Yanis Varoufakis on austerity and DiEM

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Intro [00:00:02] Thank you for choosing OECD Podcasts.

Clara Young [00:00:08] Welcome to OECD Podcasts. I'm Clara Young, and I'm here with Yanis Varoufakis, who is an economist and for five months in 2015, he was the finance minister of Greece. So welcome, Mr. Varoufakis.

Yanis Varoufakis [00:00:21] Hello.

Clara Young [00:00:22] My first question is, eight years ago, Greece had its first bailout and it's been a rocky time. Three bailouts. USD 300 billion dollars in debt. But Greece re-emerged at the end of August. And though shaky, admittedly, there is a projected growth of 1.9% of its GDP. And there is foreign investment pouring back in again – some EUR 850 million, according to the Bank of Greece. So, what's your assessment of where Greece is at now? And was austerity or some form of it the needed medicine?

Yanis Varoufakis [00:01:07] Well, there is the propaganda and that is the reality. You just stated or restated the official version, the propaganda, as I call it. Now, let me tell you about the grim reality. Greece will go down in history and the history of economics as the most spectacular failure of any consolidation programme. Not only has austerity not worked but it has been proven that it can never work. And Greece is a spectacular example of why it can't. No insolvency has ever been overcome by means of the larger loan in human history which comes with austerity that collapse – the income from which the old and the new loans must be repaid. As for the recovery, there is no recovery. You mentioned...

Clara Young [00:01:55] Some GDP growth.

Yanis Varoufakis [00:01:56] There is no GDP growth in value-added terms. In value-added terms, GDP has been declining. In other words, if you take the amount of taxation out of GDP, you will see that in value-added terms, GDP continues to fall for the 10th consecutive year. The rumours that unemployment is falling are correct, but it's only falling because Greeks are leaving Greece to the tune of 10-15,000 a month. Instead of celebrating, we should be mourning the fact that we're losing our younger, better-educated men and women to various economies that we make use of the skills that the Greek society is paid good money to impart to them. There is no exit from any bailout package. Now we have a fourth bailout package that just decided not to call it bailout. What is a bailout? Let's be specific. A eurozone bailout consists of two dimensions. One is the creditors are giving you the financial facility by which they allow you to pretend that you're repaying your debt. And the second dimension, these are the conditions, is austerity. This combination of a financial facility so that the Greek state can pretend to repay its debt took the form in the first three bailouts of money. So they give you money to give it back to them. Now, we have a new financial facility where they don't give you more money. Actually, they did – the EUR 25 billion cushion, as they call it, that has been provided to the Greek state to pretend that it is repaying its debt until 2021. But on top of that, that financial facility has been extended to 2032 by effectively waiving all the repayments until 2032. But of course, all those repayments will have to be made after 2032 with interest. Okay. So, that's another financial facilitation. The Greek state is not capable of financing itself in the markets. So, that is exactly as it was since 2010, exactly as it was. The second part of austerity, we have already agreed to the most vicious and long-term austerity plan from today to 2060 in the history of the world. Three and a half percent primary surplus until 2022. And 2.2% after that. No country in the history of capitalism has ever achieved that target. So, you see, we have entered the fourth bailout, which now extends our bankruptcy into 2060 and takes austerity much.... You mentioned foreign direct investment. Allow me to say that there is no foreign direct investment unless, of course, it depends on how you count it. When somebody comes to Greece to buy an empty flat. That is not investment. It could be a very good speculative move by the person who does it but it creates absolutely no value-added and it doesn't create any jobs. So, there is no investment into productive capacity. What it is, is money that comes in for speculative purposes. They come in, for instance, to buy non-performing loans. This is a zero-sum game. From an economic point of view, you can only talk about investment that can create the semblance of growth if it goes into creating jobs, if it goes into creating capital goods, if it goes into creating buildings, not just buying them.

Clara Young [00:05:11] But why is Greece the exception? I mean, Portugal, Ireland, Cyprus, Italy, they went through austerity programmes as well. And they have re-emerged, again, I would say for some countries, quite shakily. But they are embarking on repaying the debt.

Yanis Varoufakis [00:05:27] If you suck a little bit of blood out of a human patient and you suck huge quantities of blood out of a human patient, you get two very different results. To answer your question directly: in Greece we had the largest amount of austerity. The result was a constant shrinking of our tax revenues, constant shrinking. Every year our tax revenues go down. Why? Because GDP has been going down and a constant increase in our debt as a percentage of our income. So, austerity doesn't work, it never works, and it can't work until and unless you have different forms of aggregate demand that are being injected into the economy. So, let me give you an example: when austerity was practised in Germany in the 1990s, you had a period of increasing foreign direct investment into industry and increased investment into producing things. And at the same time, so while the private sector was spending more, the state sector was spending less. Overall, income was going up. And that works. But that was not austerity because the purpose of doing that was not to reduce public debt. If you're trying to reduce public debt during a crisis through austerity, you are guaranteed to fail. And nobody succeeded. Look At Cyprus. Look at Portugal. Look at Ireland. Look at Greece. Our debt ratio is greater than ever as a result of austerity, especially when you have free-falling private expenditure, if you add massive cuts to public expenditure, the sum of the two are GDP. So, it is bound to fail. And Greece is a perfect case where it has failed. And now the Greek economy is in a state of coma. You mentioned 1.7% GDP growth rate. You happen to work for the OECD. Look it up. Has there ever been such a ridiculously low growth rate or projection of growth rate? Not even growth rate but projection of growth rate after such a massive collapse? And if you take out of that, as I said before, the amount of taxation that is being taken out of the circular flow of income, there is absolutely no growth. We have no growth in Greece and we can't have any growth while we have a bankrupt state, bankrupt banks, bankrupt companies and bankrupt families.

Clara Young [00:07:43] So, what do you feel is the solution then? What could have been done to deal with the imminent collapse of eurozone countries?

Yanis Varoufakis [00:07:52] Well, three years ago when I was in this building, I gave my blueprint of what needs to happen. So it's all here within your building. It's on record. But let me tell you briefly what it is. First thing we need is to reduce tax rates from the ridiculous level of VAT of 24% to 18%. Secondly, reverse the ridiculous, the catastrophic, poisonous law which forces companies to prepay next year's projected tax, corporate tax, this year, 100% of it, which is what you do to a country if you want to destroy it. And this was a law that was passed after I resigned the finance ministry. It was one of the terms for the third bailout. Thirdly, what do you need to do is you need to create a public company that manages non-performing loans of the banking sector. What they are doing now, which is to sell off to private funds the NPLs that are now totally wrecking the banking system is a recipe for perpetuating the banking crisis and for creating serious social problems in Greece with foreclosures and evictions. We also need very serious rethink regarding privatisation. We keep selling for peanuts important companies, companies that in the end end up with buyers that can't even afford to invest in them. So. Let me give a very simple example of a crime against logic that was perpetrated recently. We sold Greek railways for EUR 43 million – million. Even the headquarters of the Greek railway company ought to be worth more. And we sold it to a bankrupt Italian company that is not investing anything in it. This is not what you should be doing in order to bring about recovery, either to sell it to somebody who has the money to invest and has a contractual agreement with you that they will invest or create an investment bank and use this asset as collateral in order to borrow yourself internationally and then pour the money into investments to improve your railways. These are very, very straightforward things. I've outlined them in 2015. Unfortunately, the creditors were not interested because we were negotiating with creditors that didn't want their money back. They just wanted to make Greece an example of Greece so that the French, the the Spaniards, the...will not vote the wrong way.

Clara Young [00:10:08] Let's get to the creditors and I'm going to pull the camera back a little bit. It seems to me that your bigger message is that the financialization has dominated civil society. I get the feeling that your message is that what happened to Greece or what's happening to Greece is also in a certain way what's happening to all of us?

Yanis Varoufakis [00:10:30] Well, Greece should not be important enough for you to be asking questions about Greece, except, if you were Greek or cared about Greece, particularly the fact that Greece has been at the centre of a financial storm for 10 years now is just proof that there is something the matter with our financial system more broadly. Take any bank today, any bank, and look at the percentage of its assets, of the loans given out that has gone into business. It's zero. It's reached zero. It's extremely low. Most banks now don't do the job of financial intermediation. But most people have this false impression in their minds that banks are intermediaries between borrowers and lenders. But they're not. What they are doing is they are placing bets constantly on their own account, and on the side, if they have time, they do banking businesses as well.

Clara Young [00:11:25] Well, that's separated now...

Yanis Varoufakis [00:11:27] No, they're not at all separated. In which country are they separated?

Clara Young [00:11:29] In the US.

Yanis Varoufakis [00:11:31] No, that is not true.

Clara Young [00:11:31] The Dodd...

Yanis Varoufakis [00:11:31] No. It failed spectacularly to separate them. The Volcker Rule was meant to...

Clara Young [00:11:35] It fails in what way?

Yanis Varoufakis [00:11:37] Well, take the Bank of America. The Bank of America is precisely as I described it. There is no Glass-Steagall Act. We have not gone back to the pre-Clinton years with the Glass-Steagall Act. We now have banks that have to keep separate accounts. But when it comes to the crunch, there is no separation between their investment business and their standard banking business. So, all of that that has happened – and this thing has been one of the conclusions that were drawn during the morning session today here at the OECD – is that we had cosmetic changes. And when the next crisis hit, we'll be in exactly the same situation. The only banks that have shrunk somehow are the European banks because the American authorities said to them, 'If you want to do dollar business, you're going to shrink.' But at the same time, the American banks have grown. So they're taking nothing. They think they've taken up the slack.

Clara Young [00:12:30] So you're saying the banks are still as much in control as they always have been? And we are the victims.

Yanis Varoufakis [00:12:39] Look, this is not a question of moralising. It's a question of being realistic. We have a financial world which is effectively breeding its own values, paper values. And in the process, it is decoupling itself from real economic activity. That means that the real economic activity, which is the base, its foundation, is increasingly having to bear the burden of a lot more financial activity. And at some point, like every child knows that if you keep piling grains of sand onto other grains of sand, you will end up with a little hill of sand. And it will at some point implode. And the question is, who's going to save us again after the next 2008? And I very much fear that the institutions of the states that were around in 2008 to do it and they did a very bad job of it, but nevertheless did it. And by this, I mean the Federal Reserve, the US treasury and the Chinese government are no longer capable of doing it because of the way that politics has changed. And it makes co-ordination between them almost impossible.

Clara Young [00:13:52] And then what about the European Central Bank?

Yanis Varoufakis [00:13:55] Well, the European Central Bank is a paradox. It was created as a paradox and it remains a paradox. We have a central bank without a state to have its back. And we have states and governments, 19 of them, without the central bank to have their back. This was the very curious and odd way that we created the monetary system. In other words, the eurozone is like a beautiful riverboat that looks fantastic when you launch it into the Pacific Ocean when the weather is good. The first storm causes it to start leaking and to start sinking. The ECB has managed to refloat finance but at the expense of creating toxic politics, which are now ripping apart the European Union.

Clara Young [00:14:45] I think this will be my last question. And since we are ending on Europe, I'd like to ask you about your European movement. What are your proposals to deal with, for example, this problem with the European Central Bank?

[00:14:58] DiEM25, our movement, is utterly pragmatic and realistic. There's no way that we can convince Europeans that the solution is to redraft the charter of the European Central Bank because it simply can't be done, at least, not in the next 10 years or five years, for that matter. It takes the agreement of 27 countries, at least the 19 of the eurozone parliaments or referenda. It just can't happen. So, the question is, what can we do tomorrow morning to make a difference when it comes to these four crises: public debt, private debt, low investment and poverty? So, our proposal – A New Deal for Europe – is based on reconfiguring the policies of the European Central Bank, the European Stability Mechanism and the European Investment Bank – a lot of emphasis on the European Investment Bank, which is a splendid institution, in such a way as to create the synergies between them that will alleviate those four crises.

Clara Young [00:15:48] OK. So better cohesion between those institutions?

Yanis Varoufakis [00:15:51] No, it's not a question of cohesion. It's redeploying them as part of a New Deal plan that has the specific intention of tackling those four crises and uses those four institutions as part of that plan. At the moment, there's no plan. This is just simply business as usual.

Clara Young [00:16:08] It would mean that Germany would have to go along with it because, of course, Germany and France would be mostly financing a new deal.

Yanis Varoufakis [00:16:15] That's not true. Germany cannot finance anything. France cannot finance anything. We have the fiscal compact. We have stressed fiscally states – not Germany. But even if Germany hit the the upper limits of the fiscal compact, it wouldn't be enough. We have a massive problem in Europe. So, let me just give you an example by which to illustrate it. It cannot be done through taxing and spending, but it can be done through, for instance, the European Investment Bank being given the green light by the European Union Council to issue EUR 500 billion worth of bonds every year for five years. That's 5% of euro area-GDP for five years. That's a substantial amount of money into, let's say, a green investment programme. This we can do today. You don't need to change the rules. Nobody has to pay any money. The EIB issues the bonds and the EIB has been issuing bonds for 25 years. And all you need is a statement by the European Union Council that they have the green light to do it. And by President Mario Draghi, that the European Central Bank will be standing behind those bonds in the secondary markets, which he's already said because they are already buying EIB bonds in the secondary markets. I'm not proposing anything new, just a change of order of magnitude and also to create a new institution of the European Union that designs, let's say, a green energy union, the investment, the R&D that needs to go into construction. Something like what the OECD used to be in Europe in the 1950s, managing the Marshall aid money. So, that way you have simulated a federation without federation. And it's because it has nothing to do with taxation to the extent that as we speak, there's about EUR 2.5-3 trillion sloshing around idly in the financial sector of Europe, doing nothing except bidding up house prices, asset prices, share prices, but not being invested. Those EIB bonds would be soaking up that liquidity and energising that money into the things that Europe needs. No taxation, no France, no Germany having to pay for it.

Clara Young [00:18:19] Well, that sounds more hopeful and optimistic. Thank you very much, Mr. Varoufakis. Thank you for listening to OECD Podcasts.