it also reflects on the readiness and the state of institutions and the state of mind of the majority of the opinion to go that route.

(CROSSTALK)

VAROUFAKIS: If Germany had not managed to maintain a very healthy surplus, an export surplus, with the rest of the Eurozone, its strategy would have failed. So what I'm saying is the success of Germany has been purchased at the expense of the solidity of the Eurozone. So when the 2008 crisis hit the Eurozone was simply not in a position to respond like a large Germany, with everybody doing what Germany did.

AMANPOUR: And as everybody's watching now, certainly Greece, what do you think will happen in terms of who's going to be able to form a government?

VAROUFAKIS: We are in uncharted territory at the moment. Already the leader of the largest party, Mr. Samaras, has declared that he is not capable of fulfilling the mandate. The mandate will go to the leader of the second party now, then to the third.

It all depends on whether one of the small left-wing parties will form a coalition with the two major parties. If they don't, then we'll have a period of instability and a caretaker government until mid-June. And then we're going to have to look at another election.

AMANPOUR: All right. Yanis, thank you very much. Yannick, thank you very much. And we'll watch for that meeting between Hollande and Merkel.