Yanis Varoufakis: The Origins of the European & Global Economic Crisis

Zain Raza: Yanis Varoufakis is a world renowned economist and a former member of the Greek parliament. He was Minister of Finance for 7 months and resigned shortly after the people of Greece voted overwhelmingly against the continuation of austerity policies imposed by the Troika. He is also professor of economic theory at the University of Athens and the author of numerous books, the latest being, "And the weak suffer what they must? Europe's Crisis and America's Economic Future."

Thank you for joining us today!

Yanis Varoufakis:Thank you! It's a great pleasure!

Zain Raza: So I want to start of with some historical context. In your book, the Global Minotaur, you state: "*There is no such thing as a Greek crisis but rather that Greece is symptom of a broader shift in global economic history*". Do you think that policy-makers and everyday people should re-evaluate their understanding of the crisis? And can you also take us us through history and help us understand this?

Yanis Varoufakis: Imagine we were in 1930 in South Dakota or in Delaware and we were discussing the Delaware crisis or the South Dakotan crisis, it would be absurd! Of course South Dakotans were suffering, of course the weakest part of the United States of America were in dire states but the crisis was a crisis of global capitalism and in particular of America capitalism and if it were not for the New Deal that Franklin Delano Roosevelt introduced throughout the United States, and if it wasn't, even worse, I should say, for the second World War which lifted aggregate demand and ended the crisis that had been unleashed by the financial sector collapse in 1929 - then that crisis would have continued, similarly, Greece is the weakest link in the European chain - therefore it's the first domino to have fallen and it has fallen very badly for the Greek people - but to think of it as a Greek crisis is to misunderstand, misconstrue, what's been going on. There is one crisis - the crisis of the Eurozone - and it takes many different forms. So for instances here in Germany, where we are now speaking, it takes a form of negative interest rates, so if you a pensioner you're pension fund is in trouble because they cannot invest your money and get interest in order to add to your capital for a rainy day for when you retire. In places like Ireland, you have a dual economy: You have the Irish who have managed to be connected to Facebook and Google and they are doing reasonably well and the others were not and they are doing very badly. You have a situation where France has a debt that is unsustainable as we speak and a budget deficit which cannot be contained without creating greater social tensions and possibly giving rise to a Marine Le Pen presidency. All of these are part

of the same crisis and until and unless we look at it as one crisis with a view to identifying the causes of this crisis and the remedies for this crisis as a whole, we are going to be continuing along the path of denial, the price of which is Europe being the sick of man and woman of the global economy.

Zain Raza: So you state that it was the fall of the Bretton Woods System that occurred and that America turned into a deficit nation sucking up all the capital surpluses of the world and it played as a recycler, if you want to put it that way, of people's labour or profits - and it was the collapse of this system, this recycle mechanism, that Wall Street played that led to the European Crisis today - is that an accurate depiction?

Yanis Varoufakis: Let me restate, yes, but let me restate it using my own words. Capitalism requires surplus and recycling - just like the planet requires environmental recycling - so does capitalism require a mechanism that takes the surpluses, the profits if you want, from where they are being produced and invests them in areas that are in deficit, that have losses, where demand is low and unemployment is high. Unless you have this recycle mechanism capitalism fails. These recycle mechanisms are part and parcel of every major state or have been for 200 years now: Germany had it, Britain has it, so think of Yorkshire as a deficit area and London as a surplus area, unless you have the British state recycling those surpluses from London to Yorkshire - the English Union breaks down - and that applies to the global level as well.

The Americans understood this perfectly well as we were existing the second World War and this is why they set up Bretton Woods. Bretton Woods had two pillars: 1 was stability of foreign exchanges, exchange rates - managing the value of money throughout the global capitalist economy - that was one pillar and second pillar was recycling. For the first 10 to 15 years of Bretton Woods, the American were recycling their own surpluses. They were the only surplus country frankly?, Europe was in ashes after the second World War. And the Americans, think of the Marshall plan, it was a philanthropic exercise, there was an element of philanthropy, an element of geopolitics pushing the Soviets away from the heart of Europe, but from an economic point of view, from a macroeconomic point of view the purpose of the Marshall Plan is to take Dollars surplus from America, give it to the Europeans so that Europeans could buy American exports and this lasted as long as America had a surplus but towards the mid to the end of the 1960s America lost its surpluses, and there was a great worry in Washington DC at the time. How can we remain dominant if we had no surpluses to recycle? And the answer that the gave, people like Paul Volcker, was brilliantly simple and audacious - and it was okay - if we can't recycle our own surpluses because we don't have any we will recycle other people's surpluses. So from the 70's onwards with the collapse, the wilful destruction, by the Americans who have created Bretton Woods of Bretton Woods, what we have was a second post war phase, where American operates like a huge vacuum cleaner - it sucks into its territory the exports of Germany, of Holland, of the oil exporting countries, of oil in other words, with Japan later China - and how is it paying for this deficit? By sucking into Wall Street the profits of those companies of the foreigners. So it was recycling other people's money, other people's surpluses, and it was doing this magnificently and audaciously up until 2008 and until the financialization bubbles that were built on these capital flows to Wall Street exploded and since then this recycle mechanism worldwide is broken and we have a global crisis. Europe, because we tried to create a mini-Bretton Woods here, with affecting to the Europe, but without the recycle mechanisms within Europe, we are the sick man or woman of the global economy because we don't have this recycle mechanism within our territory.

Zain Raza: So it's not social security programs, it's not inflexible labour markets - this is the root of the crisis if I understand you correctly?

Yanis Varoufakis: Let me give you a very simple example because if you can't explain this simply - you don't understand it, very simple. Compare Nevada with Ireland. Two states that are very different in terms aesthetics, one is green the other is desert, but in terms of population more and less the same. The economy is based on low corporate tax rates on financial companies, on real estate - very similar to Ireland. Now compare and contrast to what happened to in 2008 in Nevada to what happened in Ireland and do it by imagining that the dollar zone in the United States of America was structured like the Eurozone. What would have happened to Nevada? I'll tell you what would have happened: If America was structured the way Europe is, catastrophicly in other words, okay, what would have happened is this: The first thing that went wrong in both Nevada and Ireland was that Real Estate went down, prices collapsed, developers lost their money, they couldn't pay the bank, the banks went bust. Right? The difference was that in the United States was the Fed, the Federal Reserve, and the FDIC (Federal Deposit Insurance Corporation) that salvaged the banks in Nevada. If the state of Nevada had to borrow internationally in order to bail-out the banks and pay for the employment benefits of the construction workers like the Irish did, then the state of Nevada and the banks of Nevada and the economy of Nevada would have gone down the drain and then there would be domino-effect throughout the United States. This is exactly what happened in Europe. We have a common currency but we don't have these shock absorbing recycle mechanisms that the United States has developed over a period of 150-180 years.

(This transcript may not be accurate.)