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The Eurogroup is the real villain in Greece today, not the IMF

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The IMF is the villain of Greek political folklore, but North European creditors are the real foes

When Greece finally leaves the euro it will happen almost imperceptibly, with a collective yawn and a fatalistic shrug of the shoulders.

The electrifying drama has switched to Italy, France, and now Germany, where a pillar of the establishment has just suggested that the only way to save Europe from its "catastrophic condition" is for his country to return to the Deutsche Mark.

“We shouldn’t think so much about whether Greece can be saved. We should be asking whether it's not more logical for Germany to leave the eurozone to save the EU,” said Roland Berger, the founder of Germany's top consulting giant.

Mr Berger said the origins of Europe's perpetual crisis lie in capital flows engendered by the euro itself, and in the refusal to accept that monetary union cannot function without a unified treasury and fiscal transfers.

In that he is correct, and the fact that he is saying it marks a new watershed. Yet Greece remains hauntingly relevant, a vivid example of how malign the euro can be.

Eurozone finance ministers have today frozen their debt programme for Greece to punish premier Alexis Tsipras for an 'unauthorized' Christmas give away, a €620m bonus for pensioners. This spat will pass but it is a reminder of how little has been resolved a full eight years into Greece's economic depression.

The eurozone authorities continue to hide behind a systemic lie. They still refuse to put Greece on a plausible path towards recovery. They still cling to a self-serving morality tale of what went wrong. And they still want to collect as much debt as they can.

The International Monetary Fund has at least stopped telling lies. It has released two 'mea culpas' of escalating candour. The second was an acid indictment of its own "culture of complacency", admitting that its giddy enthusiasm for the euro project blinded it to the oncoming crisis, and laying bare its role in the fiscal water-boarding of Greece.

It acknowledged that the 2010 rescue was not undertaken in the interests of Greece or the Greek people. The country was instead sacrificed in a “holding action” to save the euro and Europe's banks at a time when the eurozone had no functioning lender-of-last resort or firewall against contagion.

Greece was patently insolvent. It needed a textbook debt write-off to restore viability. This was blocked because everybody feared a calamitous chain-reaction through Portugal, Ireland, Spain, and Italy.

“There were concerns that such a credit event could spread to other members of the euro area, and more widely to a fragile global economy,” it said. So a murky decision was made to lend more money to a bankrupt state - in violation of the Fund's charter, and without telling the IMF board - and to pretend that it was not bankrupt.

My own view has always been that the IMF had little choice at that dangerous moment. The greater abuse is what happened next.

Greece not only suffered the shock of IMF austerity without the offsetting IMF cure of debt relief (let alone exchange rate relief), but austerity was pushed so far beyond the therapeutic dose that it tipped the economy into a self-reinforcing downward spiral - just as the Indian and Brazilian members of the IMF board predicted.

The Troika tried to force through an ‘internal devaluation’ of 20pc to 30pc by deflating wages - and therefore shrinking nominal GDP - without seeming to grasp that this would cause the debt trajectory to spiral upwards.

These errors were forensically dissected by the IMF's Independent Evaluation Office. The conclusion was that Greece had suffered an historic injustice, that Greece was repeatedly blamed for failures that stemmed from the stupidity of the Troika policy itself, and that the country should be made whole again.

“If preventing international contagion was an essential concern, the cost of its prevention should have been borne – at least in part – by the international community as the prime
But if the IMF has come clean, the eurozone has not. It refuses to acknowledge any guilt or special duty of care. It continues to withhold debt relief - other than modest tweaks to stretch out repayment 'humps' in the 2030s and 2040s.

This is the bone of contention that has now brought the IMF and the eurozone to the point of open hostilities. On Monday the Fund published a tart 'J'accuse', rebuking the Eurogroup for demanding a primary budget surplus of 3.5pc of GDP as far out as the late 2020s.

"Greece's debt is highly unsustainable and no amount of structural reforms will make it sustainable without significant debt relief," said the blog by IMF's Maurice Obstfeld and Poul Thomsen, chief economist and Europe director respectively.

"The IMF is not asking Greece for more austerity. We think that these cuts have already gone too far," they said.

We know why Europe will not grasp the nettle. Chancellor Angela Merkel has sworn to the Bundestag that EMU bail-outs will never cost German taxpayers a single cent, and similar sagas are playing out in Holland and Finland.

A debt write-off would be an admission that it costs real money to hold the eurozone together. It would require parliamentary votes heading into the coming electoral Annus Horibilis of 2017.

So Greece gets dribs and drabs in the form of lower interest payments. But as the IMF makes clear, the country will still be bankrupt at the end of its Troika programme. It is stuck in semi-permanent infeudation.

The original sin of the Greek rescues was to convert debt owed to banks and private investors into debt owed to the taxpayers of other EMU states, some of them poorer than Greece, or running even bigger primary surpluses.

How do you explain to the peoples of the Baltic states or Slovakia that they should give debt relief to the Greeks? The politics of this have become infernal. So the path of least resistance is for everybody to lie and pretend that the Greek bail-out is workable.

Greece's Prime Minister Alexis Tsipras CREDIT: YORGOS KARAHALIS

For tactical reasons, the Leftist Syriza government chooses to go along with much of this deception, knowing that it is essentially broken as a political movement and entirely at the mercy of the Eurogroup Working Group.

Alexis Tsipras threw in his lot with this conspiracy in July 2015 after he took his country to brink, and then capitulated. His game now is to lash out at the IMF over austerity, when he knows perfectly well that he signed an EU Memorandum last year that stipulates a primary surplus of 3.5pc.

"They're being disingenuous. I know because the Troika tried to shove this Memorandum down my throat, and the whole idea of such a surplus is preposterous," said Yanis Varoufakis, the former finance minister.

Syriza's real dispute with the IMF is over market reform. Mr Tsipras clings to 'Old Labour' job laws and a bloated pension system, even though that means slashing investment and cutting so deep into discretionary spending that public buses have run out of spare parts and hospitals have run out of syringes.

As for the IMF, it is fighting for its own survival. It allowed itself to be dragged into multiple rescues of a rich currency union that had ample means to sort out its affairs but refused to use them.

This fiasco consumed 80pc of the Fund's total lending between 2011 and 2014. It was unprecedented in scale and character, and infuriated China, India, and Latin America.

There is no longer any tolerance on the IMF board for further squalid fudges over Greece, and it is almost unthinkable for the Fund to take part in the latest €86 bail-out under the current EU terms.

The election of Donald Trump has clinched it. "We have enough problems; let Germany handle it. It's peanuts for Germany," he said when asked what he would do about the country.

"Frankly, Putin probably comes in to save the day, if Germany doesn't," he added, for good measure.

If only Greece had defaulted and left the euro in May 2010 when the crisis first detonated, and had been able to do so without bringing down the temple on everybody's heads.

The country would have suffered a short sharp shock like Argentina when it broke the dollar peg, with temporary capital controls and a temporary nationalisation of banks. The chances are that it would now be four years into a blistering 'V-shaped' recovery with a super-competitive drachma.

Actually, it is still not too late for liberation, and next time nobody will stop them.