

“What If Berlin And Frankfurt Do Not Budge” - How Varoufakis Saw The “Worst Case Scenario”

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Over a year ago, and long before he became the mascot for fraught negotiations between Greece and its creditors, Yanis Varoufakis penned a lengthy essay on what might happen should the Greek government decide to stand firm in the face of pressure from Brussels, Frankfurt, and Berlin.

Earlier today we learned that in fact, Greece will stick to its negotiating position even in default and will remain defiant to the end, or at least until the voters who swept PM Tsipras and Varoufakis into office indicate at the ballot box that conceding the Syriza campaign mandate is an acceptable outcome.

With the government urging Greeks to vote “no”, the Tsipras and Varoufakis’ gambit will be put to the test next week, or perhaps even as early as this afternoon when the ECB could decide to effectively bring the Greek banking sector to its knees.

In this context, we bring you Yanis Varoufakis’ [vision of the endgame](#), straight from the embattled FinMin himself:

That Greece has the right and the opportunity to deploy these bargaining cards there is no doubt. The important question is this: **What if Berlin and Frankfurt do not budge? What if they tell Athens to ‘go jump of the tallest cliff’?** The Greek government currently claims that it has a budget surplus. While I strongly doubt this claim, I suspect that a small primary surplus can be concocted through some additional cost cutting and a leximin squeeze of top public sector incomes downwards (without affecting the lowest incomes, pensions and benefits). That should suffice to allow the Athens government to meet its needs during any medium term standoff with Berlin and Frankfurt, as the Greek state will need no financing either from the official sector or from the money markets. **In short, the answer to a German “Go jump” can be: “We shall not jump but we shall stay rock solid within the Eurozone and behind our demand for a debt conference. Just watch us.”**

Berlin and Frankfurt will, undoubtedly, be furious. They will issue a variety of threats, including the suspension of structural fund flows from Brussels. **But the real battleground will be the banks. As they did with Cyprus, where they threatened the government with an immediate suspension of the island nation’s ELA, so too in the case of Greece they will threaten to pull the plug on the Greek banks.** Two points need to be made here. First, the Greek banks no longer hold any Greek government debt, which means that their collateral with the European System of Central Banks cannot be downgraded legally. Secondly, Frankfurt will have to think twice before it issues the threat of bending its own rules to close down Greek banks – since doing this would threaten to engulf the whole of the Periphery’s banking

system into another cascading panic.

Confronted with such a reality, I have good cause to hope that Berlin will prefer to accommodate the Greek government and to look with a great deal more 'kindness' the 'request' for a debt relief conference. **And if it does not, and wishes to bring the Eurozone down with it, let it do its worst, I say.**

With Brussels and especially Berlin having now run fresh out of "accommodation", we shall see shortly if the ECB intends to "pull the plug."

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