REVIEW ESSAY

YANIS VAROUFAKIS ON GLOBAL IMBALANCES

Gavan Butler

Yanis Varoufakis

The Global Minotaur: America, Europe and the Future of the Global Economy,

Zed Books, London, 2015, pp. 280, paperback edition, $28.95.

Yanis Varoufakis

And the Weak Suffer What They Must? Europe, Austerity and the Threat to Global Stability,

The Bodley Head, London, 2016, pp. 318, paperback edition, $35.00.

This review is an attempt to crystallise the central arguments of two recent books by Yanis Varoufakis. The books contend (a) that the world needs mechanisms to transfer (or re-cycle) surpluses generated in some parts of the world or regions to other parts and (b) that it has not been well-served by the way the institutions of global capitalism have functioned in this exercise, specifically since the Second World War. This review will argue, among other things, that a weakness of both books, particularly the second, is their scant acknowledgement of the Global South.

Butler, G. (2016),
'Book Review Essay: Yanis Varoufakis on Global Imbalances'
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No. 78, pp. 232-42.

In January 2015, Yanis was elected to the Greek parliament and immediately became the minister of finance in the first Syriza government of Alexis Tsipras. After he left office and then declined to stand again for parliament, he completed writing the books under review (actually the third version of *The Global Minotaur*) in which he pursued the theme of the critical importance of surplus recycling mechanisms. This year Yanis has been working with comrades in the DIEM25 (Democracy In Europe Movement 2025) and most recently, in this context, he had a lot to say about the 'Brexit vote', the plebiscite in Britain on the question of whether the British parliament should decide that Britain leave the European Union. It is difficult to keep track of Yanis these days, almost as hard as it was during his stint jumping on the toes of Europe's other finance ministers while serving as Greek finance minister (for the period January to August 2015).[1]

The Minotaur

It would be sensible, early on, to clarify, firstly, just what the original (Minoan) minotaur was and, secondly, the origin of the first part of the title of Yanis' 2016 book. The Minoan minotaur is a mythical beast that resulted from the coupling of the wife of King Minos of Crete with a magnificent bull that had been given to the king. The progeny was wild and uncontrollable; but some degree of control was afforded by confining it to a maze and regularly feeding it live adolescent humans. Yanis with Joseph Halevi re-birthed the Minoan minotaur back in 2003 when they developed their narrative of the importance of *The Global Minotaur* as a global surplus-recycling mechanism in an article published in *Monthly Review*,[2] and Yanis went on to put more flesh on the beast in three versions of a book with that title in 2011, 2013 and 2015. It is no surprise

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1 Yanis seems to be everywhere. He has been back here in Sydney in conversations with other writers as part of the Sydney Writers' Festival and delivering lectures at The University of Sydney where he was an academic from 1989 to 2000 (see the *Journal of Australian Political Economy, http://australianpe.wixsite.com/japehome/current*, for the transcript of the lecture of late 2015). He has been frequently in conversation with Noam Chomsky and Owen Jones and countless others to whom reference is made on page after Googlian page.

2 Halevi, J. and Y. Varoufakis (2003), 'The Global Minotaur', *Monthly Review*, July-August.

that someone of Cretan background, as Yanis is, would want to recruit the minotaur into the telling of his story. As to the words of the first part of the title of Yanis' 2016 book, these come from a sentence written by the Athenian historian Thucydides in his *Melian dialogue*. The sentence reads '[r]ight, as the world goes, is only in question between equals in power, while the strong do what they can and the weak suffer what they must'.[3]

The following sentence identifies baldly the connection Yanis makes between the two books: 'Europe is disintegrating because its architecture was simply not sound enough to withstand the shockwaves caused by our Minotaur's death throes' (*The Global Minotaur*: 237). To appreciate the 2016 book, then, it is necessary to understand what the 'global minotaur' is (was), what its role was up until the Global Financial Crisis of 2008 and what brought about its demise (or near-demise)?

The International Monetary System Established at Bretton Woods

After World War II, at Bretton Woods, the victors in that war sought to stabilise the global economy and thus to set the basis for post-war recovery. Whereas John Maynard Keynes on behalf of Britain urged the adoption of a single world currency (bancor) to be managed multilaterally, the US insisted on the acceptance of the US Dollar as the world currency. The Dollar would be tied in value to gold and rates of exchange of all other currencies with the Dollar would be pegged. The US proceeded to allocate public finance to the reconstruction of Europe and Japan and to promote private investment in Europe. The investment returns added to a substantial trade surplus on the credit side of the US balance of payments. However, the re-industrialisation of West Germany and Japan was so successful that the US trade balance turned from surplus to deficit. These and other countries running surpluses had to accept Dollars in settlement of US balance of payments deficits for fear of bringing about a run on the Dollar. Gradually the gold backing of the US Dollar declined and inflation eroded the value of Dollars in exchange for US exportables. In 1968, President de Gaulle of France gave notice of

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3 Thucydides, *The History of the Peloponnesian War*, Book 5, s.89 – see Varoufakis, *And the Weak Suffer …*, fn 5: 265.

wanting the US to exchange some of France's Dollar reserves for gold; and by 1971, West Germany held more reserves in total than did the US. That year, then-President Nixon ended the convertibility of US Dollars into gold at the 25-year-old price of $35 per ounce of gold. In Yanis' account, the impact of this break in the 'global plan' of 1944 was exacerbated particularly by the US decision (evidently admitted by Henry Kissinger) to push oil prices above what OPEC wanted in order to inflate the prices of goods manufactured by the oil-importing countries. By 1979, Yanis argues, the 'global plan' was dead in the water and, in its place, the US was deliberately crafting a 'new design', at the core of which was the 'global minotaur'.

'A New Design'

The task facing the designers was to construct a new mechanism to transfer the world's surpluses to Wall Street. The task was largely in the hands of President Carter's appointee as chair of the Federal Reserve System, Paul Volcker. Yanis quotes Volcker as describing what he set out to do as 'a controlled disintegration of the world economy' (*The Global Minotaur*, p. 100). In 1981, Volcker raised interest rates to 20 per cent and then to 21.5 per cent. Thus began the reign of the 'global minotaur'. Volcker's interest rate increases not only brought down a high rate of inflation in the US but established a very effective lure: funds to feed the minotaur began to pour into the US – in purchases of bonds and treasury bills and equities and in new direct foreign investment. The US had thus moved away from a plan for some sort of multilateral regulation of international payments to a system under which the US nakedly (and no longer clandestinely, if you will) pursued its own interest in financing continued consumption of imports and to hell with the rest of the world. The tribute to the 'minotaur' was boosted in several ways: by profits from German and Japanese factories which had been forced to change lines of production to save on increasingly expensive oil imports; by a much greater rate of productivity growth in the US than the rate of real wage growth; by the greater profits of US oil companies; and by interest payments by Eastern European and 'Third World' countries which had borrowed from US banks when interest rates were low and then had to pay Volcker's much higher rates through the remainder of the twentieth century - and indeed for the first few years of this century.

In Yanis' story, the 'minotaur' had the help of 'handmaidens'. Prominently, these included: a welter of mergers and acquisitions of US companies by the rest of the world at very high prices; the emergence of huge retail stores such as Walmart that expanded profits not only by persuading customers that their products were cheap but by squeezing suppliers; the creation of private money (securitised derivatives or collateralised debt obligations – CDOs) by which mortgages ballooned, as did house prices and thence borrowing by mortgagees on the basis of their apparently larger equity in their houses; and the undermining of money wages and containment of other labour costs in the US alongside reduced inflation of other input costs and a (poorly explained) rise in productivity.

The notion that a minotaur had 'handmaidens' seems quite inappropriate, as does the notion that they struck back, as Yanis portrays them as having done after the crash of 2008. Language aside, just how was their behavior structurally connected with the behavior of the 'minotaur', as it implicitly was? At any rate, the 'minotaur' is said to have been mortally wounded by the GFC; and, despite the strike-back by the 'handmaidens', the capacity of the US to recycle the world's surpluses is said to have been broken. At best, while it existed, the 'global minotaur' was, to use Yanis' term, a very *peculiar* surplus-recycling mechanism that was destined to implode. As Yanis would have it, Europe 'cracked' when the US-centric recycling mechanism broke.

The Damage to Europe

The structure that 'cracked' began with a cartel, the European Coal and Steel Community, initiated and dominated by West Germany. Simultaneously, the Americans were much taken with the idea of European unification, as evidenced by the involvement of the CIA in funding the European federalist movement.[4] The Treaties of Rome were signed by six member states in 1957 and the European Economic Community (the Common Market) and the European Atomic Energy Community were established. Gradually the number of states committing to unification grew from the original 6 members of the EEC to the point

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4 *http://www.telegraph.co.uk/news/worldnews/europe/1356047/Euro-federalists-financed-by-US-spy-chiefs.html*

where the (now) European Union consists of 28 member states (at the moment, mid-2016, still including the United Kingdom which has yet formally to withdraw in the spirit of the 'Brexit' vote). Greece joined in 1981. To become an EU member, European countries have had to meet certain criteria (the Maastricht criteria) relating to inflation rates, government finance (deficit in relation to GDP and government debt in relation to GDP), previous exchange rate performance and long-term interest rates. The first European parliament to be elected on the basis of universal adult suffrage in the member states was elected in 1979. The European Union became a reality after the signing of the Maastricht Treaty in 1993. The formation of the Eurozone was only completed more than twenty years later.

Yanis tells a story of a meeting between the West German and French finance ministers in March, 1964. According to Yanis, Valery Giscard d'Estaing, the French finance minister, astonished his West German counterpart by suggesting that France and Germany agree to a common currency and invite the four other member states of the EEC to join. After 1971 the member states of the EEC agreed that their central banks would try to keep the fluctuations of their currencies against each other in a much narrower band than all of them together could fluctuate relative to other currencies ('the currency snake'). This agreement was replaced by a commitment to support the European Currency Unit (ECU) through the Exchange Rate Mechanism (ERM). The UK pulled out of the ERM in the early 1990s and, along with Switzerland in particular, has not been part of the subsequent Eurozone. As of the beginning of 2002, following agreement to establish the Euro and the European Central Bank (ECB) in 1999 and thus to abandon the ERM, the Euro currency went into circulation within the Eurozone. The Eurozone today consists of nineteen countries. The finance ministers of countries in the Eurozone constitute the present 'Eurogroup', which is not an official body within the EU but does, in Yanis' narrative, exercise enormous power over monetary matters.

In his *And the Weak Suffer…*, Yanis develops two principal explanations as to why Europe cracked in the wake of the crash of 2008 (from about 2010 on), the first being that the architecture of the European Union is weak and inappropriate and the second being that too much power in Europe is in the hands of Germany and unaccountable elements of the EU, namely the Commission bureaucrats and the Eurogroup (of finance ministers), although the bureaucrats are technically beholden to nationstate representatives.[5] The chief problem with the architecture of the EU is, Yanis insists, that it lacks effective mechanisms to re-cycle to the deficit regions the surpluses of those member states able to create them: the European Central Bank has lacked the capacity to issue European bonds and to bail out member states in difficulties; and it has lacked a 'union-wide-investment' fund.

The constraints on the ECB are, we are told, the result of the influence of the Bundesbank on the construction of the ECB in the late eighties and early nineties. Germany was intent on preserving as much of the power of the Bundesbank over the management of the common currency in the form of the Euro as it would have had if the Deutschemark had formally been able to assume the mantle of the single European currency or of the European reserve currency.

As Yanis tells it, when the shock of the 2008 crash was fully felt in Europe, demand for the products of all European states fell, and especially so did demand for the output of the Southern states. Output fell drastically in the Southern states, including Greece; the servicing of private debt owed to local banks collapsed; and the Greek state lost its capacity to bail out Greek private banks and to fund the servicing of public debt. At the same time, private money created by European banks evaporated as it had done in the US, affecting liquidity throughout the EU. The surpluses available to be recycled within the EU (and among the nineteen members of the Eurozone in particular) were anyway diminished by the continually collapsing demand of the US. The situation worsened as the private banks in the South became insolvent and as, in turn, the exposure to these banks of the larger banks of France and Germany and other Northern countries threatened *their* stability. By this time the Southern states of the EU (the so-called PIIGS – Portugal, Italy, Ireland, Greece and Spain), beginning in 2010 with Greece under then prime minister George Papandreou, sought European and international support. A committee representing the European Commission, the ECB and the International Monetary Fund (the evil 'Troika') stepped in to provide emergency funds. As Yanis argues, this

5 See *http://www.gr2014parliament.eu/Portals/6/PDFFILES/NA0113090ENC_002.pdf* for an outline of the governance of the EU and an indication as to why the European Union may be regarded as undemocratic or even anti-democratic.

funding was not to help the Southern states: the Troika declined to 'shave' the Greek debt, to offer longer terms of debt repayment or to bail out the Greek state but, at the same time, the ECB bent its rules against bailing out member states to enable it to bail out the powerful banks of Northern Europe. The harsh policies of the Troika forced debtor states to cut public social expenditures, to cut the wages of civil servants and, in general, to impose austerity on the people. As Yanis has long insisted, echoing Keynes, an austerity program is not only cruel and inhumane but exacerbates economic decline and is the epitome of stupidity on the part of political elites who need to sustain popular compliance with capitalism.

The Global South, Fading into the Background

There are immanent implications for the Global South in Yanis' arguments about the fundamental importance of mechanisms transferring surpluses of production and value from some parts of the world to others. For 'the southern states of Europe', read the Global South or the peripheral states in the world system. However, there is little explicit reference to the generation of surpluses in the Global South and their role in the world economy. There is reference (in *The Global Minotaur*) to contributions by way of interest payments gouged from the poor oil-importing countries to feeding the beast during the 1980's and even later; but the relationship of production in the reach of Europe's multinationals to the prosperity of the Northern States of Europe is explored only poorly. In the past Africa in particular was a major part of Europe's hinterland, although today it contributes to the surpluses of China and the US as well.

There has been a surge in direct foreign investment in Africa in very recent times. The sources of investment include China which, for some time now has been anxious to invest its surpluses in infrastructure, real estate, mines and agricultural and pastoral industries outside its territory rather than entirely in US paper assets. However, Europe's contribution to the absorption of anticipated exports from Africa and elsewhere is currently being threatened by Germany's fixation on export growth and balanced budgets and its preferences as to what a European central bank should be (Yanis actually made this point in relation to demand facing the Southern states – see *And the Weak Suffer*…, p. 240), as well as by the continuing austerity fixation of the IMF and the European members of the troika. In turn, the extent of an intra-African absorption of new industries would be vulnerable to pressures on wages and taxation policies which would be provoked by weakened returns on investment – a spread of the austerity infection.

Yanis on Stage

By the time Yanis had returned to Greece from Texas in late 2014, he had written much in a blog about the contradictions in ('stupidity of') policies to push down wages and purchasing power; and with Stuart Holland and James Galbraith he had fashioned *A Modest Proposal for Resolving the Eurozone Crisis* (July 2013,[6] the first version of which appeared in 2010).[7] That proposal, briefly, was for (i) case-by-case direct recapitalisation of private banks by the European Stability Mechanism, (ii) a limited debt conversion program (member state debt converted to ECB debt), (iii) an Investment-Led Recovery and Convergence Program (involving the European Investment Bank -EIB and European Investment Fund – EIF), and (iv) an Emergency Social Solidarity Program to fight against the rise of poverty. These elements were designed to address the deficiencies which the authors of the proposal identified in the architecture of the European Union.

Were Yanis and the two other authors of *A Modest Proposal* to have their way, the EIB would be empowered to fund pan-European infrastructure projects without the present constraint that the countries that are host to the projects must contribute 50 per cent of the necessary funds, while the EIB's smaller offshoot, the EIF, would finance small projects. The ECB would be able to practise credit control through its buying and selling of solidly backed EIB/EIF bonds.

It is at about the time of Greece's seeking help that Yanis became a player – moving from being a vocal and critical political economist within the University of Athens and an adviser to George Papandreou before he became prime minister in 2009 to becoming a trenchant critic of both the Troika and of Papandreou's government. Yanis' excitement in

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6 *https://yanisvaroufakis.eu/euro-crisis/modest-proposal/*, Version 4

7 *https://varoufakis.files.wordpress.com/2010/11/a-modest-proposal-yv-and-sh-version.pdf*, Version 1

remembering and recounting those heady days make for difficulties in understanding the many complex arguments he puts in *And the Weak Suffer…* It takes some concentration to stay with the broad, declaratory accounts of what was happening, such as the accounts (i) of the subterfuge of the failing private banks' creating worthless IOUs so that they could pretend to be solvent while the corresponding states assured possible buyers that the IOUs were guaranteed (155), (ii) of Outright Monetary Transactions (179), and (iii) of the 'multiple coincidence of impossible beliefs' on which effective 'quantitative easing' depends (187). And do not expect much of Yanis' bibliography in helping explore or delve further into the empirics behind his claims. All of that having been said, though, Yanis does entertain the reader with rollicking good yarns, generally illuminating allusions to history and mythology, and most of all, instances of the ignorance, incompetence, arrogance and perfidy of politicians (some more than others) and of the Commission's bureaucrats. With the latter tales in mind, the reader can hardly be surprised that Yanis was not a favorite figure in Brussels.

Conclusion

As *And the Weak Suffer What They Must?* came off the press, so to speak, Yanis was in Berlin to launch a movement called DiEM25, a movement aimed – as it says - at bringing about democracy in Europe by 2025. As against the preferences of the current German finance minister, Dr Wolfgang Schauble (*And the Weak Suffer…*, p. 218), to regard the EU as an alliance of nations with a Budget Commissioner to reject 'errant' national budgets and formally to privilege the Eurozone countries within overall European governance, Yanis is preaching greater transparency within European governance (particularly live streaming of all meetings and full disclosure of all trade agreements and similar documents) and, after the European mechanisms have been 'fixed', the creation of a constitution to establish an 'authentic democracy' – 'a sovereign Parliament that respects national self-determination and sharing power with national parliaments, regional assemblies and municipal councils'[8]. In July 2016 Yanis responded to questions about 'Brexit', taking the view

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[8] *https://www.volksbuehne-berlin.de/praxis/en/diem_25* (with a three-minute video introduction) and *https://www.youtube.com/watch?v=AbSGg7PGu74*

that it is better to work on the present structure of the EU than to allow it to disintegrate (by at least partially deserting it) at a faster rate than it is anyway disintegrating.[9] What an exhausting distance there is still to go, even if eventually the EU *can* be repaired!

The two books are well-presented and almost flawlessly sub-edited.

Finally, some reference must be made to the publication by the IMF in July 2016 of its own evaluation of its part in the generation of the Greek debt crisis and social and economic crises.[10] While Yanis could be forgiven for claiming to have been vindicated, he is keen to caution that the leopard has not changed it spots – that the restructuring of Greek debt now offered by the IMF for 2018 will have no effect in ameliorating those crises.[11]

Gavan Butler is an honorary associate in the Department of Political Economy at The University of Sydney and a member of the Sydney Southeast Asia Centre. *He thanks Franklin Obeng-Odoom and Matt Withers for their helpful comments.*

gavan.butler@sydney.edu.au

9 *www.project-syndicate.org/*.

10 *http://www.ieo-imf.org/ieo/pages/CompletedEvaluation267.aspx*.

11 *https://yanisvaroufakis.eu/2016/07/31/imf-confessing-to-the-sin-in-order-to-repeat-it/*.