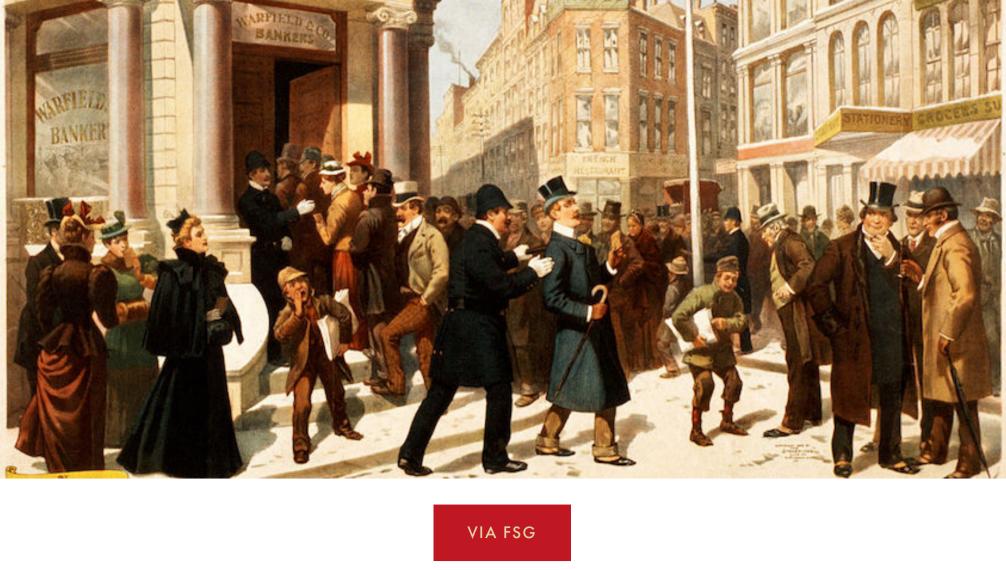
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NEWS AND CULTURE



FICTION AND POETRY

A Letter to My Daughter About

the Black Magic of Banking Yanis Varoufakis Has Some Thoughts on Capitalism

By Yanis Varoufakis

CRAFT AND CRITICISM

The necessary parasite

As you grow up and experience more of the ups and downs of the economy, you will notice a piece of mindbending hypocrisy: during the good times, bankers, entrepreneurs

development," a "parasite" feeding on the private sector through taxation, an "enemy of freedom and entrepreneurship." The cleverer among them even go so far as to deny that government has any moral right, or duty, to serve society, by claiming that "there is no such thing as society—there are just individuals and families," or "society is not well defined enough for the state to be able to serve it." And yet, when a crash occurs that is brought on by their actions, those who have delivered the fieriest of speeches vehemently opposing substantial government intervention in the economy suddenly demand the state's aid. "Where is the government when we need it?" they yelp. This is not a new contradiction. It reflects the problematic relationship the powerful have always had with the state. While they fear the state will intervene to curb their selfenrichment, they also sorely need it. The inequality that market societies generate gigantic concentrations of wealth alongside widespread deprivation and poverty—makes

—rich people in general—tend to be against government. They criticize it as a "brake on

outside their fenced villas? But, then again, if the state has sufficient power to keep the riff-raff at bay, it will also have enough power to confiscate their property and throw them into the street if the government were to fall into the hands of those thronging crowds. One of the most prevalent arguments they make against the state is that wealth is produced individually, by heroic individuals. Taxation is therefore seen as an unjustifiable confiscation of what is rightfully theirs. Nothing could be further from the truth. To see this, let's go back to the beginning of market societies for a moment—to the time when the serfs were being kicked off their ancestral lands. ARTICLE CONTINUES AFTER ADVERTISEMENT

them jittery. What other than a mighty state can protect them when the grapes of wrath

have grown too heavy for the vines and the desperate masses congregate threateningly

How do you think the landowners managed to get rid of the serfs so efficiently? The answer is: with the help of the state. The king and his government lent the landowners a hand, sending their soldiers in to put down any rebellion by the peasants. And how do

you think the new order, underpinning market society, was maintained? How were the

majority living under conditions of abject dehumanization in the slums of Manchester,

back of state-sponsored violence.

Birmingham, and London kept under control when a few streets away the minority lived

in the lap of luxury? To put it simply, private wealth was built and then maintained on the

State-sponsored violence isn't the only thing governments have provided for the powerful since then. Whenever the state has used its revenues to pay for roads, tunnels, and bridges by which goods can be transported, to maintain the hospitals and schools that deliver workers' health and education, to support the downtrodden and unemployed, to police the towns and cities, or to organize in any way the peaceful and stable functioning of society —whenever it has done any of these things (and many more besides), the state has provided the conditions in which individuals, especially the most powerful ones, have been able to pursue their path to wealth. Seen from this angle, the state has always provided the rich with a magnificent insurance policy. And the rich have returned the

In fact, it is not just the state that provides the conditions for wealth creation. If you think

about it, all wealth has always been produced collectively—through recycling and through

a gradual accumulation of knowledge. Workers need entrepreneurs to hire them, who

need workers to buy their goods. Entrepreneurs need bankers to lend to them, who need

favor by doing all they can to avoid paying their premiums.

entrepreneurs to pay interest. Bankers need governments to protect them, who need bankers to fuel the economy. Inventors cannibalize the inventions of others and plagiarize the ideas of scientists. The economy relies on everyone. Public debt: the ghost in the machine While consistently demanding that the state continue to provide the conditions in which their wealth can grow, every time the high and mighty have received the bill for the state's services from the tax office, they have grunted, moaned, whinged, and protested. And

since the powerful have great in influence over the state, this has led to a curious phenomenon: the taxes asked of them have always tended to be low in relation to the amount the state has actually spent, directly or indirectly, on their behalf. As for the workers, their wages have for most of history barely been sufficient to feed themselves and their children, so their taxes have never amounted to a sufficient sum either. So where has the additional money come from? The answer is: public debt. And who has provided the government with the requisite loans? The bankers, of course! And where have the bankers

found the money? I hardly need tell you that they have conjured it from thin air. You can

ARTICLE CONTINUES AFTER ADVERTISEMENT

THE FAR FIELD

Yet, watching television, listening to politicians worry themselves sick over the size of the

start to see how paying low taxes works doubly in the bankers' favor.

national debt and making all sorts of promises to rein it in, you might be fooled into thinking that government debt—or public debt, as it is known—is an awful thing, something like the smallpox virus, in need of permanent eradication. The argument made by those who consider the state an obstacle to private business is that a government that spends beyond its means and can't balance its books is heading for disaster. Don't fall for that nonsense. While it is true that too much public debt can cause major headaches, too little is also a problem. Even Singapore, whose government is forced by law not to spend more than the money it receives in taxes, finds it essential to borrow money. Why? Because a market society's bankers need public debt as surely as fish need water to swim in. Without public debt, market societies can't work. When the government borrows, say, \$100 million from a banker for, say, a ten-year period, in return it provides the banker with a piece of paper, an IOU, by which it legally

guarantees to repay the money in ten years' time as well as pay an additional yearly

amount to the banker in interest—say, \$5 million a year. This IOU is called a bond,

of paper. Given that the rich refuse to cough up the kind of taxes that would make

implying that the government is now bound for ten years to whoever possesses this piece

government borrowing unnecessary, the state issues bonds and "sells" them to banks and

rich people in order to pay for the things that keep the whole show on the road: streets,

hospitals, schools, police, and so on. By spending this money on its various projects buying supplies, paying salaries—the government directly boosts the whole recycling process of the economy from which everyone benefits, including the banks. But this is far from being the only reason that government bonds are useful to bankers. The one thing that bankers hate most is cash: money sitting around in their vaults or on their spreadsheet not being lent in return for interest. But as has hopefully become clear by now, banks become precarious and vulnerable if even a few depositors want their money back all at once. At that point bankers need to have access to something that they can sell in a jiffy so as to pay demanding depositors. Government bonds are perfect for this. To the extent that everyone trusts that the government will be true to its word, its bonds will always be in demand. Indeed, they are exceptional in this way—no other debt can be recycled quite as easily. This means that bankers love government bonds: not only

is a bond a loan that earns a nice rate of interest very safely (so much so, in fact, that it can

also be used as collateral for taking out further loans from other banks), but it can also be

used as a commodity—a piece of property exactly like a painting or a vintage car that can be sold immediately if the banker is in urgent need of cash. Bonds are, in bankers' parlance, "the most liquid of assets." As such, they lubricate the banking system to keep its cogs and wheels turning. In fact, in bad times, when bankers pick up the phone to the government and demand that the state's central bank bail them out, it does so not just by creating new money, as we have already seen, but also by issuing even more bonds and using them to borrow more money from other bankers, often foreign ones, to pass on to the local bankers. You can begin to see why public debt is something much, much more than ordinary debt. It is a manifestation of our market society's power relations, the necessary response to the refusal of the rich to pay their share. It is also a shock absorber that allows accident-prone

bankers to avoid many of the major mishaps that would otherwise occur in its absence. It

Since the first human looked up at the night sky and wondered why she felt overwhelmed

indeterminate that gives us our capacity for wonder, dread, hope. Philosophers and writers

by its immensity, we have felt certain that there is something deep inside us, something

is like an elastic band holding everything together, capable of stretching during the bad

times to prevent the system from breaking.

have referred to that something as the ghost in the machine, the intangible power that makes us who we are. Allow me to suggest that when you hear politicians, economists, and commentators talk about public debt as if it is a curse, you remind yourself that it is a lot more than that. It is the ghost in the machinery of market societies that makes them function, however well or badly they do. And when the powerful or their spokespeople demonize the state, scoffing at the government and at public debt, remember that they need the state as badly as they need their kidneys and livers... TALKING

THE ECONOMY OR, HOW CAPITALISM WORKS-AND HOW IT FAILS YANIS VAROUFAKIS AUTHOR OF ADULTS IN THE ROOM From Talking to My Daughter About the Economy, by Yanis Varoufakis, courtesy Farrar, Straus and Giroux. Copyright 2018 by Yanis Varoufakis.

maybe capitalism is bad Talking to My Daughter About the Economy

TO MY DAUGHTER

ABOUT

Yanis Varoufakis is a former finance minister of Greece and a cofounder of an international grassroots movement, DiEM25, that is campaigning for the revival of democracy in Europe. He is the author of the international bestseller Adults in the Room, And the Weak Suffer What They Must?, and The Global Minotaur. After teaching for many years in the United States, Great Britain, and Australia, he is currently a

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MOCKINGBIRD

A former finance minister from a failed state lecturing his (by virtue of his station) well connected and wealthy daughter on public debt and how the elite interact with the state. I wonder if he drafted this letter while sitting on the patio of his seaside vacation home overlooking the Saronic Gulf.

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His lack of self awareness is breathtaking. His supporter's lack of incredulity is saddening. So no actual robuttal? No arguments no facts no logic no citations no reasoning of any

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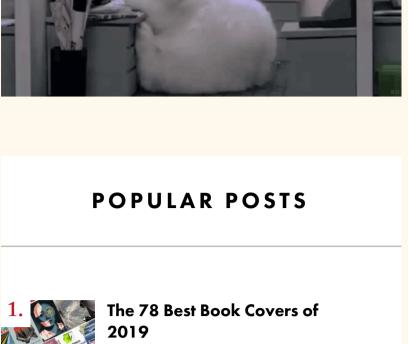
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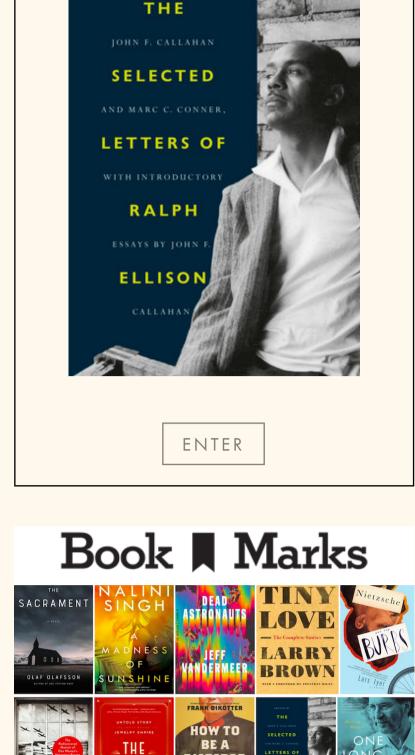
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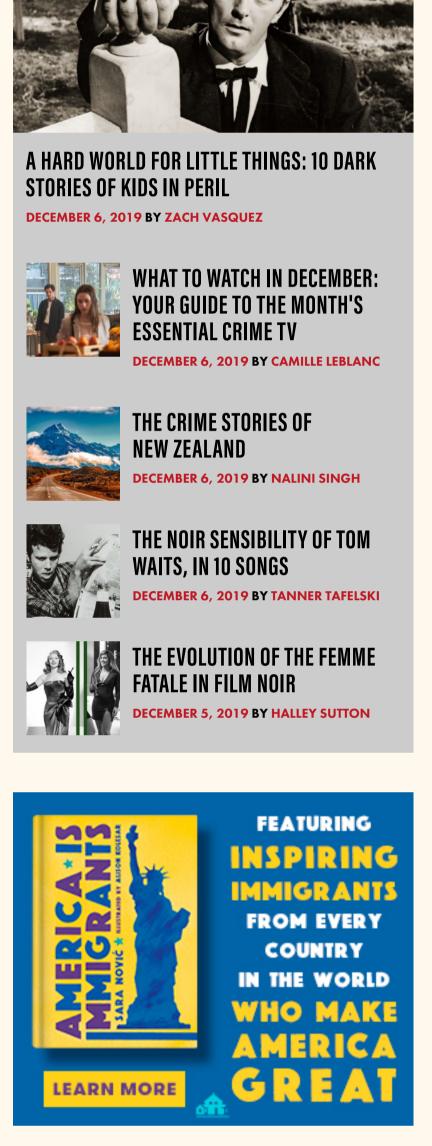
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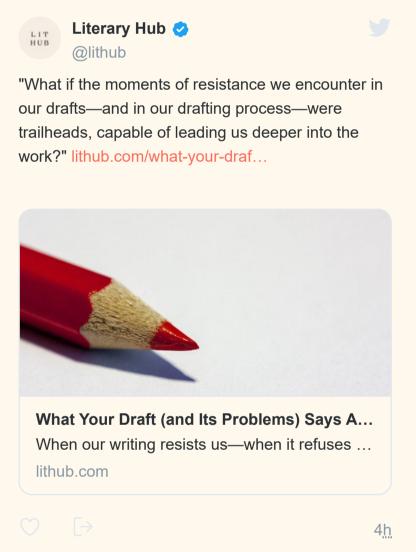
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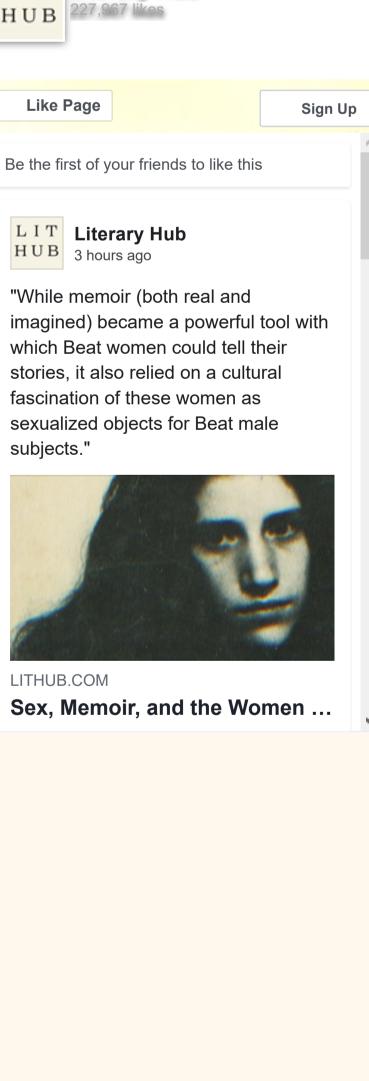
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