Varoufakis Keeps Greece in the Eurozone, by its Fingernails

By Mike Whitney
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"Though it's happening to a stricken country, on the edge of Europe, the choices presented to Greece are being understood throughout Europe… Obey or leave."

— Paul Mason, Channel 4 News Blog

It's not easy to negotiate with a gun to your head. Nevertheless, that's the situation Greek finance minister Yanis Varoufakis found himself in on Friday preceding a crucial meeting with the Eurogroup. According to one report, the objective of the last-ditch confab "was to prepare a consensus text that would be the basis for the discussion" with the EU's finance ministers. That might sound innocent enough, but it doesn't come close to explaining the real purpose of the meeting which was far more sinister. Check out this blurb from Costas Efimeros at the Press Project:

> "According to a Greek official who doesn't want to be named, the Greek delegation were yesterday subject to outright blackmail. Our 'partners' informed us that if Eurogroup doesn't result in an agreement, on Tuesday the Greek government will be forced to implement capital controls. It seemed that they had taken the decision to strangle the Greek economy by cutting off funding to the banks through the ELA system. Furthermore, it seemed that the big Greek banks already knew this. Leaks from the ECB, after all, had suggested that they were preparing for a GREXIT." ("Europe trashed democracy", Costas Efimeros, The Press Project)

It's nice to know that EU leaders ascribe to the same basic moral code as Don Corleone, isn't it?

The fact is, a slow motion bank run has been underway in Greece for more than a month draining roughly 40 billion euros from the Greek banking system. If a deal hadn't been struck on Friday, the ECB would have pulled the plug on its liquidity assistance program and blown the whole system to kingdom come. That's how the Eurocrats planned to say goodbye to their long-struggling member, Greece, by giving them a sharp jolt to the groin before razing their economy to the ground. That tells you everything you need to know about the Eurogroup.

If Greece got the boot on Friday, it's humanitarian crisis would have deepened overnight while the blow to the capital markets would have paved the way for another financial crisis. Fortunately, the catastrophe was averted mainly because Varoufakis was able to cobble together a viable plan for meeting the Eurogroup's basic requirements while creating significant opportunities to ease conditions in Greece. Don't get me wrong; this isn't a perfect deal by any stretch, but it is the best deal that could have been reached given the circumstances and the unbridled hostility from German finance minister Wolfgang Schaeuble who was eager to scuttle the whole project and throw Greece to the wolves. Varoufakis managed to out maneuver the irascible Schaeuble and get some of what he wanted, but only through stiff-necked resolve and significant compromise. As a result, Greece is still a member of the Eurozone, but just barely. A rejection of its reform package today (Monday) could push the beleaguered country out of the 19-member Union for good.

Keep in mind, the Eurogroup made it perfectly clear from the beginning that they weren't going to restructure Greece's debts or end the austerity program. The issues weren't even on the table. So, those who think that Varoufakis should have given the Eurogroup an ultimatum ("Reduce our debts or we'll leave.") simply don't understand the nature of the negotiations. Varoufakis was forced to operate within very strict parameters. Given those limitations, he nabbed a very respectable deal. Even so, it's only natural for people to feel let-down, especially since Syriza had promised much more than they could deliver. But that doesn't mean Varoufakis is a traitor or a sellout. Not at all. It merely means that Syriza's belief that it could end austerity but keep Greece in the Eurozone proved to be unfounded. In fact, German opposition has made it nearly impossible. The larger point is this: Syriza had no mandate to spearhead a Grexit. That is not what the people voted for or what they want. Varoufakis's was asked to do the impossible, square the circle. In that regard, he failed. But still, the deal he hammered out should mitigate Greece's slump to some extent, although one should not expect a full-blown economic recovery, not without a healthy dose of fiscal stimulus which is nowhere in sight.

Varoufakis managed to change the terms of the deal which is now referred to as the "existing arrangement" rather than a "program". According to Norbert Haring, this new "arrangement"…"is not a "technical" extension of the "program" any more, but an extension of the funding arrangement, plus vague conditionality." ("Was it worth it? Concessions to Greece relative to the rejected draft of 16 February", Nobert Haring)

It all sounds very tedious and legalistic, but the change is significant. You see, the real fight between Varoufakis and the Eurogroup was over this precise issue, that is, changing the inflexible, ironclad austerity "program" into a looser "arrangement" where polices can be altered via–what Varoufakis dubbed –"constructive ambiguity." Varoufakis objective is to create enough gray area for Greece to regain sovereign control over its own economic policies. Constructive ambiguity will help to achieve that, provided the reforms meet the Eurogroup's fiscal targets.

Here's more from Haring's post: "There is no mention any more of "successful conclusion of the program", nor of "program" in the text. Instead a successful conclusion of the review of the "conditions in the current arrangement" is the new condition. This allows the Greek government to continue to say that the old program cannot be successful. It also allows for changes in the program, as "conditions of the arrangement" is deliberately more vague."
("Was it worth it? Concessions to Greece relative to the rejected draft of 16 February", Nobert Haring)

This isn't just legal claptrap. It's a critical change in the way the policy is implemented. Once again, Varoufakis has loosened the financial straitjacket in which Greece finds itself, which can only be seen as progress.

The new deal also allows Greece to decide its own reform package rather than the troika dictating what government expenses to cut or which publicly owned assets to sell. Here's another excerpt from Haring's post: "Most important change of the whole document: Addition of "The institutions will, for the 2015 primary surplus target, take the economic circumstances in 2015 into account." Excessive, self-defeating austerity is off. Only the target for 2015 is mentioned, because everything further out would have to be part of a new arrangement, still to be negotiated."

So Varoufakis has achieved his goal of reducing austerity. Not only is there greater flexibility operationally but, also, Greece will control the levers of decision-making in the "field of tax policy, privatisation, labour market reforms, financial sector, and pensions". Naturally, the lower the primary surplus, the more fiscal stimulus is available for economic growth. (Running a surplus during a depression is absolute madness, but this is the lousy hand Varoufakis was dealt.)

Haring's final comments are a good summary of Varoufakis's achievement:

> "Was it worth the hassle to reject the draft of 16 February, just to accept the statement four days later? For Athens it most certainly was. It got the promise that no self-defeating, excessive austerity would be asked of it any more, the assurance that it could devise its own economic and social policies, as long as they did not impact negatively on the interests of its partners, rather than having to execute and leaving in place all the measures accepted by the former government and strongly rejected by the people. These are huge improvements for Athens, with no significant counterbalancing downside compared to 16 February." ("Was it worth it? Concessions to Greece relative to the rejected draft of 16 February", Nobert Haring)

Clearly, this is a good deal for Greece, but let's not go overboard; the basic situation still stinks to high heaven, mainly because the Eurogroup would rather lecture and punish than give a struggling member a helping hand. Had the Eurozone evolved into a viable political union that distributed fiscal transfers to the weaker states on the periphery, Greece would have emerged from its recession years ago. Instead, the fiasco drags on endlessly punctuated by infrequent outbursts from EU leaders who vehemently defend belt-tightening measures that have only made matters worse. If anything, this experience should help the Greek people decide whether there's a future for them and their children in the Eurozone or not. Dealing with authoritarian boneheads (The Eurogroup) may eventually prove to be more trouble than its worth. (A Grexit looks better by the day!)

As for Varoufakis, well, he passed the finance minister's test with flying colors. He distinguished himself as a capable horse trader and managed to squeeze more concessions out of the EU's austerity-obsessed representatives than anyone thought possible. The man proved that he's neither a "sell out" or a "traitor".(as some claim.) Quite the contrary, he kept his word and did exactly what the Greek people asked of him.

At the very least, he deserves credit for a valiant effort.

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