



Noam Chomsky and Yanis Varoufakis Discuss Modern Economic Theory and Education

Note: The following transcript may not be 100% accurate.

NOAM CHOMSKY: There have been places where sound economics was applied, liberal policies. It was called the third world and it's not an accident. You take a look at the global south. One country developed, Japan, the one colony that was not colonized. Take a look at East Asia, the tigers of East Asia, with one exception, the one that was conquered by the United States, 1898, with a couple hundred thousand people killed and stays semicolonized, not part of the Asian Tiger explosion of industrialization. The pattern is just uniform but somehow hasn't entered economic theory. I wonder why. You're an economist.

YANIS VAROUFAKIS: Well, the reason why it never entered economic theory is because economics in universities was—began to evolve from the 1950s onwards as the queen of the social sciences, and what gave discursive power and monopoly power within the academic environment to economics was the claim that it was the only social theory which was peddling universal truths to be proven by mathematical means and it succeeded, so when a sociologist, an anthropologist, and an economist applied for a grant, it was always the economist who got it on the basis of this discursive monopoly.

However, in order to close the model mathematically, the only way to solve the equations is by making assumptions that distance the model from really existing capitalism. So for instance you have to assume that there's no time and there's no space, because if you allow time to interfere with your model, or space to enter, you end up with indeterminism. In other words, you end up with a system of equations that cannot be solved or that have an infinity of possible solutions and then you have no predictive power. You can't say, "well, this is what's going to happen."

So you have a very interesting inverse Darwinian process. The more successful economists were at creating models that said precisely nothing about capitalism, the greater their success in the academy, so they became the opposite of the public intellectuals that you've been writing about. They create wonderful abstractions, aesthetically pleasing models that I spent quite a few years studying in the same way that you go to a museum and you look at a piece of abstract art but you don't expect to find the truth of capitalism in its form. So this is the interesting sociology of knowledge within the economics profession.

But then there is a parallel shift, the end of Bretton Woods, which unleashed banking. Remember, Roosevelt made sure that in the Bretton Woods Conference, which designed the postwar—the first

postwar phase between the 1940s and 1971, 1973. He had stipulated that one kind of person should not be allowed into the Bretton Woods conference. You know who these people were. Bankers. Not one banker attended the Bretton Woods Conference and that was at the explicit order of FDR.

NOAM CHOMSKY: And it showed.

YANIS VAROUFAKIS: So you had boring banks between 1944 and 1971, but after 1971 and we can discuss why that is, suddenly banking was unleashed and their capacity effectively to mint private money became unlimited and essential to the second postwar phase of global capitalism, of American capitalism, of American hegemony. During this unleashing there was a need for a theoretical and ideological cover, so I don't blame my fellow economists for pulling the trigger that created so much devastation in 2008 and before that and after that, but I blame them for providing the economic, the mathematical models, the sermons which steadied the hand of the financiers and allowed them to believe that what they were doing was perfectly okay, consistent with science, provable mathematically that it was riskless, and therefore allowed them the mental and emotional strength to do a lot more damage than they would have done otherwise.

NOAM CHOMSKY: Actually one of the more interesting moments in the history of science and scholarship was actually in 2008. For, as you know, for decades economists had been claiming with extreme arrogance that they completely understood how to control and manage an economy. There were fundamental principles, like the efficient market hypothesis, rational expectations, and anyone who didn't accept this was dismissed as a kind of a, some strange kind of moron. The whole system collapsed, the whole intellectual edifice collapsed in a most amazing fashion and had no effect on the profession.

YANIS VAROUFAKIS: None at all. Well, it did have. It had the effect that sometimes when we're driving on a freeway, and I usually go well above the speed limit, condemn me if you will, and I get stopped by the police, for the next twenty minutes I drive below the speed limit, but it doesn't last for more than twenty minutes. After a while, I just go back to where I was. This is exactly like the economics profession. They had a brief moment of—

NOAM CHOMSKY: Some did.

YANIS VAROUFAKIS: Some, some or at least of being a bit humble and keeping their heads under the parapet for a bit, but then within twenty minutes they forgot about it and they carried on teaching the same rubbish to their students. But what is interesting, Noam, is two small points. It's not that the economists went headlong into this mathematicized religion, because that's what it is, a religion with equations and a bit of bad statistics. What happened was two things.

Firstly, there was a kind of ethnic cleansing of anybody that had retained their wits about the economy. So there were economists who challenged this view and who were simply not reproduced by the system. They never got the grants, they never got the PhD students, their PhD students never got lectureships, never got assistant professorships. So there was a purge of this type. The second, which is a far more interesting phenomenon, is that the wonderful minds that created the general equilibrium models, the highest, the popes of the Catholic Church, were not believers. So take for instance Ken Arrow. Ken Arrow is, you know, and Gerard Débreu, they are the ones that, John Nash, they established the mathematical theorems upon which all this hypocrisy is based.

Now, these people, Ken Arrow, I remember in the early 1990s, he was giving a talk at NYU. There were about twenty people. It was a highly mathematized paper. Okay, so he was enthusiastically going through the equations and one of the professors there interrupted him at some point and said, "Professor Arrow, equation 3.3 reminds me of the argument in favor of this kind of taxes opposed to that kind of tax," and Ken stopped him immediately and said, "My dear boy," he was a bit condescending, I think rightly so, he said, "You are confusing that which is interesting with that which is useful. (laughter) This is interesting. If you try to apply it to anything real, it is dangerous."

So the gurus, the popes, understood that this theory was examining a postcapitalist world, a world without labor markets, a world without the, you know, labor exploitation, without monopolies, without even the slightest of capacities to alter prices on the behalf of employers, of entrepreneurs, of conglomerates, a world without firms. Because what is a company? A company is a market-free zone, it's a hierarchy, it's a small Soviet Union with Gosplan and central planning. If you look at Google, if you look at Microsoft, that's what it is.

NOAM CHOMSKY: Then you have Coase's theorem, that's a big help.

YANIS VAROUFAKIS: Yes, but the Coase's theorem is taught for five seconds and then forgotten, in order to—to make them feel that they've said something about the reason why firms exist. But then in those models that produced the macroeconomic policies that were applied even under Clinton, especially under Clinton, there are no firms, there is no time, no space, everybody resides at the same point in space, so that there are no costs of transport or anything like that, so imagine a world in which economic policy is predicated upon models that assume there is no time, space, firms, profit, or economic event.

NOAM CHOMSKY: Or monopolies.

YANIS VAROUFAKIS: It's time to get really scared.