

Telephone conversation between Yanis Varoufakis, Norman Lamont and David Marsh 16 July 2015

Explanatory note 28 July 2015

OMFIF is publishing, in the interest of transparency and dialogue, the full transcript of a 25 minute telephone conversation on 16 July between Yanis Varoufakis, Syriza member of parliament and former Greek finance minister, David Marsh, OMFIF managing director, Norman Lamont, OMFIF senior adviser.

The transcript shows, in particular, that Yanis Varoufakis' plan for a parallel currency system, contrary to some interpretations of the phone call, was explicitly designed for Greece within the euro system, and that he fully recognised that he had no mandate to take Greece out of the euro.

The telephone meeting, like all OMFIF telephone conferences (including the two other Greek phone calls under the OMFIF 'Greek day' on 16 July, with Gikas Hardouvelis, former finance minister, and Plutarchos Sakellaris, former European Investment Bank vice president), was held under the Chatham House rule (information can be shared, but the source of the information should not be disclosed.)

OMFIF has held 30 telephone conferences on international financial and economic issues during the past two years. The conversations are always recorded, with the knowledge of the participants, and the recordings are sent to those who are on the call. The same procedures were followed after the Yanis Varoufakis call. David Marsh reminded all participants that the telephone conference was being held under the 'Chatham House rule'.

The discussion was a three-way conversation. The other participants – mainly long-term investors from the public and private sectors around the world, members of the OMFIF network – were listening passively; they could not intervene and their identities are not disclosed.

After publication of an extract of the conversation in the Greek press on 26 July, OMFIF made the decision to publish the recording, with the full agreement of Yanis Varoufakis and Norman Lamont, to allow a wider number of people to judge the extent of Varoufakis' thinking and actions.

The recording was placed on the OMFIF website, with the agreement of Yanis Varoufakis, on 27 July and has been circulated widely through the international media. A full transcript is being made available on the OMFIF website from 28 July. The recordings of the other two Greek calls that day, with Gikas Hardouvelis and Plutarchos Sakellaris, are on the website from 28 July, with the agreement of the two participants.

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NL: I would like to welcome a politician, Yanis Varoufakis, who for me has always been fearless in argument but who conducts himself with old-fashioned politeness. I don't recognise the picture of Yanis Vaourfakis in many newspapers. Yanis, in my experience, is always scrupulously polite, fearless, but rational and always stimulating. I would like to ask you to comment on the question that puzzled many people, namely why you hadn't considered leaving the euro which might have left you –

Female automatic announcer: This meeting is now being recorded.

NL: – more in control of your own destiny and able to forge your own way with your own policies.

YV: Norman, you're quite right. The thing is, I have to admit, we did not have a mandate for bringing Greece out of the euro. What we had a mandate to do was to negotiate for a kind of arrangement with the Eurogroup, with the European Central Bank, that would render Greece sustainable within the eurozone. The mandate went a bit further, at least in my estimation, I think the Greek people had authorised us to pursue energetically and vigorously that negotiation – to the point of saying, if we can't have a viable agreement then we should consider getting out. The problem was that, once you are inside the clasp of a monetary union, it is ever so hard to create the kind of public dialogue, which is necessary in order to prepare people for what comes, for the process of disengagement from the currency union, while at the same time not precipitating a collapse. It's a little bit like, imagine if you had to prepare a population, an electorate for a devaluation, a very large devaluation 12 months before it takes place, through dialogue, you can understand that this is an impossibility. We don't have a currency which we can devalue vis-a-vis the euro. We have the euro. And what I keep telling people is that, in our estimation, it would have taken 12 months.

DM: You obviously didn't have a Plan B and did rather weaken your negotiating argument, because the others were absolutely scared of you leaving and yet you said 'Don't worry we're not going to leave'. I think though just in the last couple of weeks you yourself did start to think about a Plan B, and I think you even gave some inkling about it in your interview with the *New Statesman* where there was a vote in the inner-cabinet in Athens after the referendum and you were in favour of trying to prosecute a Plan B and you were out-voted. Do you think there was still a chance, if everything goes badly, that there may well be a Plan B and that the Grexit - which nobody wants in Greece, I understand that - may come about even though it is something for which you are unprepared?

YV: Oh absolutely. I think that this agreement is not viable. Dr Wolfgang Schäuble, the German finance minister, is hell-bent on effecting a Grexit, so nothing is over. But let me be very specific and very precise on this. The prime minister, before he became prime minister and before we won the election in January, had given me the green light to come up with a Plan B. And I assembled a very able team, a small team as it had to be, because it had be kept completely under wraps, for obvious reasons. And we had been working since the end of December and beginning of January on creating one. But let me give you, if you are interested, some of the political and institutional impediments that make it hard for us to complete the work and indeed to activate it. The work was more or less complete, we did have a Plan B, but the difficulty was to go from the five people who were planning it, to the 1,000 people who would have to implement it. And for that I had to receive another authorisation, which never came.

But let me give you an example. We were planning along a number of fronts. I'll just mention one: Take the case of the first few moments when the banks are shut, the ATMs don't function, and there has to be some parallel payment system – by which we keep the economy going for a little while, to give the population the feeling that the state is in control and there is a plan.

What we planned to do was the following. There is the website of the tax office, like there is in Britain and everywhere else, where citizens – taxpayers who go to the website – they use their tax file number and they transfer to web banking moneys from the bank account to their tax file number so as to make payments on VAT, on income tax and so on and so forth. We were planning to create, surreptitiously, reserve accounts attached to every tax file number without telling anyone, just to have this system functioning under wraps. At the touch of button that would allow us to give pin numbers to tax file number-holders (tax payers). So take for instance a case where the state owed a million [euros] to some pharmaceutical company for drugs purchased on behalf of the National Health Service, we could immediately create a transfer into that reserve account of the tax file number of the pharmaceutical company, and provide them with a pin number.

They could use this as a kind of parallel payment mechanism which to transfer whichever part of those digital moneys they wanted to any tax file number to whom they owed money. Or indeed to use it in order to make tax payments for the state. That would have created a parallel banking system while the banks were shut as a result of the ECB's aggressive action to give us some breathing space.

This was very well developed and I think it would have made a very big difference, because very soon we could have extended it [to] using apps on smartphones and it would become a function of a parallel system. And of course this could be euro-denominated, but at the drop of a hat it could be converted to a new drachma.

Now let me tell you, and I think this quite a fascinating story, what difficulties I faced. The general secretariat of public revenues within my ministry is controlled fully and directly by the Troika. It was not under the control of my ministry and of me as minister; it was controlled by Brussels. The general secretary was appointed effectively through a process that is Troika-controlled and the whole mechanism within, in fact as if the Inland Revenue in the United Kingdom was being controlled by Brussels – I am sure as you are hearing these words your hair is standing on end.

Ok, that was problem number one.

The general secretariat of information systems, on the other hand, was controlled by me as minister. I appointed a good friend of mine, a childhood friend of mine, who had become a professor of IT at Columbia University in the States and so on. I put him there because I trusted him to develop the system. At some point, a week or so after we moved into the ministry, he calls me up and says to me, 'You know what, I control the machines, I control the hardware, I do not control the software, the software belongs to the Troika-controlled general secretariat of public revenues. What do we do?' So we had a meeting, just the two of us, nobody else knew. And he said, 'Listen, if I ask for permission from them to start implementing this programme, then the Troika will immediately know that we are designing a parallel system.' I said, 'That won't do, we cannot reveal our hand at this stage.' So I authorised him ... And you can't tell anyone that, it's totally something we should not pass on ...

DM: There are certainly others listening, but [jocular] they will not tell it to their friends...

YV: I know, I know, I know they are. And even if they do, I'll deny that I said it [laughing] ... So, we decided to hack into my ministry's own software programme in order to be able to bring it all up, to just copy the code, the code of the tax system's website, on to a large computer in his office, so as to work out how to design and implement this parallel payment system. And we were ready to get the green light from the prime minister, when the banks closed, in order to move into the general secretariat of public revenues, which was not controlled by us but is controlled by Brussels, and to plug this laptop in and to energise the system. So I'm trying to tell you the kind of institutional problems that we have, the institutional impediments to carrying out an independent policy for ameliorating the effects of having our banks closed down by the ECB.

NL: That's truly terrible and shocking. Could we, because Yanis we have limited time and for the benefit of those listening, just move a bit towards the present and the future? I mean that is truly shocking and I won't ever forget that, but can you say something if possible about whether you think debt relief is coming now for Greece, as suggested by the IMF, or how do you think a decision could be made?

YV: My great worry at the moment on behalf of my good friend Euclid Tsakalotos, whom I think by the way you met at that dinner?

NL: Yes, yes I did.

DM: Yes, we both did. He went to my old college, Queen's College, Oxford, actually. So we have a strong bond.

YV: Yes, yes and he is a St Paul's boy, where George Osborne studied. My great worry about Euclid, on behalf of Euclid, is that the IMF and Dr Schäuble and the ESM, are engaged in a game that is absolutely the opposite of straightforward. On the one hand we are being told that the ESM will only provide this much-discussed loan of more than 80 billion [euros], if the IMF is on board. The IMF is coming out with debt sustainability analysis, which quite clearly stated for the record that the Greek debt is not sustainable and according to its own rules the IMF cannot participate in any bail-out. They have already violated their rules twice to do so. But I don't think they would do it a third time. I think they are kicking and screaming that they are not going to it a third time.

So there is a very serious danger here that the Greek parliament, not in my name, but in the name of the majority who voted last night, will approve the very stringent measures, 'reforms' they call them, but they are nothing but cost-cutting exercises, without much reforming going on... that we will push through parliament these prior actions, as they have been called, but then, at the end of the day, the ESM and the IMF will not be able to coordinate so as to provide that huge loan.

Not that I want that huge loan to be provided for the reasons that you, David – and you, Norman – have outlined before, but I think there is a major tussle between the institutions: the ESM, the European Commission, the IMF and Dr Schäuble. Dr Schäuble and the IMF have a common interest, they don't want this deal to go ahead. Wolfgang quite clearly said to me he wants Grexit, he thinks that this 'extend and pretend' is unacceptable and this is the one point where he and I see eye to eye.

I agree with him, but for completely different reasons of course. The IMF does not want an agreement, because it does not want to have to violate its charter again and to provide new loans to a country whose debt is not viable. The commission really wants this deal to go ahead, Merkel wants this deal to go ahead, so what has been happening over the last five months is now projected into the very short term – only it is on steroids, and that is this complete lack of coordination between the creditors.

DM: That seems to me very striking, I have to say Yanis. What about France? You are on record as having said that you think this is all about France and that Mr Schäuble is using you as kind of pawn basically in a much bigger chess game with France. Now, I know Greece is certainly not in very healthy position, but can you tell us a little a bit about where you think France plays out in all of this?

YV: The French are terrified. They are terrified because they know that, if they are going to shrink their budget deficit to the levels that Berlin demands, the Parisian government will certainly fall. There is no way that they can politically handle the type of austerity which is demanded of them by Berlin. And when I say Berlin, I mean by Berlin, I don't mean Brussels, I mean Berlin. So they are trying to buy time. This is what they have been doing now, as you know, for a couple of years. They have been trying to buy time in terms of an extension of the time period during which they would have to reduce the deficit to below 3-1/2%, 3%, [under] the Maastricht criteria and the stability and growth pact.

At the very same time Wolfgang Schäuble has a plan. I wrote an article today for *Die Zeit*, a German newspaper, it is quite expansive and I think quite controversial, in which I explained what Dr Schäuble's plan is. And this was one of the very sweet moments in one's life, when one does not have to theorise because all I did was to convey the plan as Dr Schäuble described it to me. And the way he described it to me is very simple.

He believes that the Eurozone is not sustainable as it is. He believes that there has to be some fiscal transfers, some degree of political union. He believes that, for that political union to work without federation, without the legitimacy that the properly elected federal parliament can render can bestow upon an executive, it will have to be done in a very disciplinarian way. And he said explicitly to me that the Grexit, a Greek exit, is going to equip him with sufficient bargaining power, with sufficient terrorising power, in order to impose upon the French that which Paris is resisting. And what is that? It is a degree of transfer of budget-making powers from Paris to Brussels.

DM: This is very fascinating stuff. As Norman said we are slightly running out of time, but we have been allowed by the controllers of 'Radio OMFIF' to go on for another five minutes. So Norman, so we have two last questions, one from you and one from me? Norman.

NL: Well, I just wondered, I'm just interested in your view about the role of the ECB in this. I read there is a lot of criticism in Greece of the ECB and the feeling that the ECB had acted in political way. Whereas my own instinct could be that Mario Draghi would lean over backwards not to be political, although at times he would have to make decisions that obviously would have political effects.

YV: I think that both perspectives are completely spot on. You're right, Mario Draghi has handled himself as well as he could and he tried to stay out of this mire, the political mire, impressively. I have

always have held him in high regard. I hold him in even higher regard now, having experienced him over the last six months. Having said that, the European Central Bank is set up in such a way that it is so highly political that it is impossible not to be political. Don't forget that the ECB – the Central Bank of Greece, because that is what the ECB is, it is the central bank of all of our member states – the Central Bank of Greece is a creditor of the Greek state. And therefore it is the lender of last resort, supposedly, and the enforcer of fiscal austerity. Now that violates immediately the supposed distinction between fiscal and monetary policy. It puts Draghi in a position where, in acting as a creditor when we came in to power, he had to discipline us, he had to actually asphyxiate us sufficiently in order to yield to the demands of the creditors – while at the same time keeping our banks open. So God could not do this in a non-political way.

DM: He's going to be turning on the taps now. There is some talk that somehow you'll be benefiting from quantitative easing once the loans are repaid on Monday. That is one question to you, Yanis, in the final couple of minutes. The second question I've got for you is: What kind of role will you be playing? Are you going to be any political position now? Is Alexis Tsipras still talking to you? Do you still have some [position as] interlocutor with the government? And also what do you think of the future of Mr Tsipras, is he going to stay around for a bit? So sorry to load you up with a fairly large number of questions for your final couple of minutes.

YV: Well on the first question, what the ECB is doing is increasing ELA by 900 million [euros] in order to give a little bit more liquidity through the ATMs, that were completely circumscribed up until now. The question of quantitative easing is, I think, crucial. If Greece does not get onto the bandwagon of quantitative easing over the next few months, then that's it – there is absolutely no way that Greece can stay in the Eurozone. But for this to be meaningful, we have to firstly restructure the Greek debt. The idea of the German government – that we first have to successfully complete a programme that cannot be completed successfully, and then we can have debt restructuring – that effectively annuls the whole idea of quantitative easing.

On the question of my relationship with Alexis, look, I have a very strong personal relationship with him. And there is a good friendship there, let me give you an example. Yesterday, I voted against him. I crossed the floor. It was very painful for me. I could see that he was very upset by that. We met afterwards. He was sitting down, I passing by him. He extended his arm, very warmly. I sort of went towards him and we hugged and kissed, even. There is this. But at the same time, at the moment, what I am experiencing, David and Norman, is, as you know, I have become the traitor of the party. You know how it is when you cross the floor suddenly, you cross the floor not because you have shifted but because everybody else has shifted. They have undergone a mutation, suddenly they have adopted the language that I have been countering for the last six years, with them, but now they have adopted it.

I am not sure what kind of relationship we are going to have. Up until yesterday, Alexis was very keen to say to me that he will definitely need me, he offered me another ministry only few days ago. I said 'No, I don't care about having a ministry. What I care about is a sustainable Greek debt, a sustainable Greek economy.' What we are doing now is – whatever the reasons are – the measures we introduced yesterday through parliament will choke the Greek private sector, a private sector that has already suffered so much in Greece over the last five years.

I am going to stay in parliament. I really love being a backbencher. I have only been a backbencher for a week. It's great. It gives me the opportunity to speak out and to write and to visit friends outside of Greece. And I hope to see you soon in London.

DM: Well we hope that very much. It has been a very good postscript. I would just like to say thank you to Lord Lamont and to Yanis Varoufakis. I am sorry that there were few technical hitches at the beginning – that was actually because our system was rather overloaded by the number of callers. When you came here in London, Yani, in February there were about 20. In fact we have 84 people on the line from all over the world. I do have to say also that you did say one or two things which were slightly sensitive regarding various episodes when you were a minister, so I would just like to say to everybody that none of this information that you have been hearing here should be used to make any trades of any sort in any way. But also please do not pass those on to other people, this is a private conversation under the famous Chatham House rule. And the idea is that you hear first-hand from Yanis Varoufakis, and also Lord Lamont, about their experiences –but this is not a public broadcast, this is not the BBC. So I'd like to say thank you very much for this trust and confidence, and I think I speak both for myself and Norman, Yanis, this is great privilege to speak to a finance minister who may certainly have lost a temporary battle here, but nonetheless remains very philosophical about it all – and [who] has a huge depth of political and economic knowledge about the Eurosystem that not all of your compatriots on the Eurogroup may have. And so we have very much enjoyed talking to you, we're absolutely sure this won't be the last time that we have you on the line. We look forward to seeing you either in Athens or in London very soon. And so I'd like to say, on behalf of David Marsh, Norman Lamont and Yanis Varoufakis, goodbye from OMFIF and we look forward to having you tune in again before too long. So thank you very much all of you for listening. Thank you, Yanis, and thank you, Norman, for being part of this call. Goodbye from London.

NL: Bye. Bye, Yanis.

YV: Bye-bye, thank you very much.