

Varoufakis vs. the Troika. Showdown in Athens

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“Will the United States, Germany, the rest of the European Union, the European Central Bank, and the International Monetary Fund – collectively constituting the International Mafia – allow the new Greek leaders of the Syriza party to dictate the conditions of Greece’s rescue and salvation? The answer at the moment is a decided “No”. — William Blum, [The Greek Tragedy](#), CounterPunch

“The Greek economy is finished.... There is no power, no force within the Greek economy, within Greek society that can avert – it’s like – imagine if we were in Ohio in 1931 and we were to ask: What can Ohio politicians do to get Ohio out of the Great Depression? The answer is nothing.” — Yanis Varoufakis, Greek Finance Minister

A disagreement over the terms of a deal to provide a bailout extension for Greece, has set the stage for a final clash between the Eurogroup and members of the Greek ruling party, Syriza. Although the agreement was approved on Tuesday when a list of reforms were submitted by Greek finance minister Yanis Varoufakis to the Eurogroup, Varoufakis believes that changes to the original program give him greater flexibility to implement policies that will end austerity, reduce the ailing country’s primary budget surplus, and ease the humanitarian crisis that has persisted for 6 years. Regrettably, no one at the ECB, the European Commission or the IMF shares Varoufakis’s views on the subject. The so called “troika” thinks that Greece has signed on to essentially the same program that was in place before the negotiations, give or take a few cosmetic changes in the language. And because the program is the same, they think Varoufakis should stick with the same policies as his predecessor and ignore mounting public opposition to austerity. Given the irreconcilable differences between the two parties, there’s bound to be a violent confrontation in the near future that will lead to heated recriminations and, eventually, a Grexit.

To illustrate the widening chasm between Varoufakis and the members of the Eurogroup, consider the fact that, going into the negotiations, Varoufakis was determined to end the bailouts and secure a “bridge” loan that would shield Greece from default for a six month period of adjustment after which basic changes to the current austerity regime would be re-negotiated. While the Eurogroup agreed to change the term “program” to “agreement” and “troika” to “institutions”, in the minds of the EU finance ministers, the substance of the original deal, which was laid out in the hated Memorandum of Understanding, remained the same. Take a look at this excerpt from a letter from ECB president Mario Draghi and Eurogroup president Jeroen Dijsselbloem and you’ll see how this is playing out:

“I assume that it is clear, that the basis of concluding the current review, and also any future arrangements, will be the existing commitments in the current Memorandum of Understanding and The Memorandum of Economic and Financial Policies (MEFP). In this context we note that the commitments

outlined by the authorities differ from existing programme commitments in a number of areas. In such cases, we will have to assess during the review whether measures which are not accepted by the authorities are replaced with measures of equal or better quality in terms of achieving the objectives of the programme.” ([Naked Capitalism](#))

What Draghi is saying is that Varoufakis’s changes will be put under a microscope to see if they conform with the memorandum which Varoufakis believes no longer applies. The way this will work on a practical basis, is that additional money will only be meted out incrementally depending on compliance with, you guessed it, the old agreement. In other words, Varoufakis will not have a 4 month grace period to experiment with his pro-growth, anti-austerity economic policies. He’ll be expected to toe the line from Day 1.

Varoufakis either doesn’t understand what he signed or thinks he can implement his own plan without too much interference from the Eurogroup. Either way, there’s probably going to be a confrontation given the vast disparity in the way the agreement is being interpreted. In a Tuesday interview with CNBC, Varoufakis said that the new deal is fundamentally different than the previous agreement. He said:

“Some people have been insisting that the program that we’ve been under must surely be the program that we shall remain under simply refuse to understand that this has changed. So they keep insisting that that program is still on-going. Let me give you a very simple number. The program that we challenged compelled to the Greek government to extract 4.5% of the primary surplus every year in a depressed economy. We’ve changed that. Now surely that is not dismissed as simply a non-event and it’s business as usual, so it’s not business as usual we have a fresh start and now what matters is to use the opportunity of that fresh start in order to build something good on top of it. And we will endeavor to do this.” (“[CNBC Exclusive Interview: Greek Finance Minister, Yanis Varoufakis](#)“, CNBC)

See? He sincerely believes that the old deal is history. But the troika, the Eurogroup, and the majority of people who have analyzed the new arrangement, disagree. They think everything is the same (which explains why critics on the right and left have repudiated the deal as a “climb-down, a capitulation and a sellout.)

In an interview with Nikos Hatzinikolaou on REAL FM, Greece, Varoufakis rejected the Memorandum while claiming that the new agreement represents “a huge success’ in ending the “recessionary measures” that are needlessly prolonging Greece’s Great Depression. Here’s what he said:

Varoufakis: “The current government (Syriza) wants to say things with their name. I will explain it to you in very simple terms, Mr. Hatzinikolaou. As long as our debt is what it is, as long as Greece was bounded within this iron cage of primary surpluses that were impossible to achieve without killing whatever is left in the private sector, and as long we have a negative sign in investments (essentially, real investments), it was impossible to achieve this exit.

What we are trying to do – and have succeeded in doing so; it was a huge success, I’d say – is to create a four-month bridge during which we achieve the following:

First, the cancelation of the recessionary measures and the implementation of a transitional program we ourselves have made, one the Greek society will be able to withstand. This will help us negotiate during this four-month period a new contract between us and our partners with the goal of solving this system of three equations with three unknowns.

Hatzinikolaou: Thus, we are talking about a new Memorandum?

Varoufakis: OK. Let us be careful with the words. What does the Memorandum mean? ... Let me remind you of what it comprises. It comprises the logic of continuous domestic [or internal] devaluation, of huge primary surpluses in an economy that does not have a real credit system, where investments are negative, and at the same time where we have a series of measures that empower this recession. This is the MoU. It is the automation, the a-politicization, and the subjection to the crisis." (["The juicy interview of Greek Finance Minister, Yanis Varoufakis"](#), Greek Analyst)

Varoufakis appears to be saying that, in his view, the new agreement constitutes a rejection of the memorandum and, thus, is a de facto repudiation of austerity. The question is whether Varoufakis is stretching the facts to give himself greater latitude to relieve Greece's humanitarian crisis and to put Greece back on a sound path to growth. While those are worthy goals, they are not likely to win the Eurogroup's support. Check out this excerpt from a letter from the IMF to Dijsselbloem concerning the vagueness of Varoufakis's reform package:

"In quite a few areas, however, including perhaps the most important ones, the letter is not conveying clear assurances that the Government intends to undertake the reforms envisaged in the Memorandum on Economic and Financial Policies. We note in particular that there are neither clear commitments to design the envisaged comprehensive pension and VAT policy reforms, nor unequivocal undertakings to continue already-agreed policies for opening up closed sectors, for administrative reforms, for privatization, and for labor market reforms. As you know, we consider such commitments and undertakings to be critical for Greece's ability to meet the basic objectives of its Fund-supported program, which is why these are the areas subject to most of the structural benchmarks agreed with the Fund." (Excerpt [IMF letter](#) posted at Naked capitalism)

Repeat: "We consider such commitments and undertakings to be critical for Greece's ability to meet the basic objectives of its Fund-supported program." In other words, Greece should not expect to get its loan extension unless it follows the troika's explicit orders on pensions, VAT (sales taxes), government cutbacks, privatization and labor market reforms.

So, what is Varoufakis's approach to these benchmarks?

Let's take a look at pension reform. In an interview with CNBC's Julia Chatterley on Tuesday, Chatterley asked Varoufakis point blank, "So you're ruling out pension cuts?"

Varoufakis: "Of course over the next four months there will be no such thing." (CNBC)

How about raising the VAT tax?

Same thing. And in the interview on REAL FM Varoufakis covered the other policies that the troika sees as "critical". Listen to this exchange:

Hatzinikolaou: My fundamental question about the e-mail is whether or not it entails layoffs in the public sector ..., if it entails pension reductions ... if it entails wage reductions?

Varoufakis: I will answer to all these questions, since these are very specific questions, and it is best that we speak forthrightly. My answer to all of these questions is NO, in NO WAY."

Let's summarize: No pension cuts, no higher VAT taxes, no lower wages for public workers, and no layoffs. While I admire what Varoufakis is suggesting, I can't figure out how he's going to convince the troika to give him more money. Apparently, he thinks that streamlining the government and aggressively pursuing tax cheats will do the trick. Or maybe he has something else up his sleeve, like ignoring the terms of the agreement long enough to generate growth in the economy, lower unemployment, and create an improved environment for foreign investment. He might think that that will force the troika to acknowledge that austerity has failed and that pro-growth Keynesian strategies actually produce positive results. Of course, that's just a guess on my part. It's impossible to know for sure.

Here's more of the interview with CNBC:

Varoufakis: "The reason why we have this 4 month period is to re-establish bonds of trust between us and our European partners as well as the IMF in order to build a new, we call it, contract between us and our partners so as to put an end to this spiral, the debt inflationary spiral; reform Greece; and make sure that CNBC doesn't care about Greece anymore, because we don't want to be in the headlines for all the wrong reasons." ("[CNBC Exclusive Interview: Greek Finance Minister, Yanis Varoufakis](#)", CNBC)

The "bonds of trust" are going to be put to the test if Varoufakis doesn't comply with the troika's diktats, that's for sure.

Varoufakis assumes that the troika doesn't understand the impact of its belt-tightening policies. He seems to think that the punishment that's being inflicted on Greece is just the unfortunate byproduct of debt reduction policy and not a deliberate attempt to crush the unions, roll back progressive reforms, decimate the welfare state, and reduce the country to a condition of "permanent colonial dependency." But that viewpoint is shockingly naïve, after all, the IMF has been in the looting biz for a long time and has a pretty good grasp of the effects its toxic policies. They know what they're doing, just like we know that austerity is just a refinement of the "shock doctrine" which is the traditional way the elites exploit crises by imposing harsh, economy-demolishing reforms that only benefit themselves and their class. The men who conjure up these thieving schemes aren't likely to be hoodwinked by Varoufakis's vague reforms. They're going to force Varoufakis to jump through all their respective hoops before he gets one dime of their precious money. Here's Varoufakis again:

"There is going to be a great deal of toing and froing between us and the institutions and our partners but what we have established through stubborn refusal to succumb to the notion that elections change nothing over the past couple of months or weeks I should say is the notion that this government deserves to have a degree of room for policy-making that allows us to reform Greece and to carry the great multitude out there with us. This is the government for the first time in Greece that has the people behind it and it

would be a terrible waste not just for us but for our partners to allow this wave of support to dissipate through non-action.” (CNBC)

Does Varoufakis really think he can pull this off? Does he really think he can out-fox the slimy, authoritarian brigands and leg-breakers who run these extortionist institutions and who will use every means possible to extract the last drop of blood from their victim be he an aspiring, but penniless student at the university or a destitute pensioner huddling homeless and frozen in an abandoned doorway in downtown Athens?

This isn't going to end well. Varoufakis had one card to play—the threat of leaving the Euro—and he failed to play it. Now his leverage is gone and the roof is about to cave in. Just wait and see.

The troika isn't going to convene another dreary round of negotiations to rehash the same old nonsense. Those days are over. They're simply going to withhold the money, curtail liquidity assistance, and torpedo the Greek banking system. Kaboom! That's the way this thing is going to go down. The mood among the EZ finance ministers has soured considerably since the last meeting. They want to put this whole thing behind them. They're sick of it. They want closure. They're not going to quibble over issues they've already gone over and clarified a million times. Varoufakis will either have to get with the program or face the consequences. That's the way it works in Mafia-land; you either pay the piper or you find yourself in the East River in cement booties.

Who knows: maybe this is what Varoufakis wanted from the beginning, a ferocious clash ending in banishment, a Grexit. Well, he won't have to wait long now.

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