Yanis Varoufakis - Debtors' Prison, John Maynard Keynes & the Double Standards of the EU

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actTVism Munich: What do you mean by “Debtors’ Prison”?

Yanis Varoufakis: Well, back in the 19th century, anyone who has read Charles Dickens will know this, there were prisons for debtors. People who could not repay their debts would be thrown in prison until they repaid their debt, which was of course a very silly idea. Because if you take somebody and put him in prison, it’s very unlikely that he will make enough money to repay their debts. Especially if they couldn’t repay them when they were outside prison.

Capitalism, to succeed, had to get rid of that mentality. The ‘Debtors’ Prison’ or the work-house had to be abolished. And along with limited liability, that was the prerequisite for capitalism to succeed, to grow. Limited liability - what’s limited liability? Every large company has limited liability, that is when it goes bust the people running it do not lose their house, do not end up in prison. If you have limited liability for large corporations but not for countries, then you are seriously asking for trouble.

actTVism Munich: Let us switch gears. Can you talk about the ideas of John Maynard Keynes regarding the global economic system?

Yanis Varoufakis: John Maynard Keynes and the New Dealers in Government in Washington agreed on one thing, that the post-war capitalist order, if it had any chance of not returning to the Great Depression of the 1930s, it had to be based on a very simple idea. Stability through fixed exchange rates between the dollar and the deutsche Mark and the French Franc and the British Pound and so on and so forth, while at the very same time having a surplus recycling mechanism. A mechanism by which surpluses from the surplus countries were taken and invested or spent in deficit countries. If you don’t have this recycling mechanism capitalism collapses in the end or you end up like the Eurozone today.

Where they disagreed, where Keynes and the New Dealers disagreed was, the New Dealers, being American of course, were absolutely adamant that it should be the United Stated of America that does the surplus recycling. Their view was understandable, “It’s our surpluses, we’ll do what we want with them”. But Keynes was far more far-sighted. He would see that

America would not always be a surplus country and what happens when America loses its surpluses as it happened in the late 60s? Well, Bretton Woods collapsed. So, Keynes had this idea of a world bank. Not the World Bank we have, but a world clearing bank or a central bank, that would issue a currency that would be common to all of us. It would be an accounting fictitious currency, today it would be a digital currency, you wouldn't have it in your pockets. You would still have Euros or Deutschmarks or Dollars or whatever in your pockets. But all trade would be denominated in this fictitious currency issued by – he called it the International Clearing Union – the ICU. Something like the IMF, perhaps.

So, all trading would be denominated like this. And every country would be subject to a very simple rule, that if your deficit, trade deficit, exceeds a certain amount, a certain percentage of these currency units of yours are put in the bank and similarly if you have a surplus you get penalized. And the money that accumulates in this account is used for global developmental investment. Especially in the deficit countries, that would be a great stabilizing mechanism, a shock absorber and a mechanism for preventing crashes. He was very far ahead of his time. The Americans turned him down and in the end, they themselves suffered from it. As we've seen after the collapse of Bretton Woods in 1971.

acTVism: Similar to what Keynes had proposed, the European Union has a rule on trade which in theory should penalize deficit as well as surplus member stated. Are rules generally enforced equally among EU members?

Yanis Varoufakis: The German government, in particular Dr. Wolfgang Schäuble, talk again and again and again about the rules, and how important they are. And of course, that is true; they do insist that everybody has to stick to the rules. But it turns out that they themselves don't. So for instance, agreements. When agreements are broken by Greece or by Portugal, Greece and Portugal are lambasted.

But there are several important, crucial agreements made with Greece, which were violated from the other side. So for instance there was an agreement that the profits made by the European Central Bank from Greek government bonds should be returned to Greece. Those have not been returned to Greece. Instead Dr. Wolfgang Schäuble pocketed a very large percentage of them and put them in his budget - against the explicit agreements on the European level.

Let me give you another example of broken rules. According to the excessive deficit and surplus or imbalances procedures in the European Union, not only should you get penalized if you have an excessive budget deficit, but you should also be penalized if you have an excessive trade surplus. Anything above six percent of GDP should immediately bring upon you a penalty. Now Germany has violated this by means of a trade surplus, which is more than nine and a half percent, not six, nine and a half percent.

And what has happened to the rule according to which it should be penalized within the EU? It's been quietly forgotten. Now what happens when rules are only applied to the weak? You end up with an autocracy, like we had in the 19th century; it used to be called something like gunboat diplomacy. This is what we have today.

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