

## **Yanis Varoufakis on the hidden power of the US dollar: how America's debt shapes the global economy**

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**Yanis Varoufakis (YF):** What really makes the dollar powerful is that the United States is in the red. It keeps buying stuff from China, from Europe, from Africa, from Asia. A lot more stuff than what it sells. For, you know, normal countries when you have a big trade deficit, then you're in trouble. Then your currency depreciates, then you have a debt crisis, then the IMF comes to you, and then very soon after that, you lose your schools, your roads, your hospital, your people are thrown out of their homes. How is it that the United States has managed to turn a trade deficit into the greatest instrument of colonial power in the history of humanity? Because that's what it is. Imagine you had a capitalist in Shanghai and you have a factory producing aluminium. And where do you sell this to? The United States, that's whom you send it home you send your aluminium to. Why can the United States purchase it, buy it from you? Because the American has dollars and uses dollars to buy your aluminium. This is the trade deficit. The fact that they can keep buying stuff without selling. By printing dollars which says then, what does the Chinese capitalist do with the dollars that he gets from selling aluminium? He takes it to Wall Street and there he buys American debt. Therefore, he finances the American government and he buys real estate. He buys, you know, properties in Miami, in California, in Chicago, New York. And therefore, you've got this recycling scheme. The reason why the BRICS are not going to be a significant threat to the dollar is because Russian capitalists, Chinese capitalists, Indian capitalists, Indonesian capitalists, United Arab Emirates capitalists, they do not want to see the dollar being displaced by any currency, digital, crypto or normal. They want the dollar to remain completely and utterly dominant because their loot, their wealth is in dollars and in lives in the United States financial system.

Who came up with the acronym BRICS? A guy called O'Neill, Jim O'Neill. What was Jim O'Neill? The chief economist of Goldman Sachs! He came up with the idea of the BRICS. He was making the point that if you are investing money, you forget about the West. You should invest it in countries like Brazil, in Russia, in China. And in order to make it snazzy, to give it

a marketing edge, I asked him why? Why did you put South Africa in there, the 'S' of BRICS? Once I met Jim O'Neill, you know what he said to me? "One 'BRIC' didn't sound good, and I wanted an 'S'", so he added South Africa in there. So this is the degree of Anglo-European-American dominance. All the developing world is looking at the BRICS as their saviour, and the BRICS is an acronym concocted by the chief economist of Goldman Sachs. Right? Now, it's not insignificant and it's not insignificant because an increasing amount of international trade is not going to be in dollars. And I think the most interesting event of the last weeks is when we heard that Argentina repaid a few billion dollars that it owed to the International Monetary Fund using Chinese Yuan. If you couple that with the news that the new Development Bank, which is the BRICS bank where Dilma is the president, the former Brazilian president, is going to be lending in local currencies. And also there's another outfit of the BRICS separated out that is going to try to replace the IMF. So one, when one country which is associated with BRICS, let's say South Africa or, you know, any other country that joins the BRICS in some associated form, when they have a problem with the balance of payments, when they can't repay their bankers in Germany, their bankers in England, their bankers in France, in America, then these BRICS version of the IMO will come in and lend them in local currencies.

Now, what does this mean? What does it mean to be lent in local currencies? Well, when Argentina repaid its IMF instalment with something like four or five billion dollars using Yuan, what that means is this: the Chinese repaid it using their own dollar stock. If this new development bank and Dilma lends to Argentina, South Africa, to Zambia, if they lend money in local currency in South Africa Rand to the South African government, what does that mean? Even the BRICS bank does not have Rand to give, what it has is dollars okay? Or Yuan. It can give them Yuan or it can give them dollars. Now for that loan to South Africa to be useful to South Africa, the South Africans, the South African government that takes on this loan must be able to buy stuff from America, from Europe, from India. They will have to pay in dollars. So essentially they get dollars from the BRICS bank, but they have to repay in the future with interest the dollars that it cost initially to give the Rand. What does this mean? It means that if the Rand devalues 50% in the next ten years, when the loan has to be repaid, this is a good thing for South Africa because South Africa will have inflation. The same quantity of land in ten years time is going to be worth half as much so they effectively will have to be repaid to the BRICS bank, half the money. So it's negative interest rates for the BRICS bank. Who is going to suffer for this? The Chinese, because they are the only ones amongst the BRICS that have a big wad of dollars. So essentially the BRICS bank means that the Chinese are using their stock of dollars in order to lend (to) the countries that take loans from the BRICS bank and take on itself, Beijing will take on its shoulders the devaluation risk which now when an African country borrows, the devaluation risk is its own. It will have to pay for it.

Now, why would the Chinese do that? Well, one reason is because they have too many dollars. In the sense that because they have a very large current account surplus, they keep

any lump of aluminium or car or whatever it is that they hold, clothes that they sell to the Americans or the Europeans they get dollars back. Right? What do they do with these dollars? They have to take them to Wall Street. Now, they've seen what happened after the Ukraine war. That the central bank of the United States, the Fed, confiscated 350 billion Russian dollars. So they think that they may do this to us. We might as well use our dollars through the BRICS network to gain more influence over South Africa, over Saudi Arabia. So they are socialising amongst the Third World, what we used to call the Third World. They are dollar holdings. So the BRICS is China, let's not beat about the bush here. The BRICS is China with India trying to find a kind of middle road, with the United Arab Emirates playing the West against the BRICS in order to gain advantages like Saudi Arabia wants to negotiate deals. They don't want to get out of the dollar zone, but they want to enhance the relationship with China, with the BRICS in order to leverage their own bargaining with the United States. This is all very interesting. But Leftists, I am really appalled. Leftists have a tendency to look at the BRICS and say you know, "we are orphans. We in the Left are since 1991 when the Soviet Union collapsed, we've been orphaned. We've been looking at a large power internationally that will look after us, that we will be able to dream that they are our people, that they will defeat the capitalist mammoth". Right? Don't make this mistake. That's not what the BRICS is. It's significant. I explained why it is significant, but it is not the new Communist International, the new Socialist International, the new humanist international. That's not what it is.

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