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Book review

Varoufakis, Y. (2011): *The Global Minotaur: America, the True Origins of the Financial Crisis and the Future of the World Economy*, 1st Edition, London, UK and New York, USA (196 pages, hardcover, Zed Books, ISBN 978-1-78032-015-1)

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In *The Global Minotaur*, Yanis Varoufakis makes a fascinating depiction of the role played by the United States in the world economy since 1929. The author focuses, in particular, on the crucial political and economic aspects underlying the creation of strong ties between the US and other nations. Besides making a captivating portrayal of several major episodes in recent economic history, the book is also extremely insightful in giving an accessible exposition of several core concepts in economic theory.

In the aftermath of the 2008 crisis, various attempts have been made to understand the accumulation and persistence of current-account imbalances between countries and the large role played by the US trade deficit in this setting. More conventional explanations have highlighted factors determining the current account, either by paying attention to (the lack of) domestic demand in some countries, or by attributing to prices – usually to their rigidity – the major role of preventing imbalances from being corrected over time. Analysts have adopted the latter point of view when they blamed, for instance, the overvaluation of the exchange rate or the lack of business competitiveness for the accumulation of trade deficits in Europe or in the United States.

An alternative view, argued at length by Ben Bernanke (2005), has taken the capital account as the primary driver of imbalances between US and China. According to Bernanke, a global savings glut caused by savers in China has exceeded available investment opportunities and has been injected into the US, resulting in a fall in US long-term interest rates, asset price inflation and excess consumption. By also considering the financial dimension of global imbalances while shifting the origin of the problem to the United States, another set of arguments has focused on the role of the US dollar as a reserve currency in the so-called 'revived Bretton Woods system' (see for instance Dooley et al. 2002 or Bibow 2008). Palley (2011) criticized both views by defending the role of corporate globalization and outsourcing as major drivers of imbalances.

One element that the narrative depicted in *The Global Minotaur* illuminates is that the separation between current- and capital-account factors may be useful for accounting purposes, but it does not help us to understand the underpinnings of the accumulation of global imbalances, and even less so of its linkages with the real economy. Such a distinction has been criticized by Blecker (2003) in connection with the divide between international trade and international finance, which itself only gained force based on the idea of money neutrality.

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Yanis Varoufakis does a great job not only in connecting the dots and attributing a particular role or responsibility to all the current- and capital-account factors leading to the accumulation of global imbalances since the end of the Bretton Woods system, but also for understanding this process in the historical context of the hegemonic role played by the United States since World War II.

In the book's central metaphor, which is based on a tragic figure in Greek mythology, the Global Minotaur represents the specific role played by the United States as an enormous source of demand for goods from the rest of the world, in exchange for being nourished by a massive inflow of capital from all countries. Such capital flows have been directed both to Wall Street and to the purchase of US Treasury bonds and bills, thus allowing the domestic private and public sectors to become net borrowers. The collapse of the Minotaur in 2008, which, as the author argues, may not ever be able to consume enough surplus output from Europe, Japan, China and Southeast Asia to re-establish what he calls a global recycling surplus mechanism, is now creating a high level of instability and uncertainty in the global economy.

Before the formulation of the Bretton Woods system, Keynes (1980) was concerned that the problem of maintaining equilibrium in the balance of payments had not been solved by the laissez-faire system and was a major cause of impoverishment and discontent. He argued that relying on freely fluctuating exchange rates, the free flow of gold or even international loans as a means to equilibrate the system would place the burden of adjustment on the debtor countries, which at the time were weaker and smaller economies. Moreover, the use by debtor countries of competitive deflation (to bring down wage- and price-levels) or exchange-rate depreciation could create another problem, by their potential adverse effect on the terms of trade. The new international system should then attribute the initiative to creditor countries, which would be responsible for investing abroad, reducing tariffs and stimulating domestic demand and employment. As Varoufakis highlights, even if Keynes's (1929) proposition for a formal transfer system was not adopted in Bretton Woods, the United States accepted its surplus recycling duty when it established what the author calls the 'Global Plan', and reinvested its trade surplus in a war-devastated Europe and in other countries around the world.

As the US switched its position from creditor to debtor around 1980 and the capital account was further liberalized, the accumulation of current-account imbalances has assumed a different character. Using Keynes's terminology, 'the burden of adjustment' did not fall on the deficit country (the United States) in this case, at least not until the crisis hit. The safe-haven status of US dollars and US government bonds, as well as the debt-led features of the country's domestic demand, may have allowed the US economy to grow more with a current-account deficit than it would have done otherwise, while expanding its hegemonic power.

When analysing the different aspects of this process and how it paved the way to the crisis, Varoufakis also makes an original and fascinating account of the role played by the Minotaur's 'handmaidens' – in just another of the author's brilliant metaphors – namely, Wall Street and its financial innovations, the Walmart model of wage and price repression, and mainstream economic theory. After the crisis and due to the help of economic policy, the 'Minotaur' is survived by its 'handmaidens', who, as the author argues, can be even more harmful to the global economy without the 'beast's stabilizing influences' as a final source of demand.

Toward the end of the book, Varoufakis also addresses developments in Europe, China and other emerging markets before and after 2008, in what he calls the Minotaur's 'global legacy'. Thanks to the well-developed argument of the previous chapters, the reader easily grasps at this point that the refusal by Germany and other European surplus countries to boost their own domestic demand while still benefiting from the peripheral consumption market for their products has contributed to the creation of unsustainable patterns of private and public indebtedness in these countries. Varoufakis's proposal to increase the role of the existing European Investment Bank, as financed by ECB-issued bonds, as a means to channel surpluses to European deficit regions thus appears as a very interesting alternative to deal with European imbalances.

Four years after the publication of this first edition of the book, the tremendous failure of the commitment to fiscal austerity and so-called structural reforms as imposed in the different bail-out programs in offering a way out of the crisis to periphery countries is clearer than ever. Varoufakis could not have predicted how much of the burden of adjustment would still fall on deficit countries without leading to a shift in the political agenda toward the need for a more balanced and sustainable solution – in spite of his own assiduous efforts during his short period as Greek Finance Minister at the beginning of 2015. In this context, and for the most unfortunate of reasons, the book's arguments appear as timely as ever.

When it comes to his views on the future configuration of the global economy, however, the author's analysis is less enlightening. While the idea that the United States wants to take jobs back from China by calling for a renminbi revaluation is appropriately depicted as naïve, especially given the huge presence of American multinationals producing output abroad, Varoufakis's belief in the death of the Global Minotaur is left somewhat unjustified.

It is true that the US current-account deficit has decreased substantially after the crisis. In fact, only after the Plaza Accord of 1985, when the dollar largely depreciated relative to the yen, did the US experience a comparable rebalancing. A closer look reveals, however, that after an initial improvement resulting from a sharp fall in imports in 2009, the current-account deficit has remained low in recent years due solely to the decrease in factor payments to the rest of the world, while imports have been growing more than exports. This means that as soon as US interest rates on Treasury bonds and bills reach their pre-crisis levels, net factor payments will also increase, deepening the deficit once again. Moreover, both the household and the business sectors, which had decreased their net borrowing substantially in 2008, have already reached their pre-crisis levels.

Finally, and contrary to what Varoufakis suggests, the Minotaur's capacity to attract a tsunami of foreign capital seems far from over. This is clear from the enormous repercussions that the so-called tapering of expansionary policies by the Federal Reserve and the threat of a rise in US interest rates have had in most emerging markets since 2013, basically leading to a massive depreciation of emerging market (and other) currencies relative to the dollar. In this context, the author's idea that China is creating its own 'Global Plan' with Latin America and other emerging markets is thought-provoking, but unrealistic for the near future.

The safe-haven status of US dollars and treasuries, as well as the debt-led features of the country's domestic demand, may very well allow, once again, the US to act as *The Global Minotaur*. In this case, if Varoufakis's lessons were to be followed, the global system's long-run stability would depend on an unlikely attack on the Minotaur's 'handmaidens'. In other words, reducing the creation of private money and redistributing income toward wages would be the only effective way to avoid another debt-led spiral in the household sector, while keeping consumption in the US as one of the guarantors of world aggregate demand.

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