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# **SOCIETY REGISTER**



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**Adam Mickiewicz University in Poznan**

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## **THE STRUGGLE FOR SOCIAL WELFARE: TOWARDS AN EMERGING WELFARE SOCIOLOGY**

MARIUSZ BARANOWSKI<sup>1</sup>

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**ABSTRACT:** The main aim of the article is to outline welfare sociology as a potential sub-discipline of sociology and to discuss the issues of broadly defined social welfare. While in contemporary social sciences the literature concerning welfare often focuses on themes such as happiness (psychology), prosperity (economics), or quality of life (sociology), these themes may be considered too narrow and do not reflect the complexity of the issue. However, if one considers the definition of social welfare through the prism of material and non-material needs, as well as the needs expressed individually and collectively, it is possible to attempt a comprehensive study of this phenomenon. The author uses the definition of social welfare to look at research on (a) welfare state regimes, (b) welfare attitudes and (c) issues of work in contemporary capitalism, all to enable the application of research results within the analysis of the title concept.

**KEYWORDS:** social welfare, welfare scarcity, welfare sociology, well-being, ill-being

### **INTRODUCTION**

The history of all hitherto existing society is the history of social welfare struggles (cf. Marx and Engels [1848] 1948:9). Class struggle, for example, is an important but only a subset of the space/agglomerate of multifaceted battles for social welfare. Although differently conceptualised, the welfare project was, in the past and is today the goal of not only individuals or groups of people, but above all of the complex societies, with their specific social diversity as a consequence of the dominant economic system. The influence of capitalism on social welfare in the broadest sense - sometimes referred

to as prosperity (Marshall 1961, Pontusson 2005), wealth (Daunton 2007) or affluence (Galbright [1952] 1998) - as well as its lack, determines the core of interest in contemporary social sciences. Even if the concept itself is reduced to the requirements of theoretical-methodological orientation of a particular discipline or sub-discipline, interest in the quality and standard of living of broad social groups (e.g. sociology, economics, history) or individuals (e.g. psychology) exists in all of them. Even an attempt at a cursory look at today's socio-economic and political situation in the world leaves no doubt as to what is the object of concern and indignation for the inhabitants of all continents. In some countries this struggle takes the form of direct strikes with the reaction from the police and the military (e.g. Chile, Bolivia, France, Greece, China), while in others it assumes less organised forms such as strikes, peaceful street protests, parliamentary and judicial battles. In all cases, however, it is all about social welfare, which, while being achieved in different ways, sets the course for different actions and mobilisation of individuals and broad social groups.

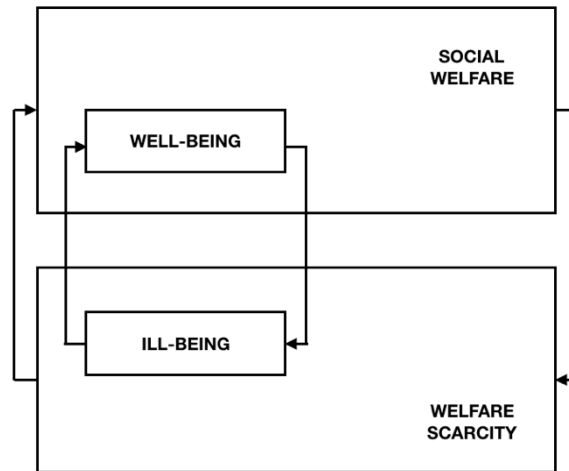
### **TRYING TO DEFINE SOCIAL WELFARE**

The wide range of meanings of social welfare, and therefore problems with its definition, is a consequence of the wealth of theoretical perspectives and empirical attempts to operationalise the concept (Baranowski 2017). Furthermore, it should be added that this concept covers many determinants of different scope (from the question of freedom through material conditions to the subjective conviction of personal security and the future of the community). It is difficult to imagine the possibility of developing a satisfactory definition of social welfare that would respond to the repeatedly exclusive requirements of researchers and practitioners of social life (cf. the fiasco of determined reconstructionism in the construction of concepts - Oppenheim 1981 and Sartori 1984). The following proposal, therefore, does not aspire to be a universal interpretation, since such an interpretation does not and cannot exist. However, given the sociological perspective, the restrictive attempts to define social welfare, whether from a (cognitive) psychology or (welfare) economics perspective, are not acceptable. Thus, the proposal presented here is not so much to conduct psychological (referred to as subjective well-being) or economic (as part of the classical school of economics) criticism of welfare, but rather to include or incorporate the "key" components of these approaches in a broader sociological context.

Because sociology is a positivist science in the sense that it deals with social reality as it is, the opposite of social welfare, which has been described as "welfare scarcity," has been introduced into the conceptual model (which plays a heuristic role). At the individual level, the concepts of well-being and ill-being, well established in cognitive psychology, correspond to them (see Fig. 1).



Figure 1. Conceptual model of relations between social welfare and welfare scarcity (and their equivalents at the subjective level)



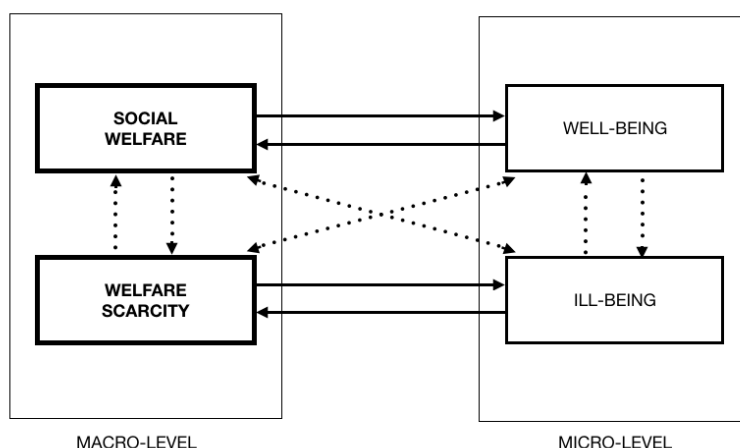
Source: own elaboration.

The relationship both between social welfare and welfare scarcity, as well as between well-being and ill-being and between social welfare and well-being and welfare scarcity and ill-being are two-way streets, which means that they condition each other. Taking the category of satisfying needs in the broadest sense (which means not only their structuring, as in Maslov's case but also their open and evolving character) as the core of social welfare, it is easy to understand the meaning of welfare scarcity, meaning the impossibility (deficit) of satisfying them. An important role in the conceptualisation of welfare and its opposite is played by the micro-level, which in this context means the subjective perception of satisfaction (well-being) or discontent (ill-being) with the state of life as a whole or in a more fragmented way. The micro-level is conditioned by the macro level, but also has a secondary impact, i.e. it co-creates a higher order perspective (see Figure 2).

Taking into account the above, it can be concluded that **social welfare** concerns the degree to which the material and non-material needs of a society are satisfied both at the collective (supra-individual) and individual (subjective) level. The last two levels should be considered together since in the sociological perspective (which places particular emphasis on the supra-individual) the subjective component is shaped by what is social, while what is social is formulated at the micro-level.

Social welfare understood in this way corresponds *to* and is appropriate *for* the analysis of the phenomenon of the welfare state, which, according to Thomas H. Marshall's approach, complements and at the same time makes the previously introduced civil and political rights a reality (1992 [1949]). This is because "[t]he poor vote in much smaller numbers than anyone else. So there is little political risk in penalising them: just how 'hard' are such choices?" (Judt 2010: no pages). Even in the light of this example, one can see that the perspective of "classical" political economics or, by analogy, political sociology are more appropriate approaches to the analysis of society as a whole.

Figure 2. Social welfare – welfare scarcity and well-/ill-being



Source: own elaboration.

The proposed approach to social welfare, which takes into account the level of subjective beliefs, avoids the difficulties associated, for example, with the concept of affluenza, understood as “a painful, contagious, socially transmitted condition of overload, debt, anxiety, and waste resulting from the dogged pursuit of more” (De Graaf, Wann and Naylor 2014:1). When considering the problems of achieving social welfare, it is worth keeping in mind a kind of paradox that today more people suffer from obesity than from hunger around the world (WHO 2018). The welfare sociology also has to deal with the explanation of such contradictions.

### SOCIAL WELFARE AND THE WELFARE STATE

Reducing social welfare to the institutions of the welfare state constitutes an issue that tends to be often overlooked or simply ignored, in spite of its prominence in contemporary welfare research. The reflection on the shape and specificity of the welfare state in an institutionalised form, sometimes - although not synonymous - referred to as social or public policy (also in the plural), dates back to the social security programme introduced by the Reich Chancellor, Otto von Bismarck, in 1880. The form of fully-formed welfare states after the Second World War, when the transition from “warfare” to “welfare” (in the context of the Cold War, cf. Light 2003), understood as protection against basic life risks, took place. In order to reduce these risks and eliminate the main social problems - Wolfgang Streeck (2016:4) spoke of “post-war settlement’ of social-democratic capitalism” - institutions of the welfare state were established to counteract the most important social ills (with unemployment, living conditions of the elderly, problems of housing, education and health care at the forefront).

Although studies of welfare state regimes are extraordinarily diverse and fruitful, it should not be forgotten that the very concept of social welfare is broader in scope.

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When examining the institutions of welfare states, we examine selected aspects of social welfare, but the title phenomenon contains a much broader (also non-institutional) perspective.

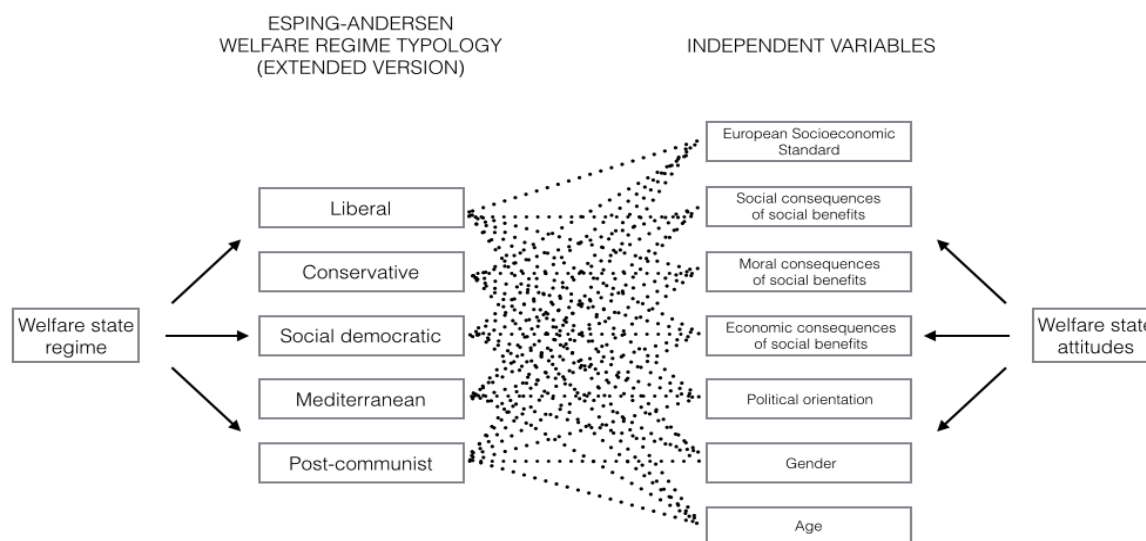
Social welfare is achieved through state institutions (welfare state), the market (both in terms of the performance of public tasks by private entities and through the consumption of goods and services), charities, but also through the family in the broadest sense. The definition of social welfare through the prism of satisfying needs gives a wide range of possibilities to apply such a phenomenon to theoretical (aimed at describing and explaining the level of social development) and practical (i.e. empirical, where hypotheses based on theoretical explorations are tested) analyses. The perspective of the welfare state focuses primarily on collective needs, which corresponds to the sociological understanding of social institutions in general. These collective needs are met free of charge by state institutions, which means that they perform, among other things, directly (a) an emancipatory function, and indirectly (b) a socialisation function. The former involves the organisation of social conditions conducive to individual and supra-individual development, which are possible through liberation (also understood as a change in cultural practices) and granting certain rights to particular social categories. The socialisation function, in this context, means the process of preparing individuals to undertake specific tasks in society, subject to a control mechanism, which in turn is subordinated to a sanctioned (legitimacy) social order.

Particularly as part of the socialisation function, researchers of social welfare from the institutional side should remember that as Kaaryn S. Gustafson (2011:1) noted, “[w]elfare rules assume the criminality of the poor. Indeed, the logics of crime control now reign supreme over efforts to reduce poverty or to ameliorate its effects” (cf. also Wacquant 2009).

Studies of welfare state regimes have a relatively long history, given that their institutional origins are linked to the end of World War II (Wilensky and Lebeaux 1958; Hunter 1958; Titmuss 1974; Mishra 1981). One of the most common typologies of welfare states was proposed by the Danish sociologist Gøsta Esping-Andersen (1990). He distinguished the three main regimes of capitalist welfare states: liberal, conservative and social democratic (1990: 26-29).

Today, there is a lively reflection to the research on attitudes and opinions towards the institutions of the welfare state, which are based on systematic opinion surveys carried out as part of such projects like the European Social Survey or the World Value Survey. The juxtaposition of ‘classical’ surveys of welfare state models (based on macroeconomic or macrosociological indicators) with opinion surveys on them gives additional possibilities to take into account the dynamics of change in the perception of these institutions (Roosma, van Oorschot and Gelissen 2014; Svallfors 2003, 2012; Van Oorschot and Meuleman 2012). Moreover, as Timo Toikko and Teemu Rantanen (2017: 202) noted, “the significance of the welfare state model is seen among citizen’s social-political attitudes”.

Figure 3. The Conceptual link between welfare state regime and welfare attitudes



Source: own elaboration.

The potential form of the relationship between welfare state models and welfare attitudes research (based on the example of a special module Welfare state scope and responsibilities in ESS Round 8) is presented in Figure 3. It uses an extended Esping-Andersen typology and components of the survey of respondents' attitudes towards welfare state institutions. The analysis of respondents' opinions and/or attitudes on individual welfare state solutions (or their lack) provides valuable empirical material not only for public policy theoreticians but also for practitioners and politicians. Practitioners receive representative results of "bottom-up" evaluation of implemented solutions together with their multidimensional evaluation, while politicians receive data on social expectations of social policies implemented by state institutions. For the welfare sociology, the knowledge about institutional solutions and their impact on the level and quality of social life, as well as systematic surveys of citizens' opinions in this respect constitute invaluable empirical material on the phenomenon of social welfare in a sense outlined above.

### SOCIAL WELFARE AND LABOUR SOCIETY

The social welfare as proposed here can also be seen through the prism of work, because "(...) we are driven by the fact that the 'self' is constituted, at least for most of us, by membership in the labor force, as a member of either the job bourgeoisie – the 'professions' – or the working class" (Aronovitz and Di Fazio 1996: 328-329). Even more importantly, from the point of view of holistically understood welfare in a capitalist society, is that paid work is understood as "a socially and psychologically constructed 'need' shared by those who have been successfully habituated to think that the link between holding a job and having 'dignity' is a given. Put bluntly, in this view the self

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is identical to its place in the paid labor force. No job, no (secure) self” (Aronovitz and Di Fazio 1996:329). The subjective component of work understood in this way is as essential as the materialistic dimension of earnings in the capitalist economy. The aforementioned components, i.e. need and dignity, determine the key framework for the interpretation of the main activities of individuals within the dominant socio-economic system. The (free) market ideology and its undeniable success in understanding world domination “produces” a reality in which “individuals, not the economic and social system, are ultimately responsible for their fate; the market adjusts itself at a level approximating full employment, and any joblessness is ‘frictional’ – that is, temporary – for responsible and able-bodied individuals” (Aronovitz and Di Fazio 1996: 329). It is worth looking at this problem from the philosophical-political analyses of Nancy Frazer and Axel Honneth (2003), where the terms “recognition” and “redistribution” provide a research perspective.

The form of pressure exerted on the individual by the dominant capitalist system has its consequences both at the individual level, i.e. subjective (well-being versus ill-being) and supra-individual (social welfare versus welfare scarcity). The issue of work and its impact on the realisation of life chances of individuals is also one of the main aspects of contemporary welfare state institutions. It is the labour market that determines a significant field of activity for public policies (employment policy, active social policy, the issue of unemployment and programmes to counteract it, the employment guarantee programme, making social benefits dependent on work, flexicurity, etc.). At the same time, contemporary research on work increasingly refers to the notions of precariousness (Standing 2011, 2014), working poor (Shipler 2004), bullshit jobs (Graeber (2019 [2018])), NINJA (No Income, No Jobs and No Assets), NEET (Neither in Employment nor in Education and Training), the boomerang generation. (Stiglitz 2012:80) and even wrongly ridiculed “bamboccioni” (Honwana 2014: 28-40).

The very discourse in the prevailing socio-economic system about work, which will not be reduced to 15 hours a week by 2030, as Keynes prophesied in 1930, is part of “capitalism’s ability to assimilate critique” (Boltanski and Chiapello 2007: xv).

As Susan George (1999) noted, when she described the success of neoliberalism, “(...) the ideological and promotional work of the right has been absolutely brilliant. They have spent hundreds of millions of dollars, but the result has been worth every penny to them because they have made neo-liberalism seem as if it were the natural and normal condition of humankind. No matter how many disasters of all kinds the neo-liberal system has visibly created, no matter what financial crises it may engender, no matter how many losers and outcasts it may create, it is still made to seem inevitable, like an act of God, the only possible economic and social order available to us”. It is hard not to admit that the American political scientist is right that the neo-liberal project has been extraordinarily successful and appears to people as - let us use the term Margaret Thatcher - TINA (There is no alternative). But on the other hand, the various strategies of resistance to the neoliberal variety of capitalism are in favour of the TATA option! (There are thousands of alternatives!) (cf. George 2002).

Social welfare - in a sense adopted in this article - considered through the prism of the labour market should not only be limited to productive work (i.e. production



of goods) but should also take into account the specificity of reproductive work (i.e. production of life). Only such a perspective allows us to see the essence of the neoliberal reality in its full glory, as it goes beyond narrowly understood employee research, limited to workplaces. Satisfying (or, to be more precise, not satisfying) individual and social needs also takes place outside the workplace; hence reproductive work, which is dispersed throughout society, opens up completely new fields of research (cf. Waring 1998).

Stanley Aronowitz and William Di Fazio noticed that: “Capital fears its own moving spirit. Vast quantities of labor are set free from the labor process, but rather than fostering full individual development, production and reproduction penetrate all corners of the life world, transforming it into a commodity world not merely as a consumption but also in the most intimate processes of human interaction” (Aronovitz and Di Fazio 1996: 339). Then they add that “Intellectual labor, its ideology of professional autonomy in tatters as a result of its subordination to technoscience and organisation, becomes a form of human capital the components of which are specialised knowledge and differentially accumulated cultural capital determined mainly by hierarchically arranged credentials” (Aronovitz and Di Fazio 1996: 339).

Neoliberal capitalism is capable of appropriating various forms of resistance developed against it. Although the forms result from multifaceted strategies of socialising resources that have been commoditised by capitalism and recovered again to serve the widest possible society or communities, the result is the opposite. Let us take the example of new technologies that have the potential to change many spheres of society’s functioning, from politics, through leisure, to the world of work and social security (Unconditional Basic Income). Today, economy platforms, or access, gig or sharing, not only do not expand the field of emancipation and socialisation, but are more sophisticated forms of exploiting the workforce or resources of individuals to increase the profits of new industry giants, known as FAANG (Facebook, Amazon, Apple, Netflix and Google), to which several more players such as Microsoft and Uber can be added. Naturally, there is an area of new network technologies that strengthen non-market sharing mechanisms. However, they are unable to transform the capitalist system, absorbing these “new” innovations into commodity logic.

It is not just about new technologies, as Harry Cleaver (1993:37) pointed out almost two decades ago that “(...) our inability to avoid being divided and conquered, i.e., to avoid the successful decomposition of our power. *At a global level*, capital’s ability to impose localised hunger, disease and starvation in the 1970s and 1980s (especially the famines in Africa), through its ability to impose austerity (unemployment and falling real income) and police repression (e.g. Mexico, Brazil, Mozambique, the American rust belt, the ghettos of Washington and Los Angeles), to its ability to impose war and devastation (e.g., Panama, the Persian Gulf), the success of these terribly destructive counterattacks have depended on preventing the mobilisation of outside support through the isolation of the targeted populations - in part through the manipulation of circuits of information and communication”.

When studying the phenomenon of social welfare and its opposite (welfare scarcity), it is impossible to abstract from historical facts, which show the political nature

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of capitalism. Austerity politics (or “harsh austerity policies”, Toussaint 2019: 158) is linked to the politics of fear, which affects both material welfare scarcity and subjective ill-being. In the context of poverty in Senegal, Rosalind Fredericks (2018) even speaks of “garbage citizenship”, or rather, as the author noted, “understanding urban infrastructural citizenship in the wake of neoliberal development” (2018: 26). The book itself has the following purpose: “The provocations of Dakar’s garbage citizens are used to reflect on the possibilities for building more just urban infrastructures” (2018: 26), which is ultimately also about social welfare.

## CONCLUSIONS

Citing a book by economists from the University of California at Berkeley Emmanuel Saez and Gabriel Zucman *The Triumph of Injustice*, Christopher Ingraham (2019) from *The Washington Post* stated that their study “finds that in 2018, the average effective tax rate paid by the richest 400 families in the country was 23 percent, a full percentage point lower than the 24.2 percent rate paid by the bottom half of American households”. A situation in which the wealthiest people (super-rich) pay lower taxes in a given society than the working class not only makes the social and economic system blatantly unjust but also prevents in many ways the introduction of social welfare in society as a whole (cf. Husson 2015; Piketty 2014).

In fact, the (free) market system is applied to the economically weakest parts of society (cf. Markowska-Manista 2017). At the same time, super-rich and super corporations can count on public support from state institutions in many ways (repayment of debts resulting from unprofitable, greedy or simply breaking the law by large economic entities, on the one hand, special tax discounts and even public subsidies for private investment, etc. on the other hand - more broadly in the context of the recent crisis, compare Toussaint and Millet 2010).

When we examine society in the context of social welfare, we have to keep in mind that “(...) individual prosperity is curtailed in the presence of social calamity. That things are going well for me personally is of little consolation in my family, my friends and my community are all in dire straits. My prosperity and the prosperity of those around me are intertwined. Sometimes inextricably” (Jackson 2009:1).

Research on social welfare, e.g. solely in the aspect of - let us use Tim Jackson’s term - “individual prosperity”, although cognitively stimulating, does not give a full overview of the impact of diverse social, political, economic or cultural determinants. And one must bear in mind that these determinants overlap, which further complicates the possibilities of describing and explaining (not to mention trying to predict) the phenomenon of social welfare or its opposite. Additionally, as Noam Chomsky pointed out, the entities that gain the most within the capitalist system do not remain passive. Well, “The smart way to keep people passive and obedient is to strictly limit the spectrum of acceptable opinion, but allow very lively debate within that spectrum (...)” (Chomsky, Barsamian and Naiman 2003: 43). Thus, in the context of welfare attitudes research, one should consider - often very subtle and sophisticated - methods of manipulating public opinion (cf. Bernays 1928; Chomsky 1991; Pierzchalski 2017).

How timely today is George Orwell's 1984 passage, in which he stated:

All that was required of them was a primitive patriotism which could be appealed to whenever it was necessary to make them accept longer working-hours or shorter rations. And even when they became discontented, as they sometimes did, their discontent led nowhere, because being without general ideas, they could only focus it on petty specific grievances. The larger evils invariably escaped their notice (Orwell 2018: 92).

When studying the conditions of social welfare, we cannot overlook "the larger evils"; when studying this social phenomenon, we must have a broad theoretical-methodological overview capable of grasping a comprehensive picture of the phenomenon. Including even those seemingly unrelated and distant fragments of it which prey on lofty concepts of patriotism, justice and faith.

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## HOW MAINSTREAM ECONOMISTS EXPLAIN (OR NOT) UNEMPLOYMENT?

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**ABSTRACT:** One of the tasks assigned to *mainstream* economists is to legitimize the significance of unemployment. This paper aims to reconstruct the evolution of their approaches from the theoretical impossibility asserted by Pigou to the recognition of involuntary unemployment by Keynes and eventually to different versions of the natural unemployment rate. The unemployment rate had become an instrument for fine-tuning of the economy, but it no longer fulfills this role. It is then the whole dominant macroeconomics that is shaken to its foundations. But this crisis might help to return to expansionary fiscal policies (a Green New Deal) and to the Job Guarantee, thus echoing Keynes' question: 'There is work to do; there are men to do it. Why not bring them together?'

**KEYWORDS:** unemployment, mainstream economics, The Phillips curve, NAIRU, Keynesian economics

One of the tasks assigned to *mainstream* economists is to legitimize the significance of unemployment. For a long time, unemployment was considered as a theoretical impossibility and, in practice, a necessary evil, or the result of excessively high wages. It was not until Keynes that the hypothesis of involuntary unemployment was considered. The monetarist counter-revolution suggested a return to traditional sources and then was established a synthesis that made the unemployment rate an instrument for tuning the economy. Finally, the consequences of the recent crisis are leading to a slow implosion of the dominant pattern. This paper aims to capture the key moments of this trajectory.

### IMPOSSIBLE IN THEORY, INELUCTABLE IN PRACTICE

For a long time, economists have not been concerned about full employment. The term ‘unemployment’ itself is nearly absent from the treatises by Alfred Marshall who, for many decades, was the leading economist in England. Marshall’s views have remained those of the authors of the famous Poor Law Report of 1834 (see Husson 2018a), as evidenced in a letter sent in 1903 to Percy Alden, in which Marshall expresses the substance of his thinking (Marshall 1903). There are, he writes, two categories of unemployment: the occasional unemployment results from economic fluctuations, but only develops because of ‘the inability of beings of finite intelligence to forecast coming economic needs and opportunities with perfect precision’ (Marshall 1903: 446). They should therefore be taught that ‘to spend the whole of one’s income in prosperous times and to be without resource when the tide turns, is inconsistent with the respect that everyone owes to himself’ (Marshall 1903: 446). As for the systematic unemployment, Marshall believes that it is:

(...) caused by the existence of large numbers of people, who will not or cannot work steadily or strongly enough to make it possible that they should be employed regularly. They are hunters for odd jobs, which are generally ‘soft’ jobs. A large part of the present unemployment seems to me to be this kind: that is, it is a symptom of disease rather than a cause. And remedies addressed to the symptoms of it are likely, I fear, to increase the disease. (Marshall 1903: 446)

Marshall calls for a ‘kindly but severe discipline of those who are bringing up children under physical and moral conditions which will make them recruits to the great army of the habitually unemployed’ (Marshall 1903: 447).

The discourse of economists will gradually incorporate a less moralistic yet implacable analysis. In the perfect world of free competition, unemployment cannot exist, or might exist only in the form of ‘voluntary’ unemployment resulting from a rational trade-off between wages and leisure. Their main advice is therefore to recommend the removal of all obstacles to the balance between supply and demand in the labour market. This market is not fundamentally different from any other commodity, be it a potato or a sock.

As for the term ‘full employment’, it is sometimes argued that it first appeared under the pen of Arthur Pigou (1877-1959) – a disciple of Marshall – in his book *Unemployment*, published in 1913. It happens to be a misinterpretation, because Pigou uses the term of full employment in a different sense, which refers to the full-time employment of certain categories of workers. However, Pigou’s book is interesting as it presents very clearly an approach to the issue of unemployment, which then remains largely dominant. Its basic principle is that ‘unemployment is *wholly* caused by maladjustment between wage-rates and demand’ (p. 51).

Therefore, if wages ‘were determined by the free play of competitive forces (...) there could not exist any unemployment whatever’ (p. 51-52), beyond cyclical fluctuations. In particular, ‘any attempt on the part of a particular Trade Union to force up the wages of its members above those current in the general run of similar occupations is



a cause of unemployment, and the abandonment of that policy is, *pro tanto*, a remedy for it' (p. 242).

The instruments to reduce unemployment inevitably have adverse effects. Public employment excludes – as we would say today – private employment. Pigou cites, in this regard, a report by the commission on South African poverty (*Transvaal Indigency Commission*). The reference is curious, but the statement is very clear:

When, therefore, a Government gives work to the unemployed (...) it is diminishing employment with one hand, while it increases it with the other. It takes work from people employed by private individuals, and gives it to people selected by the State (Pigou 1913: 171).

Finally, there is – already – the perennial denunciation of the minimum wage:

When humanitarian considerations lead, in effect, to the establishment of a minimum wage below which no worker will be engaged, the existence of a large body of persons not worth this minimum wage is a cause of unemployment (Pigou 1913: 242-243).

However, even if all the recommendations were implemented, this would not be sufficient to 'abolish unemployment' and therefore it is necessary to use 'palliatives' such as unemployment insurance scheme. In other words, unemployment is an inseparable attribute of a market economy: we can only limit its scope and 'alleviate the evil consequences' (p. 246).

The term 'full employment' is generally associated with the name of William Beveridge (1879-1963). It is interesting to look back at his first contribution in his book *Unemployment. A Problem of Industry*, published in 1909, favourably cited by Pigou. Beveridge considers there that 'unemployment is to some extent at least part of the price of industrial competition' (p. 235). The appropriate answer is in practice 'reducing the pain of unemployment to relative insignificance' (p. 235). So it is rather a theory of 'frictional' unemployment and we are still far from the full employment of which Beveridge will later be one of the most active promoters.

It is important to note that economic theories are not impervious to the economic situation that sometimes provides concrete demonstrations. A fine example is given by John Hobson, a heterodox economist made famous by his analyses of imperialism – and who can also be considered as a precursor of Keynes for his work on unemployment. In his book *Problems of poverty*, published in 1899, he pointed out that:

(...) the fact that in 1890 the mass of unemployed was almost absorbed, disposes once for all of the allegation that the unemployed in times of depression consist of idlers who do not choose to work (Hobson 1899: 16).

However, the prosperity recorded during the 'Belle Époque', from 1896 to 1924, allowed observers to be satisfied with unemployment analyses as the result of transitional misadjustments. It was the great crisis of 1929 that made these representations shatter.

## KEYNES DISCOVERS INVOLUNTARY UNEMPLOYMENT

It was in 1929 that an economist proposed a radical change of point of view: ‘the belief that that there is some law of nature which prevents men from being employed, that it is “rash” to employ men, and that it is financially “sound” to maintain a tenth of the population in idleness for an indefinite period, is crazily improbable – the sort of thing which no man could believe who had not had his head fuddled with nonsense for years and years’ (p. 10).

And the same economist puts forward a simple reasoning, which some would certainly describe as simplistic. This economist is none other than John Maynard Keynes who signed along with Hubert Henderson a brochure entitled *Can Lloyd George Do It?* It contains what could be the guiding theme of this contribution:

The whole of the labour of the unemployed is available to increase the national wealth. It is crazy to believe that we shall ruin ourselves financially by trying to find means for using it and that ‘Safety First’ lies in continuing to maintain men in idleness (Keynes Henderson 1929: 38).

Therefore, Keynes encourages us to a major reversal which consists in returning to a rational approach and even to the ‘common sense’. He also reassures his readers on this point: ‘what seems sensible is sensible, and what *seems* nonsense is nonsense’ (p. 11).

Nor should we be frightened by the bogeyman which, even today, is still used by the advocates of ‘natural’ unemployment:

The conclusion, that if new forms of employment are offered more men will be employed, is as obvious as it sounds and contains no hidden snags; that to set unemployed men to work on useful tasks does what it appears to do, namely, increases the national wealth; and that the notion, that we shall, for intricate reasons, ruin ourselves financially if we ‘use’ this means to increase our well-being, is what it looks like a bogey (Keynes Henderson 1929: 11).

Keynes is also not satisfied with the safety net provided by the benefits paid to the unemployed, because these benefits do not create anything. In his opinion, true security is ‘an honest day’s work for a fair wage waiting for every honest worker’, as he writes in his notes. And full employment (even if he does not use this term) is not 5% unemployed: unemployment must be reduced: ‘to the sort of level we are experiencing in wartime, that is to say (...) less than one per cent unemployed at the present time’. For this to happen, the State must do ‘everything that could humanly be done’. And Keynes expresses his indignation: ‘It is crazy to sit puffing one’s pipe and telling the unemployed that it would be most unsafe to find them any work’ (Tcherneva 2012 for these last quotes).

It is therefore logical that Keynes declared himself in favor of large-scale public works programs and paid little attention to their rate of return: the important thing being to reduce unemployment, it is better to have a low return than no return at all. These suggestions were caricatured by assigning to him the idea that the unemployed should be employed to dig holes and then fill them up. That’s probably the risk of be-



ing too subtle, because Keynes never said that. In the *General Theory*, he imagines that the government buries bottles filled with banknotes for the unemployed to dig them up. But it was a parable on money creation, drawing a parallel with gold mines where holes are also dug.

Even before the publication of the *General Theory* in 1936, some of Keynes' 'common sense' ideas were implemented in the United States by Franklin Roosevelt, as part of the *New Deal*. He was elected after the catastrophic presidency of Herbert Hoover, who saw the prosperity 'just around the corner'. When Roosevelt came to power, there were 12 million unemployed, for a working population of about 50 million, to which must be added several million homeless. While the previous administration merely distributed aid, this time the objective was to create jobs. One of the program's administrators, Harry L. Hopkins, could justify this changeover as follows:

Give a man a dole and you save his body and destroy his spirit. Give him a job and pay him an assured wage, and you save both the body and the spirit (Hopkins 1936 quotes by Bremer 1975: 637).

It was therefore a vast public works program that was launched in 1933 with the establishment of the *Public Works Administration* associated with a *Civilian Conservation Corps* and, in 1935, the *Works Projects Administration*. All the said programs will not restore full employment and will reduce unemployment by only about one-third. The record of the New Deal that can be only outlined here is indeed mixed. Roosevelt's plans were obstructed by businesses' investment strike that the public initiative could not counterbalance. There were still six million Americans unemployed in 1941, and full employment was not restored until the entry into the war.

The post-war period will be marked by the development of the welfare state in Europe, one of the fathers of which is William Beveridge, the author of two famous reports. The first report, published in 1942, dealt with social security; the second, dating from 1944, with *Full Employment in a Free Society*. In the prologue to this report, Beveridge immediately points out that full employment 'does not mean having no unemployment at all' but 'having more vacancies for workers than there are workers seeking vacancies' (p.1). There will therefore still remain a frictional unemployment rate, which he estimates at 5% of the working population in the case of the United Kingdom.

### **THE PHILLIPS CURVE, OR THE FINE TUNING OF UNEMPLOYMENT**

In 1958, Alban Phillips (see Husson 2018b for a short biography) published an article (Phillips 1958) that earned him fame, since we are still talking about Phillips curve today. His article states that nominal wage growth is moving in the opposite direction to the unemployment rate (and its changes). Phillips' data focus on the long-term evolution of unemployment and wages in the United Kingdom, between 1861 and 1957. When the article was published in 1958, the nominal wage growth rate was indeed quite high, but the country was close to full employment: the unemployment rate had been around 2% since 1945. Phillips' project therefore does not address a contem-

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porary economic problem. His project is substantially different: its aim is to provide the empirical basis for unemployment theory. But how should the curve be read? For Richard Lipsey, a colleague of Phillips' who is trying to find a more theoretical basis for the curve, the determination clearly goes from unemployment to wages:

If one wishes to predict the rate of change of money wage rates, it is necessary to know not only the level of unemployment but also its distribution between the various markets of the economy (Lipsey 1960: 19).

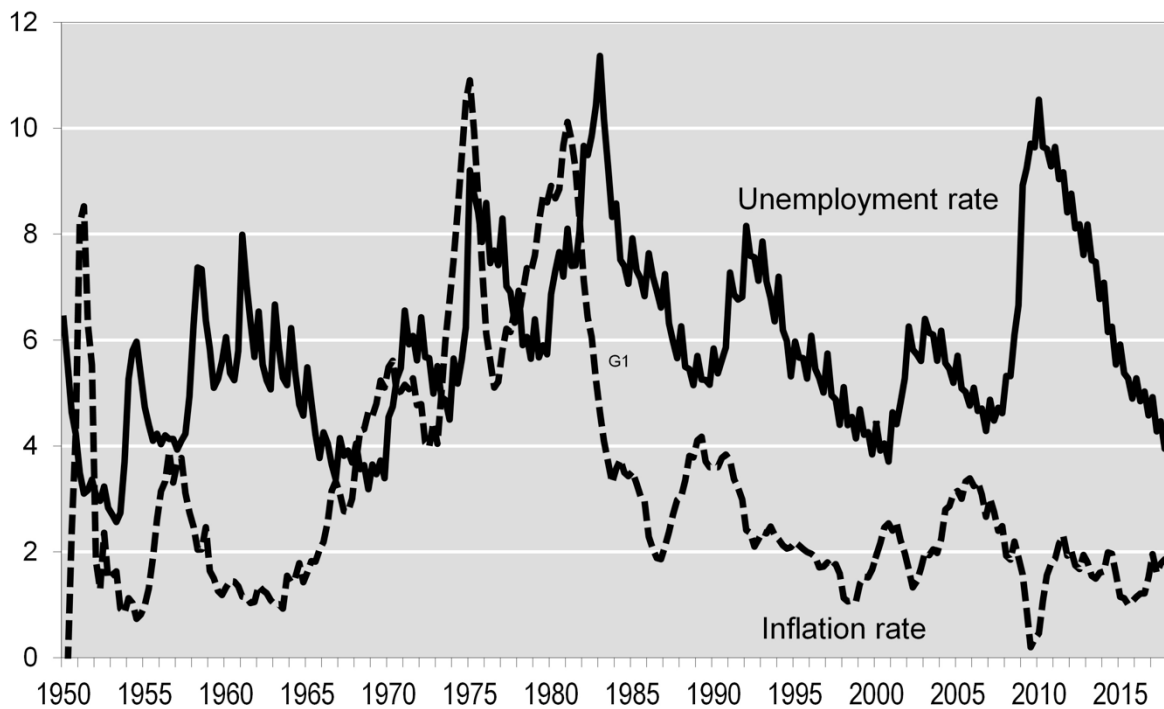
A reverse reading will be proposed by Paul Samuelson and Robert Solow in an article published in 1960 (Samuelson, Solow 1960). The two future Nobel Prize winners are trying to create a Phillips curve for the United States – which eventually is hand-drawn. They suggest a reading of the curve where it is the unemployment rate that determines wages: the latter 'tend to rise when the labor market is tight, and the tighter the faster' (p.189). But most importantly, they deduce from this that there is a possible trade-off between moderate inflation and an unemployment rate close to full employment:

Manufacturing wages seem to stabilize absolutely when 4 or 5 per cent of the labor force is unemployed; and wage increases equal to the productivity increase of 2 to 3 per cent per year is the normal pattern at about 3 per cent unemployment (Samuelson Solow 1960: 189).

The Phillips curve then became a fine tuning instrument for economic policy during the 1960s, when Keynesian ideas influenced the Kennedy and Johnson administrations in favour of an expansive fiscal policy.

This worked well until the late 1960s: the inflation and unemployment curves did indeed change in the opposite direction. But this relationship corresponding to Phillips curve breaks down twice: first with the 1967 recession (when the profit rate begins to fall in the United States) and then with the 1974-75 (global) recession. This marks the beginning of the so-called 'stagflation' period, when inflation and unemployment rise together: it will last until the mid-1980s (Figure 1).

Figure 1. Inflation and unemployment in the United States 1950-2016



Source: FRED (Federal Reserve Economic Data), Federal Reserve Bank of St. Louis.

### STAGFLATION AND FAILURE OF KEYNESIANS

Milton Friedman began the offensive in 1967 in his address to the assembly of the *American Economic Association* (Friedman 1968). But it is in his Nobel Prize acceptance speech (Friedman 1977) that he delivers the clearest account. He begins by evoking the passage from the *General Theory* where Keynes admits that an equation is missing:

Therefore we cannot say what aggregate employment will be, until we know the money-price of wage-goods; and we cannot know the money-price of wage-goods until we know the aggregate amount of employment. We are, as I have said, one equation short (Keynes 1936: 276).

The Phillips curve has reportedly filled this gap. ‘In addition, it seemed to provide a reliable tool for economic policy, enabling the economist to inform the policymaker about the alternatives available to him’ (Friedman 1977: 469).

But, over time, it became clear that there was a need for ‘larger and larger doses of inflation to keep down the level of unemployment. Stagflation reared its ugly head’ (p. 469). Friedman’s criticism could then be summarized as follows: Phillips curve was received by Keynesians as the missing piece of their model. It established the possibility of a trade-off between unemployment and inflation rates, but only if the long-term stability of the Phillips curve was assumed. On this basis, Keynesians inspired policies of full employment that proved inflationary. The appearance of stagflation in the 1970s is related to the correction of expectations because the Phillips curve is not stable, contrary to the Keynesian assumption (Rubin 2012).

The concept of expectations plays a key role here: the idea is that if we accept a certain acceleration in inflation, the 'agents' will expect a continuation of the movement, and the Phillips curve will move. This is what policymakers who stuck at the basic Phillips curve did not presumably understand:

Gaps between a true expectational Phillips curve and the monetary authority's approximating nonexpectational Phillips curve models unleash inflation that a monetary authority that knows the true model would avoid (Sargent, Williams, Zha 2006: 1193).

Two economists from the National Bank of Belgium have recently reproduced this criticism (Cordemans, Wauters 2018). In their opinion, the view that one can 'choose given inflation and unemployment rates by stimulating or restraining aggregate demand' is wrong (p. 87). This can only work in the short term and the notion of expectations is again used:

The central bank cannot continuously keep the unemployment rate below its natural level. The resulting pressures would constantly push inflation expectations and real inflation up, and the unemployment rate would systematically return to its natural level. This would ultimately lead to higher inflation, but would not be accompanied by a lower unemployment rate (Cordemans, Wauters 2018: 87).

The denial of the Keynesian paradigm made by stagflation thus opens the way to a real counter-revolution. One of the fiercest opponents of Keynesianism is Robert Lucas, who goes so far as to challenge the notion of involuntary unemployment. It would be an eccentric idea of Keynes:

Involuntary unemployment is not a fact or a phenomenon which it is the task of theorists to explain. It is, on the contrary, a theoretical construct which Keynes introduced in the hope that it would be helpful in discovering a correct explanation for a genuine phenomenon: large-scale fluctuations in measured, total unemployment (Lucas 1978: 354).

As a result, the very notion of full employment disappears:

It does not appear possible, even in principle, to classify individual unemployed people as either voluntarily or involuntarily unemployed depending on the characteristics of the decision problems they face. One cannot, even conceptually, arrive at a usable definition of full employment as a state in which no involuntary unemployment exists (Lucas 1978: 355).

In a very controversial way, Lucas wants the modern theoretical economy to no longer waste its time with the 'theoretical constructs of our predecessors' (that is Keynes'), which is the surest way 'to sterility' (p. 355).

This monetarist offensive anticipated the neo-liberal counterrevolution. They advocate the neutralization of monetary policy reduced to a rule of stable growth of the money supply. As for unemployment, it must be combated by making the labor market more flexible and removing its structural rigidities. There is no need to underline that

what we see here is the neo-liberal doxa emerging: central bank independence and structural reforms.

### **AN IMPOSSIBLE SYNTHESIS: THE MCCRACKEN REPORT**

The McCracken report published by the OECD in June 1977 has a significant title: *Towards full employment and price stability* (McCracken 1977) and marks a double watershed. It comes just after the worldwide recession of 1974-75, which marked the end of the 'golden age', and at the height of the neo-liberal offensive against Keynesianism. The opposition between these two schools of thought is crystallized, as Vincent Gayon shows, 'on one of the central instruments of post-war macroeconomic policies used in most OECD member countries: the Phillips curve' (Gayon 2017: 136).

However, the report remains at a crossroads and reveals a certain confusion, because, as its leader admits: 'we didn't know what idea we wanted to produce' (quoted by Gayon 2017). Robert Lucas, one of the most virulent anti-Keynesians, when talking about this report describes it as 'undisciplined eclecticism' and 'opportunism posing as pragmatism' (Lucas 1979: 163).

### **THE NAIRU, OR UNEMPLOYMENT IN EQUATIONS**

Since the neo-liberal turn of the 1980s, a new conception of unemployment gained ground: it explains why full employment is neither possible nor desirable. Fundamentally, this theory, which is dominant today, is based on a reformulation of the trade-off between inflation and unemployment. There is an unemployment rate below which inflation increases, and this increase in inflation has recessive effects that bring it back to this incompressible level. It is known as 'Nairu' (*Non-Accelerating Inflation Rate of Unemployment*), structural, equilibrium or even 'natural' unemployment rate. Beyond lexical subtleties, all this refers to the same idea: a smooth functioning of capitalism requires a certain amount of unemployment that cannot be reduced without negative effects on economic activity. One could say that the Phillips curve is reversed: it is no longer inflation that regulates unemployment, but it is unemployment that is used to contain inflation.

The concept of Nairu was introduced in 1975 by Franco Modigliani and Lucas Papademos (1975), two more or less Keynesian economists, who sought to soften Milton Friedman's concept of the natural unemployment rate. More precisely, they call it NIRU (non-inflationary unemployment rate). It was James Tobin who introduced the term Nairu in 1980, even though he said a few years earlier that: 'The Phillips curve has been an empirical finding in search of a theory, like Pirandello characters in search of an author' (Tobin 1972: 9). No doubt it was finally found...

This scientifically calculated equilibrium unemployment dogma led to Robert Solow's bitter comments at the end of a conference marked by the anti-Keynesian offensive made by Lucas and Sargent. Many contemporary economists should meditate on these remarks:

You have to have a very good reason for believing that the natural unemploy-

ment rate is 5 1/2 percent if you want to go out and face all those people who are unemployed. It is no joke. For statisticians it is just numbers, just something that comes out when you set something equal to zero and divide one number by another. But those fellows out there are not working. You ought to be sure of what you are talking about, and that the right figure is 5 1/2 percent and not 3 1/2 or 4 1/2 percent before you pretend that it has some relevance to practical life (Solow 1978: 207).

This new concept has given rise to a considerable volume of byzantine theoretical discussions, but also to many – and futile – attempts to evaluate the famous Nairu in a stable and consensual manner. The reader will not have to deal with the details, but rather with the hidden side of this theoretical montage.

### UNDER INFLATION, PROFIT

It should be noted first of all that Nairu only repeats, in its own way, Marx's analysis of the role of unemployment on wage trends:

The general movements of wages are exclusively regulated by the expansion and contraction of the industrial reserve army, and this in turn corresponds to the periodic alternations of the industrial cycle. They are not therefore determined by the variations of the absolute numbers of the working population, but by the varying proportions in which the working class is divided into an active army and a reserve army, by the increase or diminution in the relative amount of the surplus population, by the extent to which it is alternately absorbed and set free (Marx 1976: 790).

With Nairu, it is a question of navigating as well as possible between Charybdis (inflation) and Scylla (unemployment). But behind inflation, there are wages and, as a result, profit. From this point of view, the OECD and the European Commission are more explicit and calculate Nawru, i.e. the Non accelerating Wage Rate of Unemployment. This makes things clearer, because it is a trade-off between wages and profit that is actually in question. As Patrick Artus (a very erratic Marxist) reminds us excellently, you should never:

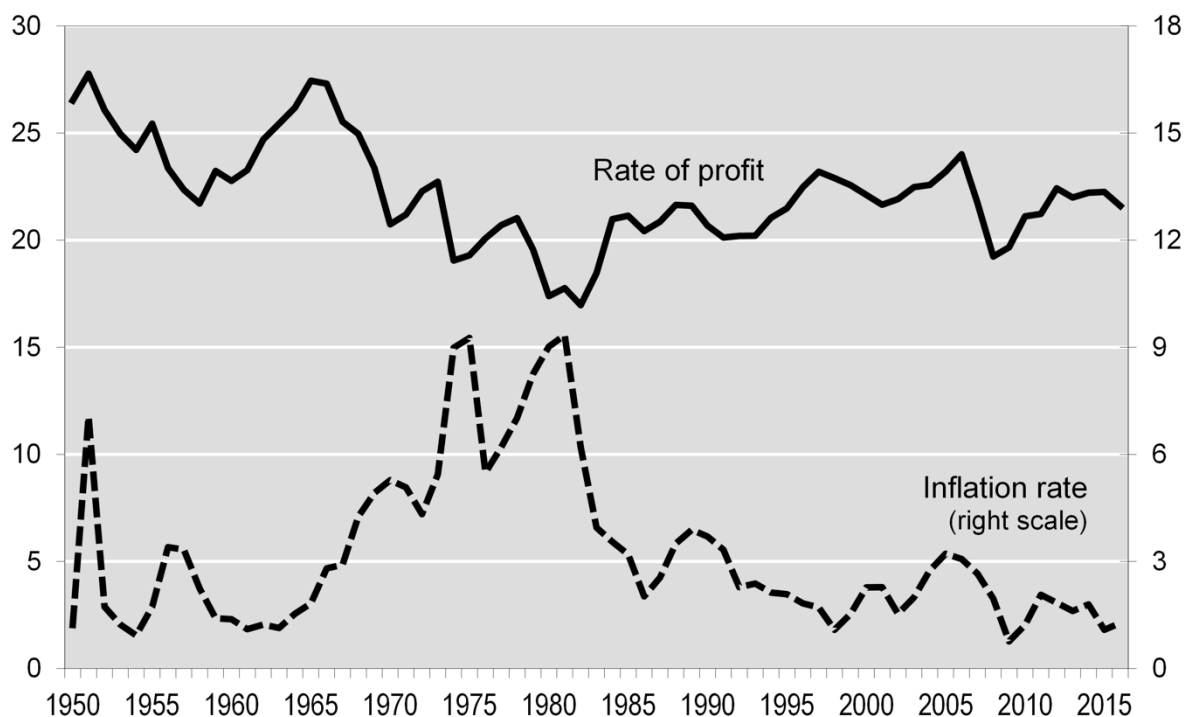
(...) forget that inflation occurs when profitability of businesses is below the desired level. [It] results from the willingness of companies to restore their profitability if it is below the level they wish (Artus 2018b).

This is the key to another explanation of stagflation in the United States that does not use anticipations and other monetarist lucubrations: it is sufficient to observe the profit rate (Figure 2). Until the 1967 recession, it fluctuated at a high level: this is also, as we have seen, the period when the Phillips curve works. But it is clear that the decline in the profit rate from 1967 to the early 1980s was accompanied by an accelerating inflation. The shock of neo-liberal policies triggered, simultaneously, the rise in the profit rate and the return of the inflation rate to its 1960s level. The real trade-off is therefore between inflation (read: wages) and profit, and the unemployment rate is



the tool to settle this trade-off.

Figure 2. Profit and inflation in the United States 1950-2016



Source: BEA (Bureau of Economic Analysis)

The pattern is therefore as follows: if the unemployment rate falls too much, the balance of power between capital and labor changes in favor of employees. Wage increases bite into profit and companies respond by increasing their prices. The unemployment rate that does not accelerate inflation could, just as well and this would be clearer, be called 'unemployment rate that the profit rate does not decrease'.

Behind the mathematical apparatus, the main means can be found in the method used to calculate the Nairu (see appendix). The price equation says that the latter is formed by applying the mark-up on cost to the unit wage cost. The whole skill is to discreetly postulate that this mark-up on cost, which is nothing more than the share of profit in value added, is somehow untouchable. It only takes one sentence for Layard, Nickell and Jackman – the authors of the classic *Unemployment* (1991) – to dismiss this detail: 'Prices (of value added) are set as a mark-up on expected wages. The mark-up tends to rise with the level of activity although this effect may not be very strong' (Layard, Nickell, Jackman 1991: 13).

The sleight of hand is quite successful. It is this small detail of specification that makes it possible to replace the issue of the sharing between wages and profit by a trade-off between unemployment and inflation. All that must be done then is to discreetly assume that the mark-up on cost is fixed, in other words that the wages/profit sharing is immutable.

The Nairu theory therefore amounts to fetishizing unemployment as an instrument for tuning the economy. As full employment is out of reach, it can no longer be part of the political agenda. Governments are somehow relieved of any responsibility for

employment:

One of the serious unintended consequences of economists' preoccupation with NAIRU has been to convey a message to political leaders that they need not feel any responsibility in this area, that the inflation-unemployment trade-off can be fine-tuned with interest rates by the Fed. It isn't so (Galbraith 1997: 106).

Unemployment is no longer a social phenomenon but one of the cogs of the great economic machinery.

### **BYE BYE, PHILLIPS?**

There is a heated debate among economists today as to whether or not the Phillips curve continues to work. Indeed, the unemployment rate is falling in several countries and we are thus getting closer to full employment, at least as defined by these economists. And yet, neither wages nor inflation are restarting. Most recently, the OECD (2018) has noted with concern that there is a 'rising employment overshadowed by unprecedented wage stagnation'.

Some, such as the IMF (2017), propose adjustments, others argue that the famous curve is still valid even if it has flattened (Blanchard 2016) or on the contrary that it has disappeared. The economists from the Banque de France want to reassure themselves:

Estimates from the Banque de France show that the slope of the Phillips curve in the euro area has remained weak but stable and significantly different from zero since the crisis (Berson et al. 2018: 1).

But they remain doubtful:

However, our estimates of the Phillips curve remain uncertain. We must remain attentive to all the determinants of inflation and, in particular, to the structural changes in the economy (Berson et al. 2018: 4).

Two economists (McLeay, Tenreyro 2018: 2) go so far as to argue that the fact that it is difficult to empirically identify the Phillips curve does not imply that it does not work. Its disappearance 'is a result to be expected when monetary policy is set optimally' (2018: 2). It is therefore the action of the Central Bank (aware of the existence of the curve) that leads to its disappearance. Finally, Patrick Artus (2018a) notes that 'the Phillips curve is upside down'.

In short, the Phillips curve moves, reverses, disappears or remains invisible: we are in the middle of magical thinking. This debate provides a fairly good illustration of the excesses of academic economics. Robert Solow was right to say that Phillips' article 'has provided more employment than any project since the construction of the Erie Canal' (Solow 1979 quoted by Schwarzer 2015: XV).

And perhaps today we could repeat Mark Blaug's remark who described the 1960s debate between Keynesians and monetarists as 'one of the most frustrating and irritating controversies in the entire history of economic thought, frequently resembling medieval disputations at their worst' (Blaug 1980: 196).



## NEO-LIBERAL DISARRAY

Several reasons can be given to explain the flattening or disappearance of the Phillips curve. First, there is the idea, which applies well to France, according to which a modest decline from a high unemployment rate is no longer sufficient to reduce labour market tensions. Other factors may also play a role, such as the increase in the employment rate of older workers or the extension of precarious employment: in both cases, the categories of employees concerned are not in a position to demand wage increases. The IMF explains it in these terms:

While involuntary part-time employment may have helped support labor force participation and facilitated stronger engagement with the workplace than the alternative of unemployment, it also appears to have weakened wage growth (IMF 2017: 73).

Finally, structural reforms, the decline in union density and in industrial employment, which probably go hand in hand, are working in the same direction. All this contributes to the fact that the unemployment rate as such is no longer an indicator of the balance of power between capital and labour, nor is it an adequate measure of the dynamism of labour markets.

This disarray of economists has another explanation than econometric disappointments: the erasure of the Phillips curve undermines the dominant theoretical model. First, the classic explanation of natural unemployment, equilibrium unemployment, etc. no longer holds: if the fall in the unemployment rate is no longer matched by inflation, it is no longer possible to explain or legitimize its incompressible level.

And yet things are even more serious, because the adjustment of the economy is no longer possible. The basic model underlying neo-liberal discourse and practices involves three relationships:

- the Phillips curve or one of its substitutes: unemployment makes it possible to regulate essentially wage inflation;
- aggregate demand: it varies in the opposite direction to the real interest rate;
- the ‘Taylor rule’: when inflation exceeds the target, the central bank raises the interest rate and reduces or slows down demand and thus employment.

It is clear, then, that if the Phillips curve evaporates, this management model disappears. That’s what Blanchard fears: Patrick Artus goes even further:

If these developments persist, the entire theoretical basis of euro area monetary policy (monetary pillar, reaction of interest rates to the unemployment rate or to the output gap, credibility) collapses and should therefore be replaced (Artus 2018c).

And it is a *Financial Times* journalist who best summarizes the situation: ‘Remove the PC, and the central bankers are floundering’ (Davies 2017). Ten years after the crisis broke out, the dominant economists note bitterly that their tools are no longer working. Their schemes claiming to be theoretical no longer have any control over the

concrete functioning of capitalism and Patrick Artus, decidedly very lucid, admits that he no longer knows how to 'analyse the situation' (Artus 2017).

And it is quite surprising to note that it is *The Economist* (2017) which deplores the workers' lack of bargaining power. The Bible of intelligent neo-liberalism explains that 'If wages are to rise, workers need more bargaining power' and that 'historically, this has been most effectively done by bringing more workers into unions'. It's as if we were dreaming! But the conclusion of the article also sounds like a warning: 'More empowered workers would no doubt unnerve bosses. But a world in which pay rises are unimaginable is far scarier'.

### WHEN THE EUROPEAN CENTRAL BANK IS WADING THROUGH

A recent example of this disarray is the European Central Bank's conference on price and wage setting (ECB 2108). All contributions were characterized by a climate of disorientation: there is full employment and no inflation in sight. Attempts at explanation are hesitant, and even more so are the recommendations.

In his presentation, Charles Wyplosz (2018) notes, for example, that the anticipated inflation rate remains equal to the last year's rate. The inflation target therefore remains 'elusive' but, *faute de mieux*, 'Inflation targeting remains the best strategy' and 'the interest rate instrument remains a logical instrument'. In short, the mechanisms no longer work, but there are no others. Perhaps we should take the final Wyplosz's recommendation literally: avoid 'too much preoccupation with markets or "experts"'.

Another contribution (Coibion et al. 2018) is based on the observation that the nominal interest rate is locked at zero lower bound and that inflation remains low. To boost demand, the solution would then be to raise inflation expectations, so as to lower the perceived real interest rate, the one on which agents' decisions are based. It would then be a matter of 'manipulating' expectations, by means of appropriate communication: 'For example, if inflation is too low, emphasize the inflation target (rather than actual inflation) to raise inflation expectations'. This is a proposal that sums up the profound dogmatism of the dominant economy: if there is no trace of our theory in the real world, we shall communicate to make it happen.

### CONCLUSION

This brief review shows that the entire dominant macroeconomics is being shaken in its foundations. But this observation should lead to optimism: indeed, it puts two important ideas back at the heart of the debate. The first is that if monetary policy has lost its effectiveness, it becomes necessary to consider expansionary fiscal policies, giving priority to the ecological transition investments (a Green New Deal). The other idea is Job Guarantee's one, which is inspired by the already mentioned Keynes' strong proposal: 'There is work to do; there are men to do it. Why not bring them together?'. It is around these two combined ideas that a new macroeconomics for the 21st century could be rebuilt.

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## FINANCIAL CONTROL AND THE EMPLOYER OF LAST RESORT

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**ABSTRACT:** This paper examines the policy that has been suggested to resolve involuntary unemployment by having the government employ any persons who register as unemployed. This policy is compared to the full employment proposal of Michał Kalecki. Kalecki's proposals also contained a strategy for financing full employment. Like the Employer of Last Resort proposal, Kalecki's strategy allows employment policies to be examined from financial control, rather than the usual approaches of examining the impact of employment policy on labour productivity, or inflation, although both come into the analysis. The paper, therefore, outlines the proposal for an employer of last resort, and the proposed financing of that policy. A second part looks at Kalecki's proposals for full employment and its financing. A third part then considers the impact of the employer of last resort policy on financial stability.

**KEYWORDS:** Job Guarantee, full employment, Michał Kalecki, financial control, Modern Money Theory

### THE EMPLOYER OF LAST RESORT

The employer of last resort (or Job Guarantee) is a policy or programme that is associated with Modern Money Theory, propounded by The Levy Economics Institute of Bard College, and the Economics Department of the University of Missouri Kansas City. In this programme, the government guarantees to provide a job for anyone willing to work, but unable to find a job in the labour market. The idea is superficially attractive: to realise the full employment that free-market capitalism seems unable to achieve. The proponents of the policy, mainly in the United States, present it as an extension, and realisation, of previous commitments to full employment that have been a staple of politics since the second half of the nineteenth century. The financing



is also relatively simple and, on the face of it, attractive: the government would be able to pay for the programme with the savings from eliminating unemployment insurance, which would now be unnecessary. According to one of its leading advocates, the additional cost to the government of the programme would amount to 1 or 2% of Gross Domestic Product, which the government could obtain, following the principles of Modern Money Theory, by borrowing from the central bank. This minor cost would be more than outweighed by the social benefits of helping to eliminate poverty, providing economic security, and raising productivity (Wray 2011).

In the current political idiom, 'what is there not to like about this?' In its terms, the proposal offers social and economic benefits at a negligible cost. So, in a democratic society, if sufficient people are convinced, we can have all these benefits at minimal cost, without the social, political and intellectual disruptions that accompany revolutionary social progress. However, the association of the Employer of Last Resort proposal with Modern Money Theory reveals something else about the proposal, namely its political appeal that requires a minimal understanding of economics or monetary theory.

This aspect of the proposal, and other, similar proposals, was explored in the 1930s, as the world sank into the economic depression of the 1930s, in a volume of essays that the socialist economist and academic G.D.H. Cole put together, entitled *What Everybody Wants to Know About Money: A Planned Outline of Monetary Problems*. The essays were by colleagues from Oxford University, of whom one, Hugh Gaitskell, was to become famous as a leader of the Labour Party after the resignation of Clement Attlee in 1955. Gaitskell contributed to the volume an essay on 'Four Monetary Heretics' that explains directly and plainly the attractions of monetary innovations in crisis and showed the link between simple ideas and the populist mood of his time and ours. He defined his monetary 'heretics' as public figures who disagree in general with economists and have never held academic appointments in economics. His four heretics were Major Douglas, Professor Frederick Soddy, Silvio Gesell, and Robert Eisler. Soddy was the only academic, a Fellow of the Royal Society, and a Nobel Laureate in Chemistry in 1921. Gaitskell concluded that the success of monetary heretics lies precisely in their recognition of what is evident to non-economists:

... the heretic can claim that he is a practical man in touch with the realities of economic life and vitally interested in its reform, not content to toy with abstractions behind the shelter of a professorial salary. From his position he sees the depression as the general public sees it, as a paradox, as something not to be tolerated, as a problem for which there cannot conceivably be no solution, as a problem which can be solved at once. To plain man and heretic alike, the natural limitation to material welfare is primarily technical. That, quite apart from this, there should be almost as inevitable and difficult a problem of organisation, of social relations, is a vision confined as a rule to the expert who has to handle it...

... A unique master stroke is required. There is to be no painful waiting, no lowering of standards, no difficult compromises, no social upheaval, but simply the adoption of the one perfectly simple, perfectly feasible PLAN...



The attraction lies not just in the simplicity of the PLAN:

... the heretic is able to enlist support just because he is not an expert, just because he represents and expresses the common dislike against the expert. He is a plain practical man, proving to other plain practical men that the mysteries which these exalted intellects are alone suffered to understand are matters which can be made perfectly intelligible to the rest of the community. Thus he restores the public's self-respect.

Gaitskell denied any intention to suppress such heresies: '... it is of the utmost importance that every individual should be free to express himself on economic affairs. The plain man's instinct is in this case right. Economic experts can never be wholly trusted, and only with the utmost possible freedom criticism and construction can rapid scientific progress be made.' (Gaitskell 1933: 412-413).<sup>1</sup>

What is unusual about the Employer of Last Resort proposal, and the Modern Money Theory that stands behind it, is that the proponents of the proposal and the Theory are not amateurs, but a hedge fund manager and men and women with PhDs in Economics. They offer to the 'plain man' a 'Plan' that does not require any more profound understanding of how the economy works. This is the advantage of that 'Plan' in popular discourse. However, can it survive a closer examination by comparison with a proposal coming from a more sophisticated consideration of how the economy works? Here it is useful to compare the proposal with Kalecki's strategy for full employment.

### THE KALECKI PLAN

Kalecki's plan for eliminating unemployment was presented in what is perhaps his most widely read paper, *Political Aspects of Full Employment*. Characteristically, he prefaced his lecture with an explanation of how full employment was to be financed. That explanation he included in the version that was published in the *Political Quarterly*. Nevertheless, he deleted it in the shortened version, published in Polish in 1961, and in the version, he subsequently authorised for publication in English in 1970 (Osiatyński 1990: 566-572). Acknowledging that the public financing of full employment was widely regarded as the chief obstacle to full employment, the reader was invited to imagine that the government pays its suppliers in interest-bearing government securities. The suppliers, of course, do not retain the securities but use them to pay for supplies that they buy. In this way, the new securities circulate until they fall into the possession of persons or firms that will retain them to maturity. The total value of securities held in the private sector will finance the government programme for obtaining full employment. In reality, the government pays for the services, not in securities but cash, but it simultaneously issues securities and so drains the cash off;

<sup>1</sup> It was this phrase that Keynes echoed, perhaps unconsciously, in his *General Theory*, where he remarked that 'the brave army of heretics', including Douglas, Bernard Mandeville, Thomas Malthus, Gesell and John A. Hobson '... following their intuitions, have preferred to see the truth obscurely and imperfectly rather than to maintain error, reached indeed with clearness and consistency and by easy logic, but on hypotheses inappropriate to the facts' (Keynes 1936: 371).

and this is equivalent to the imaginary process described above' of paying suppliers with securities (Kalecki 1943).

There were three possible objections to this kind of financing. A practical one arises if the public were unwilling to hold the increase in government securities. Kalecki answered that the public would then offer them to banks in exchange for cash in the form of banknotes or bank deposits. If the banks accepted the securities at face value, then the government's rate of interest will be maintained. If, however, the banks do not wish to accept the securities at their face value, then the price of the securities will fall. This will mean an increase in the rate of interest, which will make it more attractive to hold the securities relative to deposits. 'It follows that the rate of interest depends on banking policy, in particular on that of the central bank. If this policy aims at maintaining the rate of interest at a certain level, that may be easily achieved, however large the amount of government borrowing. Such was and is the position in the present war. Despite astronomical budget deficits, the rate of interest has shown no rise since the beginning of 1940' (Kalecki 1943).

The second objection was that government expenditure might cause inflation. Kalecki countered this by pointing out that this is unlikely to happen as long as labour, plant and raw materials are available. Prices would only start to rise if demand exceeded available resources, for example, if government intervention continued *after* full employment had been achieved. According to him, this is not a problem specific to government intervention, since such inflation could also arise in the course of a private sector investment boom.

The third objection arose from the financing of the continually rising government debt if full employment is secured by deficit financing. Kalecki's solution to this was a capital levy or wealth tax, which he had earlier shown would not affect profits and hence, business investment or capitalists' consumption. The levy could be used to cover the servicing costs (interest and debt repayments) on government debt, giving all the benefits of fiscal stimulus without any of the disadvantages of government indebtedness (Kalecki 1943. Kalecki's capital levy is outlined in his paper *A Theory of Commodity, Income and Capital Taxation* Kalecki 1937).

Having shown how full employment may be achieved and financed, Kalecki dismissed the remaining economic arguments as coming from 'prominent so-called "economic experts" closely connected with banking and industry', thereby indicating that their 'economic' objections were really political. There is a paradox here since higher output and employment also benefits entrepreneurs, as well as workers. Kalecki argued that the remaining objections to full employment were motivated by three considerations. First of all, there was a dislike of business leaders for state interference in their employment practices. In a free market system, the level of employment depends on the amount of investment in the economy. That investment, in turn, reflects 'the so-called state of confidence' of businessmen. Any decline in that confidence results in a fall-off in investment, causing a fall in output and employment. "This gives the capitalists a powerful indirect control over government policy: everything which may shake the state of confidence must be carefully avoided because it would cause an economic crisis." However, if the government can regulate the level of employment by

its own fiscal policy, then business circles lose their influence in government. "Hence budget deficits necessary to carry out government intervention must be regarded as perilous. The social function of the doctrine of »sound finance« is to make the level of employment dependent upon the state of confidence" (Kalecki 1943).

The second reason for a business to dislike full employment secured by government policy is because of the fiscal programmes by which full employment is secured. Where these compete with private enterprise, government investment reduces the profitability of private competitors. The government may even be tempted to nationalise transport or public utilities (as was done in Britain after the Second World War) to provide scope for public investment. One alternative is for government to subsidize mass consumption, by means of welfare payments, pensions, family allowances, or subsidies to maintain low prices of basic necessities. This, of course, does not enter into competition with private sector provision. Nevertheless, it challenges the moral principles of capitalist labour. In an unconscious echo of Veblen, Kalecki observed "the fundamentals of capitalist ethics require that »you shall earn your bread in sweat« – unless you happen to have private means".

The third political objection arises from the social and political consequences of maintaining full employment. In a permanent state of full employment, labour would no longer be disciplined by the threat of firing workers: "The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension. With lasting full employment, profits would be higher than under *laissez-faire*, and even higher wages, due to the stronger position of workers in the labour market, would squeeze rentier incomes, rather than profits. But business leaders prefer labour discipline and »political stability« to higher profits in general. Their 'class instinct tells them that lasting full employment is unsound from their point of view, and that unemployment is an integral part of the »normal« capitalist system" (Kalecki 1943).

Kalecki then considered the situation under fascism, where capitalist objections to full employment are removed by concentrating government expenditure on armaments and maintaining labour discipline and 'political stability' by suppressing trades unions and imprisoning internal 'enemies' of the 'new order'. Expanding armaments production and the numbers of men in uniform with deadly equipment to hand induces competitive military investment in other countries. As shortages of capacity and equipment arise, it becomes necessary to plan the economy. But this is not socialist planning. Under fascism, planning is done by 'a partnership of big business and fascism', concentrated on the armaments sector, and at the expense of mass consumption. It 'ends inevitably in war.'

In 'a capitalist democracy', Kalecki was optimistic that the opposition of business leaders to full employment would be overcome. The experience of the 1930s had exhausted that opposition; the organisation of the war effort showed that full employment was possible; there was widespread social opposition to any return to unemployment. The only question was what should be done to prevent unemployment, and whether it should only be done in a slump in preference to measures that would secure

permanent full employment. Business would prefer reliance on private investment because this would leave business people in control of the full employment policy. However, interest rate and income tax reductions could not *maintain* full employment in the long run, because such reductions would then have to be cumulative. So, private investment would need to be reinforced by public investment, if not subsidizing consumption.

Kalecki argued that the inherently political controversies around full employment would give rise to a political business cycle. In a slump, with large-scale unemployment, the government would undertake debt-financed investment. But, as the boom proceeds, opposition would arise from business leaders anxious about the effects of full employment on labour discipline, while rising prices in the boom would squeeze the real incomes of rentiers making them 'boom-tired'. 'In this situation a powerful alliance is likely to be formed between big business and rentier interests, and they would probably find more than one economist to declare that the situation is manifestly unsound.' The alliance would force the government to return to fiscal orthodoxy. As a result, the economy would decline into recession. At this point, full employment policies are resumed. It is worth noting that this had already happened in the United States in 1937-38, when a drastic reduction in the federal budget deficit had broken the economic recovery. However, the resulting recession had forced the government to return to the previous programme of fiscal stimulus. The political business cycle would be a milder version of the nineteenth-century capitalist business cycle. Full employment would only be reached at the peak of the boom. However, recessions would be comparatively modest and short.

Kalecki concluded by asking whether someone of a progressive outlook should be satisfied with such a regime of modest economic fluctuation just below the level of full employment. He answered that a progressive should oppose it because it does not assure permanent full employment and because the government spending is restricted to public investment, and does not include subsidizing consumption, with welfare payments. Kalecki suggested that beyond a certain point, public investment could be excessive, resulting in unwanted projects, just for the sake of providing work. To the objection that "the government will have nothing to show for their money" in subsidizing consumption, he answered that such subsidies would provide a higher standard of living for the population and asked rhetorically "is not this the purpose of all economic activity?" (Kalecki 1943: 330).

Finally, Kalecki argued that if capitalism can accommodate full employment, then this will be fundamentally different capitalism that would require "new social and political institutions which will reflect the increased power of the working class." If capitalism cannot adjust its mode of operation to this new reality, then "it will show itself an outmoded system which must be scrapped." The new reality was unlikely to lead to fascism, because that had flourished in Germany precisely because of the failure to secure full employment in capitalist democracies. The struggle for full employment in capitalism is a way of preventing fascism. (Kalecki 1943: 331).

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## THE 'EMPLOYER OF LAST RESORT' AND THE QUESTION OF FINANCIAL CONTROL

The financing of 'employer of last resort' proposals is defined by Modern Money Theory. This is essentially a state theory of money, that presents money as a state, or 'sovereign' function associated with the fiscal policy of governments (Wray 2012, chapters 2–4). This provides a political economy without modern capitalism. Banks create credit. But the rest of the economy produces and distributes without monetary effect. Apart from dismissing monetarist theories of inflation, Modern Money Theory is surprisingly vague about the causes of inflation (Wray 2012: 241–258). In similar contrast to Kalecki, the proponents of the policy have little to say about the *causes* of unemployment, which are supposed to be due to aggregate demand failures without specifying *how* those failures arise. Further, the literature around the Job Guarantee programme contains virtually no analysis of *alternative* methods for achieving full employment, that might show up more clearly the advantages and disadvantages of an Employer of Last Resort policy. Kalecki analysed extensively four policy proposals: the standard neo-classical method of lowering wages (in his paper on real and money wages, Kalecki 1939, chap. 3); stimulating private investment, public investment and public welfare such as public services and transfer payments (in his paper *Three Ways to Full Employment*, Kalecki 1944; see also the paper by Burchardt in the same volume, Burchardt 1944). For the proponents of the Employer of Last Resort policy, there is only one 'Plan' that can only be compared to a state of involuntary unemployment.

Kalecki also recognised that capitalists will be better off under full employment, but that they will have other, political, objections to full employment. Modern Money Theory and the employer of last resort proposal do not incorporate any consideration of the possible reaction by capitalists to full employment. It is as if they recognise the clear economic rationale for such a policy, without bothering themselves about the political implications of the policy. In their literature, the financing of an employer of last resort certainly seems modest, since in their view it would be primarily paid for by the withdrawal of unemployment insurance, which would now be unnecessary. The remaining cost is said to amount to 1 or 2 per cent of Gross Domestic Product, a marginal sum that could be covered by the central bank financing favoured by Modern Money Theory (Wray 2011).

This calculation almost certainly under-estimates the total cost. The trend in recent decades has been to make unemployment insurance payments increasingly difficult to obtain, with applicants having to satisfy means tests to show that they have no alternative means of support, and tests of willingness to work, to prove that they are genuinely involuntarily unemployed. Such tests effectively exclude large numbers of the unemployed, who can survive on the incomes of family or their own savings. This shows up in the data on labour force participation (the proportion of people of working age who are in employment or seeking work), which has fallen substantially over the last two decades.

Even if one overlooks this bias in their calculations, there is a much more fundamental flaw in their monetary analysis. It overlooks the crucial matter of the cir-



culuation of money in the economy. The processes of production and exchange in a capitalist economy concentrate money in the bank deposits of big businesses and the big banks in which they keep their accounts. This is the monetary significance of the differential rates of profit that hold in a capitalist economy, with large oligopolies having larger rates of profit than competitive small and medium-sized enterprises (see Kalecki 1954, chapter 1). Such monetary concentrations would be increased by 'monetisation' of government expenditure. To paraphrase Kalecki, the cry will go up that the situation is 'manifestly unsound' and an unnatural interference in an efficient (full-employment-seeking) labour market. Big business will find more than one economist to adjudicate that the increase in the money supply is inflationary. Even if there is no inflation, economists can be relied upon to provide models that will show inflation accelerating in the future. This simplistic thinking will add to the political difficulties of any employer of last resort programme undertaken by a government. The alarm will be raised among corporations, banks and the rich, that their bank deposits are about to be devalued by inflation. Outside the United States there is only one thing that big banks and their clients can do: convert their bank deposits into bank deposits in a currency deemed to be more secure (the US dollar is the traditional haven in inflationary times). The result will be a currency crisis and the eventual devaluation of the country's currency. That devaluation of the currency, by increasing the cost of imports, will then cause the inflation that was the pretext for the alarm. Workers will demand compensation, and the result will be a wage-price spiral that will confirm the 'irresponsibility' of the government.

It should be pointed out here that the inflation will not be caused by an excess money supply (the monetarist theory), or full employment, but by the dollarization of their assets by capitalists, or 'capital flight'. This capital-flight-driven inflation will then continue until the government abandons its employer of last resort policy. At this point, the rise in unemployment will weaken the drive to win wage increases to compensate for the rise in prices. As real wages fall, unemployment will rise further in the wage goods sector, and this will eventually break the rise in prices. Inflation will be reduced not by a stricter control of the money supply, or fiscal austerity, but by the growth of unemployment, Marx's 'reserve army of labour'.

The exception here is the United States. America's excess liquidity will be ladled into American financial markets, there to cause not so much a renewal of inflation in the economy at large, but financial instability, the responsibility for which can be laid at the door of any radical administration and its 'unsound' monetary practices, exposed by the infallible insights of those 'efficient' financial markets.

## CONCLUSION

The Employer of Last Resort, or Job Guarantee, proposal presents a simple solution to the economic problem of unemployment. In that solution, the government guarantees to employ anyone who cannot find a job in the labour market. The literature putting forward this proposal does not enter into the causes of unemployment that would be overcome by a Job Guarantee, nor does it consider the alternatives that may

reveal more effective employment strategies. Almost certainly it under-estimates the fiscal costs of such a programme, and its political economy is surprisingly modest, in the sense that it does not take into account the political objections that may arise and the likely political reaction of employers. These are of crucial importance because the suggested financing of the proposal would reinforce the political power of employers.

The Employer of Last Resort proposal assumes the legitimacy of good intentions without considering the constraints that are imposed on policy by the society in which those intentions are to be realised. We live in a class society in which the possibilities of reasonable reform have to overcome the interests of the rich and the powerful, including the oligarchs who claim to be speaking on behalf of the poor and the powerless. While an appeal to the sense of fairness and efficacy of the ‘plain man’ may be an effective rhetorical strategy, it cannot succeed without taking into account the opposition that Big Business will mount to the threat that full employment poses to its economic prerogatives. In his full employment proposal, Kalecki explained how that opposition would arise. The Employer of Last Resort proposals indicate the fundamental inefficiency in capitalism. However, by comparison with Kalecki’s analysis, they are naïve.

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#### **BIOGRAPHICAL NOTE**

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## **THE JOB GUARANTEE: FULL EMPLOYMENT, PRICE STABILITY AND SOCIAL PROGRESS**

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**ABSTRACT:** This paper presents the idea of the Job Guarantee (JG), which is a logical extension of the paradigm of a tax-driven fiat currency. The JG involves the government offering a public purpose-oriented job with a fixed hourly wage and job benefits to anyone willing to work. The JG as a bottom-up approach is locally administered but federally funded. As the analytical lens of MMT reveals, a monetarily sovereign government is always able to provide the spending required. Macroeconomically, the JG works as an automatic countercyclical stabilizer and an excellent tool for aggregated demand management, ensuring the economy is continuously operating at full capacity. On top, the JG uses an employed buffer stock approach as a superior means to maintain price stability. Next to its favourable macroeconomic impacts, the JG offers many social benefits, particularly related to continuous employment, working conditions in the private sector, power relations in the labour market and democracy. While the JG and Universal Basic Income (UBI) are often discussed as comparable, competing policy proposals, the JG addresses more macroeconomic and social issues than the UBI does. This paper concludes that the JG qualifies for being the single most effective policy in order to drive the economy towards continuous full employment and price stability while realizing additional social benefits.

**KEYWORDS:** Job Guarantee, Modern Monetary Theory, Macroeconomics, Fiscal Policy, Labor Economics, Universal Basic Income

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## 1. INTRODUCTION

Full employment has rarely been achieved over the last decades. Instead, significant levels of involuntary unemployment have been the rule. Today, the Eurozone, for example, is suffering from an average unemployment rate of 7.5% (Eurostat 2019). In the neoliberal era, the economic paradigm has shifted from full employment to full employability. The responsibility is no longer on the government but on the individual. The macroeconomic reason for involuntary unemployment, i.e. too little aggregated demand, as well as the social costs of involuntary unemployment, are mostly being neglected by the orthodoxy. As newspapers and economic commentaries implicate and reproduce on a regular basis, it is the unemployed individual's effort – or better: lack thereof – that is to blame. The ideological bias against proactive aggregated demand management by the government culminated in legislated public debt brakes or austerity policies. This has resulted in the absence of full employment for quite some time (Mitchell and Muysken 2008). While the body of Post-Keynesianism has ever since attributed involuntary unemployment to a lack of aggregated demand, Modern Monetary Theory (MMT) sees involuntary unemployment as evidence for lack of net government spending. From an MMT perspective, this is a logical extension of the fact that the currency is a creature of the federal government. Currency users do operate under financial constraints, but the currency issuer does not. Sovereign governments with their own currency spend by having the central bank credit banks' accounts. This spending cannot be financed as the central bank does not have to have income before it "spends" (for the Treasury). Since the government and central bank technically cannot run out of their own currency, public debt does not lead to questions of solvency as long as it is denominated in the national currency. While a demand expansion led by the private sector increases private indebtedness and thereby financial fragility - as the case of the GFC as well as other past financial crises, in which private sector's debt and leverage positions increased until they reached an unbearable threshold, underline -, a government-led expansion actually enhances financial stability by providing safe assets and income to the private sector. This is backed by the sectoral balance analysis, which, however, is beyond the scope of this paper (Bell 2001, Ehnts 2016, Mitchell, Wray and Watts 2019, Mosler 2012, Wray 2015).

Undeniably, involuntary unemployment is the evidence that economies operate below their potential, which means that material and non-material wealth is left on the table. An unemployed person does not produce anything and cannot save up its labor services. We cannot work eighty hours a week for a year after going through a year-long unemployment spell. This disproportionately affects mostly those at the lower end of the income distribution. Full employment has long been a desirable policy aim by governments to which they were committed. The fiscal and monetary policy were tailored to this goal. With the rise and dominance of neoliberal policies, however, the commitment to full employment has been replaced by an exaggerated obsession with price stability and has led to the currently dominant policy approach of using a buffer stock of involuntary unemployed to discipline wage demands and hence stop any distributional struggle leading to an inflationary wage-price spiral. While today some

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governments still express the aim for full employment, the choice of using the reserve army of involuntary unemployed to maintain price stability obviates the actual achievement of full employment. Not only has this policy approach led to disastrous social consequences for the individuals afflicted, but it also has little macroeconomic justification as well as a weak empirical record (Mitchell and Muysken 2008). Full employment and price stability are not exclusive to each other. As this paper argues, the Job Guarantee (JG) is the single most-effective policy to achieve both objectives – full employment and price stability – simultaneously. On top of that, the JG comes with a lot of social benefits as it ensures employment on demand and is a means to enhance the working conditions in both the public and the private sector. While the JG and the UBI are often being discussed as comparable, competing policy proposals, this paper argues that the JG addresses more macroeconomic and social issues than the UBI does and, hence, deserves a greater resonance in the public discourse.

Today, climate change requires countries to initiate a bold economic transition as soon as possible. Ultimately, this entails the need to shift resources from where they harm the environment to where they do not (or even benefit, like negative emissions). The most challenging part of this transition is shifting people from one profession to another. Psychologically speaking, it is understandable that the individuals afflicted are resistant to such change. This is even more reasonable bearing in mind the experience of significant levels of involuntary unemployment and the absence of most government's serious commitment to full employment over the last decades. To reach the broad public support required to initiate bold reforms, policies have to make the majority of the people better off and lead to a reliable and generous socio-economic improvement for them. In this light, the JG is highly relevant and an integral part of progressive Green New Deal proposals (Wray and Nersisyan, 2019).

This paper builds on the academic advancements that have been made by scholars dedicated to the school of thought labelled Modern Monetary Theory. It intends to provide a compact introduction to the idea of a JG, which became part of the public discourse since it is an integral part of the Green New Deal as proposed by the Democratic representative Alexandria Ocasio-Cortez. Moreover, it contributes to the publicly and academically held discourse about labour market reforms required by both climate change-induced economic transformation as well as by technical progress and further automation. Accordingly, this paper compares the JG and the UBI with regards to their macroeconomic and social impacts.

This paper is structured as follows. Section 2 outlines the general framework of the JG and characterizes its key parameters. It further illustrates the link to the theoretical body of MMT. Section 3 discusses the macroeconomic impacts of the JG. It elaborates on the JG as a tool for aggregated demand management and price stability as well as on its role as an automatic countercyclical stabilizer and effective minimum wage legislation. Section 4 presents the social benefits of a JG related to the opportunity of continuous employment, the improvement of working conditions, the addressing of power asymmetries in the labour market as well as the enhancement of democratic practices. Section 5 examines the point that the JG and the UBI are being considered as competing policy proposals while in fact, the JG covers a broader range of economic

as well as social issues. Differences and commonalities between those approaches are discussed. Section 6 concludes.

## 2. THE JOB GUARANTEE: AN OUTLINE

The idea of the JG is a logical extension of the paradigm of tax-driven fiat currency and the fact that the currency is a public monopoly. Involuntary unemployment – defined as people seeking paid work – is the evidence that the currency users’ desire to accumulate the currency issued is not being fulfilled sufficiently. With the government being the only source of the currency, which the non-government sector desires to accumulate, it becomes evident that, ultimately, involuntary unemployment is the responsibility of the government and evidence of the federal budget of the government being too small (Mosler 1997).

The JG (or “employer of last resort”) “involves the government making an unconditional job offer to anyone who is willing to work at a socially acceptable minimum wage and who cannot find work elsewhere. It is based on the assumption that if the private sector is unable to create sufficient job opportunities, then the public sector has to stand ready to provide the necessary employment. This creates a buffer stock of paid jobs that expands (declines) when private sector activity declines (expands)” (Mitchell and Fazi 2017:230-31). Arguably, the JG is similar to other buffer stock approaches utilized by governments to stabilize the prices of a commodity. In the agricultural sector, for instance, many governments stand ready to purchase surplus production at a fixed price in order to ensure that the price of a certain production never drops below the government-administered price. As much as this buffer stock policy fully employs commodities, it is possible to fully employ human labour resources (Wray 2015).

While the absolute hourly wage and other specifics depend on the country’s context, there is a consensus among proponents that the JG wage is an above-poverty wage with job benefits such as health insurance, paid leave, retirement or childcare. For the case of the US, Tcherneva (2018) proposes an hourly wage of 15 USD and job benefits worth 20% of the wage costs. It is vital to note that the hourly wage is a fixed wage, which is not meant to be indexed to other prices and is only increased via discretion. The JG does offer not only full-time employment but also entails part-time work options and flexible working arrangements in order to accommodate students of legal working age, parents or other caregivers who wish to work (Kaboub 2007, Mitchell and Fazi 2017, Murray and Forstater 2013a, Tcherneva 2018, Wray 2015).

The JG is a bottom-up approach and intends to combine the wish for continuous employment with the needs of local communities. Accordingly, the JG is locally administered and focuses on the creation of jobs that serve the public purpose (Ehnts and Höfgen, 2020). What type of jobs would the JG entail? As the JG is a flexible approach that expands and contracts to depend on private sector activity, large-scale infrastructure projects or vital services that should be provided as regular public employment are not worthwhile JG jobs. Instead, a JG would focus on community employment and include all types of jobs that tend to be underproduced by the private sector, e.g. in the areas of the community, people or environmental care. More specifically, this entails

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projects like local education, training and skill sharing, visual and performing arts, environmental management, local food production, or community safety. A JG could also recognize what has been traditionally unpaid care work such as child-rearing and care for elderly or disabled relatives. On top, it could also entail youth apprenticeship programs as well as special needs programs for veterans, at-risk youth and former inmates. Commonly, non-profit-organizations try to fill pressing environmental or care gaps but often lack staff and funding. Hence, non-profits and localities can play a vital role when it comes to job-design within the JG. Lastly, to stress the bottom-up component of the JG, it could also involve a process in which people bring in their own job suggestions or business plans for suitable JG work that advances the public good. The JG is not intended to compete with the private sector in terms of work that is currently being covered by private enterprises, nor should it replace the current regular public sector. Nevertheless, it might become evident that some public services performed in the JG are much needed and should be staffed on an ongoing basis. Those jobs should be transitioned out of the JG and moved to regular public employment, which also includes higher wages (Mitchell and Muysken 2008, Tcherneva 2018).

As the type of jobs is defined, the crucial question is how the JG is to be administered. While the details depend on the countries' specifics, the general case is that the current unemployment centres are transformed into employment centres in order to match the needs of the individual communities with the unemployed resources. Assessment surveys might be used in order to assess the individual needs of the communities. While funding is provided by the federal government – most likely by the labour department – states, municipalities, communities, non-profit organizations as well as social entrepreneurship ventures apply for grants by suggesting projects. Those grants are then approved by the funding entity on the premises that the proposals serve the public purpose, create adequate employment opportunities and do not compete with existing jobs. Once grants are approved, the employment centres distribute the available jobs on-demand and are responsible for managing the coordination as well as for measuring the results. The current unemployment centres are already performing many demanding services ranging from job-search assistance to training. Hence, those centres are well prepared for the tasks required under a JG scheme. Moreover, since the JG is a bottom-up approach, elements of participative democracy might be incorporated in the administration, e.g. by involving people in assessing the needs of the community or in the local budgeting process (Tcherneva 2018).

Is the JG financially affordable? The monetary system is a means to move resources. If the monetary arrangements fail to facilitate bringing productive human resources to into use, they fail their purpose. As the analytical lens of MMT reveals, the currency is a public monopoly<sup>1</sup> and the issuer of the currency operates under a completely different logic than the user of the currency. While currency users face financial constraints as they have to fund their spending by either income, asset sales or borrowing (limited by their creditworthiness), the currency issuer does not face any spending constraint. On the contrary, the currency issuer, normally the federal government, has

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<sup>1</sup> This insight is grounded in the economic tradition known as Chartalism.



to spend first before any collection of the currency issued in the form of taxes can occur. The government is the only supplier of that which it demands in payment of taxes. Taxes can only be paid (and bonds can only be bought) after the federal government has spent or lent its currency into existence. For a currency issuer, the logic sequence is that spending precedes collection. Hence, neither taxes nor bond sales finance the expenditures of a currency-issuing government. It is not the government that needs to collect taxes for its ability to make expenses, but it is the currency user that needs to get the currency in order to be able to pay to fulfil its tax liabilities and/or purchase government bonds. This implicates that a currency-issuing government can make all payments denominated in its own currency as they come due and has no solvency risk for debt denominated in the currency it issues. Hence, it does not face purely financial constraints. The only limit for such a government is the availability of real resources (Bell 2001, Ehnts 2016, Kelton 2011, Mitchell, Wray and Watts 2019, Mosler 2012, Wray 2015).

Nevertheless, governments often tie their own hands and, hence, lose degrees on the spectrum of monetary sovereignty, which depends on four conditions: firstly, the government of a nation issues its own fiat currency; secondly, it is able to enforce its tax liabilities denominated in its own currency, thirdly, it does not issue any debt instruments not denominated in its own currency and, lastly, it does not promise to exchange its own currency into anything else at a fixed rate. While the first condition is being fulfilled for most of the nations, the Eurozone and the CFA Franc zone being the biggest exceptions, some countries peg their currency to another one or issue foreign-denominated debt, thereby inflicting a technical burden on themselves (Mitchell, Wray and Watts 2019, Mosler 1998, Wray and Sardoni 2007). Such governments, however, can always rearrange their institutional arrangements in order to gain the monetary sovereignty required to facilitate any political priority. As for the case of the Eurozone, while under the current framework individual member states are mere currency users and encounter financial constraints, the implementation of a fiscal authority for the Eurozone could solve the institutional issue and facilitate the funding of a JG (Bibow 2013, Cruz-Hidalgo, Ehnts and Tcherneva 2019, Ehnts and Höfgen 2019). As long as the federal government experiences a high degree of monetary sovereignty by issuing its own fiat currency and not promising to exchange this currency into other currencies or precious metals at a fixed rate, the government is able to provide all the funding required for the JG – no matter the magnitude of the nominal costs anticipated. For all practical purposes, if congress authorizes the funds for the JG, the government spends by instructing its central bank to credit the reserve account of the recipient's bank, which in turn credits its customers' bank account accordingly. While many countries have operational and institutional procedures in place for the horizontal relationship between the treasury and its central bank - which are beyond the scope of this paper – those are largely irrelevant for the vertical relationship between the consolidated government (government plus its central bank) and the private sector (Ehnts 2016, Fullwiler 2008). Any voluntary, self-imposed procedural regulations that constrain the government in its ability to spend are to be considered as economically unnecessary in the context of currency-issuing governments and can only be



grounded in political reasons (Mitchell and Muysken 2008). The bottom line is that for a monetarily sovereign government, the question of financial affordability is not an appropriate one to ask. For such a government, the costs of running a JG are the real goods and services that are used within the JG as well as those that are consumed from the additional income that the JG participants receive (Mitchell and Muysken 2008, Mosler 1997). For governments with a lower degree of monetary sovereignty, the affordability question turns into a question of political priorities. If the current monetary arrangements tie the government's hands and do not facilitate the funding of such a program, an adjustment needs to be considered.

With regards to real-world examples of JG programs, the empirical record of direct public employment programs ranges from large-scale programs in India (National Rural Employment Guarantee Act), Argentina (Plan Jefes y Jefas) or the US (New Deal) to smaller-scale programs such as youth employment guarantees. While these programs offer insights about a potential outline of the JG as well about its social and economic effects, their applicability, however, is limited since those programs were of smaller scale, targeted to specific groups or time-limited. In contrast, the JG, as outlined in this paper, is a universal program of national scale.

### 3. MACROECONOMIC CONSIDERATIONS

Having outlined the general framework of the JG, this section elaborates on the macroeconomic impacts of the JG focusing on aggregated demand management, price stability and trade. The JG works as an automatic countercyclical stabilizer. During the business cycle, the JG increases public employment and government spending as jobs are lost in the private sector and decreases public employment and government spending as the private sector activity expands. In this regard, the effect of the JG is comparable to regular unemployment compensation, which prevents aggregated demand from plummeting during a recession, except for the fact that the JG prevents involuntary unemployment and large output gaps from occurring. As consumers' spending patterns are much more stable when someone gets a job as compared to unemployment compensation, especially in countries where unemployment compensations are only temporary, the JG and its increase in government expenditure is the real stimulus that the economy needs in order to recover from recessions. Moreover, the JG perfectly builds on the insight that aggregated demand management is the responsibility of the government and cannot be left to the private sector. While the private sector-led stimulus, e.g. triggered via monetary policy, is related to an increase in private debt, a JG-based fiscal policy creates net financial assets for the private sector, i.e. it puts purchasing power directly into the pockets of actors in the private sector. Clearly, since the currency issuer and the currency user operate under a different logic – the users of a currency being constrained by revenue and subject to default risks while the issuer of the currency is not – a government-led economic stimulus is financially more sustainable than a private sector-led one (Mitchell, Wray and Watts 2016, Murray and Forstater 2013a, Tcherneva 2018, Wray 2015, Wray et al. 2018).

While the current NAIRU approach uses a buffer stock of involuntary unemployed

as a means to achieve price stability, the JG aims for price stability by using an employed buffer stock, also referred to as NAIBER (non-inflation accelerating buffer employment ratio) (Mitchell and Muysken 2008). While the JG is not designed to address all sources of inflation (deflation), the employed buffer stock addresses inflationary and deflationary pressure alike in a countercyclical way as the buffer stock fluctuates with the business cycle. The fixed JG wage effectively works as a wage and price anchor. The government being the sole issuer of the currency, has the same pricing power as other monopolists have. Under the JG approach, the government makes use of this power by setting the base wage for labour offered in exchange for the currency issued. All other prices float at the market level but will reflect nominal value relative to the price set for one hour of labour offered in the JG. This anchoring mechanism is missing in the NAIRU approach and makes the JG a superior tool to stabilize prices (Mosler 1997, Wray 1997).

Depending on the actual size of the JG wage, its implementation might result in a one-time price adjustment, and a related compositional shift in the workforce, i.e. the ratio of employment numbers in the JG relative to those in the private sector are affected. If the JG wage were set too high, it would draw workers from the private sector into the JG, leading to a one-time price (and wage) increase due to an increase in worker's income and firms' costs for hiring new workers or retaining current employees. However, in today's demand-constrained, underutilized economies, it is reasonable to expect that firms are more likely to increase utilization of their production facilities than to increase prices. On top, the initial income push could enable debt repayments and satisfy saving desires. On the contrary, if the JG wage were set too low, it would result in one-time price decrease as private sector's income would be insufficient to realize the desire to accumulate the net financial assets in the currency and purchase firm's output resulting in increasing inventories, layoffs and downward pressure on prices and wages. As the JG wage is not indexed to any other prices, it has no internal mechanism that feeds a wage-price spiral in any direction. Adjustment is supposed to be one-time events that do not result in inflation (deflation) defined as continuous rise (fall) in the price level.

Moreover, the JG facilitates workers' transition from the JG into the private sector. As business theory details, firms prefer to hire those who have previously been employed over those who have been unemployed as the previously employed have been exposed to on-the-job training and demonstrated working commitment. Accordingly, the JG, which provides on-the-job training and requires continuous working commitment, lowers the hiring costs of firms. Lower hiring costs mean that the private sector is able to expand its production capacities more quickly if demand should exceed current production capacities, thereby reducing the risk of demand-pull inflationary pressures. On top, as the JG provides the private sector with a pool of committed workers from which they can draw, the JG provides a brake for wage increases not related to productivity increases, which prevents feeding a wage-price spiral. Lastly, and in distinction from traditional pump-priming, the JG does not compete for market prices as it hires off the bottom, where there is no private-sector employer who wants to employ at the minimum wage (Mitchell and Muysken 2008, Mosler 1997, Tcherneva

2018). Compared to the typical, non-JG based aggregated demand management, the JG offers superior characteristics. Traditional pump-priming does not immediately help the most disadvantaged members of society, does not incorporate a counter inflation mechanism, does not address any public purpose concerns given that market allocations are the basis for employment expansion, does not address regional disparity related to the local concentration of economic activity and employment. On top, pump-priming might encounter real resources caps that trigger demand-pull inflation before everyone is hired (Mitchell and Muysken 2008).

The purchasing power of a currency is determined by what the government demands the private sector to do or sell in order to obtain it. The JG can be considered a standard labour policy, which continuously defines the purchasing power of the currency by both the quantity and quality of labour that can be hired at a given price (wage). Consequently, incorporating efforts to enhance the education and upgrade the skills of the JG participants strengthens the purchasing power of the currency. In comparison, the current NAIRU approach requires permanent unemployment and the payment of unemployment compensation, which does not attribute purchasing power to the currency as it can be earned effortlessly (Mosler 1997).

What effects can be anticipated with regards to foreign trade? Rising income resulting from the JG wage and the related fiscal multiplier effects are likely to increase consumption, including the purchases of imports. Rising purchases of imports affect the trade balance towards a trade deficit position, which might put downward pressure on the exchange rate, possibly leading to inflationary pressures through the exchange rate pass-through mechanism (Wray 2015). As financial markets, like the foreign exchange market, are driven by speculation and herd-behaviour, the prices on those markets do not reliably reflect the economic fundamentals nor do they lead to efficient allocations nor has any theory or model so far been capable of predicting exchange rate movements. This is evidenced by the many examples of speculative, carry-trade induced exchange rate movements (Boffa and Flassbeck 2009, Flassbeck 2001, Mitchell, Wray and Watts 2019, UNCTAD 2011). Therefore, instead of discussing the likelihood of trade balance and exchange rate effects, it is wiser to discuss the impacts of those effects.

If the above-described process leads to an increase in inflationary pressures, the JG helps to offset this pressure by preventing a wage-price spiral. Moreover, as the JG and the incorporated labour standard policy attribute domestic value to the currency, changes in the external value are also a function of the quantity and quality of labour that one unit of the domestic currency can buy as well as of changes in the value of the foreign currency. As the MMT lens reveals, exports are to be considered as a real cost (lowering the material wealth of a nation) while imports are to be considered as a real benefit (increasing the material wealth of a nation). Hence, a trade deficit, induced by a domestic full employment policy, increases the nation's material wealth. Given that the orthodox argument against being a net importer is the losses of jobs, this argument is off the table under a JG (Mosler 1997, Mosler 1998, Wray 2015).

For developing countries dependent on imports to have their basic needs, most importantly food and energy, met, the issue of facing downward pressure on the ex-

change rate and the resulting inflationary pressure is of higher importance than for developed countries. As a logical point, the shortage of food and energy are real resource problems, which, ultimately, cannot be solved on the financial, but only on the real resource level. The JG offers a means to utilize the available domestic resources to address the issues on the real resource level, e.g. by designing jobs in the (sustainable) agriculture or renewable energy sector. As developing countries are often reliant on imported inputs, the JG design for those circumstances could also be tailored to the need of producing goods and services for the export market in order to offset the trade balance and exchange rate effects (Kaboub 2006, Kaboub 2008, Kaboub, Forstater and Kelsay 2015, Murray and Forstater 2013b). Ultimately, if impacts on the trade balance or on the exchange rate are deemed undesirable, the government can still use trade policy, import-substitution, import restrictions, tax policy, capital controls, interest rate policy etc. in order to minimize the effects.

#### 4. THE JOB GUARANTEE AND ITS SOCIAL BENEFITS

Having discussed the macroeconomic considerations, this section focuses on the social benefits that come with the JG, particularly those related to the benefits of continuous employment, leveraging working conditions, addressing asymmetrical power relations in the labour market and enhancing democratic practices.

The JG erases the risk of involuntary unemployment as everyone who is willing to work can get a public-purpose-oriented job, which pays a living-wage plus job benefits. Clearly, the benefits of continuous employment go beyond those of having an income stream that ensures financial access to the material means of survival. Research clearly suggests that the nonpecuniary costs of unemployment outweigh the pecuniary costs of it (Carroll 2007, Tcherneva 2017, Watts and Mitchell 2000, Young 2012). The Argentinian *Jefes* program underlines this finding. A survey on the participants' reasons for satisfaction revealed that the participants rank "doing something", "working in a good environment", "helping the community", and "learning" higher than "receiving income" (Tcherneva and Wray 2005). In this light, the JG scheme effectively attacks the societal costs of unemployment, such as: poverty, social isolation, crime, regional deterioration, health issues, family breakdowns, school dropouts, loss of human capital and social, political and economic instability. Simultaneously, the JG program fosters the societal benefits of full employment: poverty alleviation, community building, social networking, and intergenerational stability amongst others. Continuous employment offers room for on-the-job training and skill development. As the JG addresses those most disadvantaged in the labour market, e.g. people with disabilities, who are largely lacking access to the private labour market as their employment comes with practical complications and extra costs for the private employers, it is a means for social integration. For this instance, the JG design allows for tailored jobs that could grant disabled people access to a job and let them contribute to society in a dignified way – with all the social and psychological benefits for those persons (Murray and Forstater 2013b, Tcherneva 2017, Wray 2015, Wray et al. 2018). Eventually, the JG realizes the right that has been already incorporated in the universal declaration of

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human rights, but has been neglected so far:

“Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment. Everyone, without any discrimination, has the right to equal pay for equal work.” (Article 23, The Universal Declaration of Human Rights)

As far as working standards are concerned, under a JG with a fixed hourly wage plus benefits, the JG wage becomes the effective national minimum wage. While currently legislated minimum wages around the globe cannot be earned by the unemployed since those unemployed only receive unemployment compensation (if at all), which constitutes a comparably lower income than a minimum wage income, the current minimum wage legislation cannot be considered as being effective minimum wage with national scale (Mitchell and Fazi 2017). For all practical purposes, the implementation of a JG makes the current minimum wage legislations obsolete as workers always have the option to choose the JG. Next to the hourly wage and the job benefits, the JG establishes a lower bound of acceptable working conditions. The better the working conditions in the JG, the higher the incentive for the private sector to follow. In this light, the JG is an efficient means to improve working conditions and standards in the private sector. For developing countries, the same holds for working conditions in the non-formal sector as participants are offered an alternative employment option in the JG (Wray et al. 2018).

In the current situation in which involuntary unemployment exists permanently, the power relations in the labour market are asymmetrically distributed in favour of the employers. With the rise of neoliberalism has come the decreasing influence of labour unions. Those with comparatively little skills and education relevant to the labour market are the ones who have the lowest bargaining power in the labour market. Those people are hired last (if at all) and fired first during the business cycle. Consequently, situations might occur in which those people accept actually unacceptable working conditions. Supposedly, this is even worse in the context of unprotected informal labour markets, where the vulnerability of workers is immense (Kostzer 2008). Under a JG, all individuals have the chance to get a reasonably paid job under acceptable working conditions, which enables them to leave unacceptable job arrangements. Hence, the JG addresses the asymmetric power relations in the labour market.

Also, the JG has implications for democracy. The main characteristic of democracy is that everyone has an equal say in all significant questions that affect their lives. Considering how much time people spend at their workplace, the absence of serious democratic practices at the workplace neglects this feature of democracy. As explained, the JG is a means to improve the working conditions in the private sector. The same holds for the incorporation of democratic practices. Arguably, income and wealth inequality are a liability for democracy as they equip those with the financial power to gain political power and influence, thereby biasing democratic outcomes to their interests. Since the JG hires off the bottom of the income distribution by offering a fixed wage and benefits package to anyone willing to work, it improves the income distribution.



## 5. JG AND UBI: WHY THE JG DESERVES MORE SOCIAL RESONANCE

While the JG and the UBI are often being discussed as comparable, competing policy proposals, this section argues that the JG addresses more macroeconomic and social issues than the UBI does and, hence, deserves a greater resonance in the public discourse. Arguably, for many instances, the JG and the UBI are not even comparable policies. Most importantly, while the JG addresses unemployment and its social and macroeconomic costs, the UBI does not aim at a reduction of involuntary unemployment, but only compensates via the provisioning of an unconditional income stream to everyone thereby liberating people from the economic necessity to sell their labour in order to have an income that enables a dignified living standard. In this light, the scope of the UBI is different from the scope of the JG. The fact that research, as well as the example of the *Jefes* program, prove that the nonpecuniary costs of unemployment outweigh the pecuniary costs of it, the JG is superior in this regard (Carroll 2007, Tcherneva and Wray 2005, Tcherneva 2017, Watts and Mitchell 2000, Young 2012). Ultimately, the UBI neglects that involuntary unemployment is a failure of economic policy and evidence for the federal budget deficits being too small as it does not address the causes but only one symptom of involuntary unemployment, i.e. compensating the income stream.

Macroeconomically speaking, while the implementation of the UBI comes with an initial income push, similar to traditional pump-priming, it is not a means to manage aggregate demand continuously over the business cycle. The JG, on the other hand, works as an automatic countercyclical stabilizer offsetting recessionary tendency. Additionally, the UBI relies on an unemployed buffer stock to maintain price stability while the JG builds on a superior employed buffer stock to achieve price stability. As some UBI proposals even peg the nominal size of the UBI to price indices, the JG wage is not supposed to be indexed in order to prevent it from feeding a wage-price spiral. Any anti-inflationary mechanisms incorporated in the JG are absent in the UBI. The same holds for the fact that the JG attributes domestic purchasing power to the currency via the implementation of the labour standard. The UBI does not attribute any purchasing power to the currency as the UBI payments are to be received without any contribution. If the initial income push affects the trade balance and puts downward pressure on the exchange rate, possibly resulting in pass-through inflation, the UBI has nothing to offer that could offset such tendencies. On the contrary, an indexed UBI would feed the wage-price spiral, thereby worsening the inflationary pressure. The JG, however, could be tailored to the aim of economic transitioning by producing output relevant to help mitigating exchange rate or trade-related issues, e.g. by focusing on building a renewable sector. On top, the fixed-wage of the JG works as a price and wage anchor, preventing wage-price spiral pressures from worsening (Mitchell and Fazi 2017, Tcherneva 2013, Tcherneva 2019).

While the JG is a lever to improve minimum wages and working conditions in the private sector, the UBI actually entails the risk of putting downward pressure on wages. As the risk of involuntary unemployment is still prevalent under a UBI, the power relations in the labour market are not addressed. The JG on the other improves the

bargaining power of workers, particularly those that have been the ones most disadvantaged so far. Plainly speaking, the JG has more to offer for the individual who is last in the unemployment queue than the UBI has. Moreover, while the JG improves income inequality by hiring off the bottom of the income distribution, the UBI actually worsens income inequality. While those at the bottom of the distribution are to spend comparatively greater parts of the UBI income on consumption, those at the top of the distribution are likely to save and invest the UBI income in financial assets, thereby generating profit, dividend or interest incomes. Without any countermeasures being implemented alongside, e.g. tax policy, the UBI worsens inequality, which in turn has negative consequences for the democracy. Furthermore, the UBI income provides the receivers with freedom in terms of personal consumption as the UBI income can be spent according to personal preferences. However, the UBI entirely neglects the production side – there has to be someone producing the goods and services on which the UBI can be spent. In the light of article 23 of the declaration of human rights (see above), the JG is a means for achieving that the world of producing as democratic and empowering as the world of consumption.

Lastly, the JG equips individuals not only with a greater degree of socio-economic security but also with a greater degree of mobility as the JG ensures access to a job anywhere in the nation. While under a UBI people are forced to move where the private sector has adequate job offers, the JG brings the jobs to the people, thereby empowering them to leave their (possibly problematic) community or neighbourhood and build a new social existence elsewhere. Arguably, relocation and building a new social existence come with the risk of social isolation. In this light, the role of employment, which for most people makes up a great part of their time, is of crucial importance since many people build their social network in and around their workplace. The JG ensures access to a job and a reasonable working environment fostering social networking and social integration while contributing to the public purpose of the community.

In contrast to the JG, the UBI has very little to offer besides a permanent income stream, which ensures universal access to the material means of survival and allows for some degree of freedom in terms of personal consumption choices. To be blunt, simply giving people checks, which – eventually – can only be used to buy products from an aristocracy of producers will hardly cure many causes of the prevalent issues. Clearly, the JG is a superior tool for macroeconomic stability and social progression and as such, deserves a greater social resonance.

## 6. CONCLUSION

The idea of the JG is a logical extension of the paradigm of tax-driven fiat currency and the fact that the currency is a public monopoly. It involves the government offering a public-purpose-oriented job with a fixed hourly wage and job benefits to anyone willing to work. The program is locally administered and involves cooperation between communities, municipalities, states and non-profits, but federally funded. As the analytical lens of MMT reveals, a currency-issuing government is always able to provide



the funds necessary to run the JG. Ultimately, the purpose of the monetary system is to move resources. If any self-imposed constraints prevent a country from bringing its domestic resources into productive use, it needs to reconsider its monetary arrangements.

Macroeconomically speaking, the JG works as an automatic countercyclical stabilizer and is a superior tool to manage aggregated demand ensuring the economy is operating at full capacity. Instead of relying on a buffer stock of involuntary unemployed for the sake of maintaining price stability – thereby not operating the economy at full employment and leaving wealth on the table – the JG builds on an employed buffer stock approach to ensure price stability. The wage paid in the JG works as an anchor for all other prices in the economy as market prices reflect nominal value relative to the JG wage. While the initial size of the JG wage might lead to one-time price adjustments, it has no internal mechanism that feeds a wage-price spiral. In fact, as the JG facilitates the transition of workers from the public to the private sector, which ensures that an expansion of the production capacity can happen more smoothly, thereby preventing demand-pull type inflationary pressure. On top, the JG establishes a labour standard, thereby attributing value to the currency, which is defined by the quantity and quality of labour that one unit of the currency can buy. The full employment policy and the related income push might (or might not) increase the purchases of imports, possibly putting downward pressure on the exchange rate resulting in imported inflation. Keeping in mind that being a net importer increases the real living standard for a nation, the trade effects might be desirable. For the case of developing countries, particularly those dependent on food and energy imports, the JG design can be tailored to the specific needs of the developing country and actually be a means to address the real resource problems at their cause.

The JG addresses not only the macroeconomic but also the social costs of unemployment. While research suggests that the nonpecuniary costs of unemployment outweigh the pecuniary costs of it, the JG attacks unemployment related issues such as poverty, social isolation, crime, regional deterioration, health issues, family breakdowns, school dropouts, loss of human capital and social, political and economic instability. Simultaneously, the JG program fosters the societal benefits of full employment: poverty alleviation, community building, social networking, and intergenerational stability amongst others. Moreover, the hourly JG wage becomes the effective national minimum wage, while the overall working conditions form the lower bound of acceptable working conditions. In this sense, the JG is a lever to improve the working conditions in the private sector. Plus, it addresses the prevalent power asymmetries in the labour market, particularly those prevalent in the informal labour segment and fosters the implementation of democratic practices at the workplace. Lastly, the JG has a positive impact on income inequality since it hires off the bottom of the income distribution.

While the JG and the UBI are often discussed as comparable, competing policy proposals, the JG addresses way more macroeconomic and social issues than the UBI does, hence, in many instances, both policies are not comparable. As a bottom line: the JG qualifies for being the single most effective policy in order to drive the economy

towards full employment, maintain price stability and realize many promising social benefits.

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## THE VAROUFAKIS-TSIPRAS LINE WAS DOOMED TO FAIL FROM THE WORD ‘GO’

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**ABSTRACT:** This article on Varoufakis’s book, *Adults in The Room: My Battle with Europe’s Deep Establishment* (2017) and about what happened in Greece in 2015 is a guide for left-leaning readers who are not happy with the dominant narrative meted out by the mainstream media and the Troika-controlled governments. These readers are also dissatisfied with the former Greek Finance Minister’s version. As a counterpoint to Varoufakis’s story, I have highlighted events that he is silent about, and I have expressed different views on what he should have done and what he did instead. My story runs parallel, and not opposite, to his.

It is crucial to thoroughly analyse the policy implemented by the Varoufakis-Tsipras government because, for the first time in the 21<sup>st</sup> century, a radical left-wing government was elected in Europe. If we want to avoid another disaster, it is absolutely vital to identify the flaws and understand what went wrong.

This critique of the Greek government’s policy in 2015 is not primarily meant to point out the respective responsibilities of Tsipras or Varoufakis as individuals. It is imperative to analyse the politico-economic orientation that was followed, so that we can ascertain the causes of failure, understand what could have been tried instead, and learn what a radical left-wing government can do in a country in the periphery of the Eurozone.

**KEYWORDS:** Varoufakis, Syriza, Greece, Greek Debt Crisis, European Union

### THE EARLY PHASE OF THE NEW TSIPRAS GOVERNMENT

Varoufakis says that during the electoral campaign’s last phase in January 2015, Alexis Tsipras received a message from Jörg Asmussen (Varoufakis 2017, chap. 5), an adviser to the leaders of the SPD, a member of the coalition government led by Angela Merkel. Asmussen offered to help a prospective Syriza government in the forthcoming negotiations with the European institutions. He suggested extending the current Memoran-



dum so that the government could buy some time to continue the reforms stipulated by the Troika before signing a new deal.

Jörg Asmussen recommended collaboration between the Tsipras team and Thomas Wieser (Austrian Social Democrat), who was (and still is) a key player in the Eurogroup and was seen as a potential ally of the Greek government during its upcoming negotiations. A written note from Thomas Wieser was attached to Jorg Asmussen's email. It informed Tsipras and Varoufakis as to what Wieser believed, namely that the ECB had no plans to pay what it owed Greece – that is, reimbursement of profits the Bank made on the Greek securities it held. This contradicted the ECB's assurances of 2012 (see Toussaint 2017a). The amount owed but never remitted to Greece was nearly €2 billion (a considerable sum for such a small country). This was equivalent to the estimated cost of implementing the humanitarian measures Syriza had promised. Unofficially, they also came to know that the Troika was not going to disburse the sums pledged in the second Memorandum, which expired on February 28, 2015. The IMF and EFSF were supposed to make these payments before the Memorandum's deadline (Varoufakis 2017, chap. 5). Thus, the warning was loud and clear: The Troika was going to financially asphyxiate the upcoming government led by Syriza.

Then everything happened very fast. Syriza swept the January 25 elections, and the Syriza – ANEL government took office on January 27.

Varoufakis does not bother to describe how the government was composed. He highlights a few issues that concern him directly. He indicates that his first hurdle concerned Alexis Tsipras. Varoufakis wanted his allies, Euclid Tsakalotos<sup>1</sup> And George Stathakis,<sup>2</sup> To hold posts 'in a ministry linked to economic policy', but Tsipras had decided to appoint Panagiotis Lafazanis to one of those two posts. Lafazanis, one of the main leaders of the Left Platform within Syriza, supported the unilateral suspension of debt repayments and held a 'pro-Grexit position'. Varoufakis writes: 'Alexis had appointed Panayiotis Lafazanis to the ministry (of Productive Reconstruction). This was terrible.' Then he continues: "With Lafazanis in one of the key ministries, and with Euclid – who agreed with our covenant – outside the cabinet, my negotiation strategy was in jeopardy' (Varoufakis 2017, chap. 5). According to Varoufakis, Tsipras refused to dismiss Lafazanis, arguing: 'I need Lafazanis inside the cabinet and in an economic ministry to prevent him from pissing in from the outside. If I strip him of it now, on the night before our swearing-in, he will turn even more against me than he already is. The Left Platform will be up in arms' (Varoufakis 2017, chap. 5).

Let me remind you that Lafazanis opposed the capitulation of July 2015, resigned as

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<sup>1</sup> Tsakalotos was considered to be a part of Syriza's centre-left contingent, known as the group of 53. The subsequent events clearly showed that Tsakalotos became complicit in an orientation that led to the July 2015 capitulation. Then he became just one more politician who was continuing the offensive against social rights.

<sup>2</sup> Stathakis clearly belonged to Syriza's right-wing and, just like Varoufakis, vehemently opposed Syriza's radical position on the debt issue. He was the Minister of Economy in the first Syriza government from January 27 and managed to keep his ministerial post, even in the second Tsipras government from September 23, 2015, by dint of his support for the capitulation.



minister, voted against the third Memorandum as an MP, and left Syriza with around twenty MPs and many activists to form a new political party (Popular Unity).

Finally, Varoufakis convinced Tsipras to appoint Tsakalotos as Alternate Minister in charge of economic matters within the Ministry of Foreign Affairs, so that he could participate in all the negotiations with the policymakers and be on all the trips to Brussels.

This brings us to what he calls the *war cabinet* (apparently, Tsipras and others who were part of it also used the same term), that is to say, the circle of ministers and officials directly involved in Tsipras's strategy. Varoufakis says the following regarding the war cabinet: 'When its members were in Greece, rather than in Brussels or elsewhere, the war cabinet met daily. It comprised Alexis, Deputy Prime Minister Dragasakis<sup>3</sup>, Alexis's alter ego Nikos Pappas, myself, Euclid and Sagias, the cabinet secretary. Often, we were joined by Chouliarakis<sup>4</sup>, chair of the Council of Economic Advisers, Stathakis, the economy minister, and Gabriel Sakellaridis, the government's spokesperson' (Varoufakis 2017, chap. 6, note 10).

### VAROUFAKIS'S FIRST DAYS AS MINISTER

Varoufakis explains that in his first three days in office he buckled down to organize his ministry, put his team of collaborators to work, estimate the liquidity available to the government for debt-servicing and running the State apparatus (e.g. payment of pensions and civil servants' salaries). He was told that it would take 'Anything between eleven days and five weeks' to settle the last issue.

Varoufakis also explains that the Troika had already debilitated his ministry immensely; three areas under his jurisdiction were partially off-limits to the minister: 1) the department in charge of the recapitalization of private banks (the Hellenic Financial Stability Fund or HFSF), 2) the department responsible for privatization (the Hellenic Republic Asset Development Fund or HRADF), and 3) the administration for tax collections, headed by a CEO from the private sector.

Varoufakis realized on 30 January that Dragasakis and Tsipras had decided to further deplete his ministry by withdrawing his jurisdiction over the banks. While Tsipras, Pappas and Dragasakis accepted his proposal of asking the European creditors to take over the Greek banks (see Toussaint 2017b), he says, Varoufakis admits in his book that this project was abandoned from the very beginning of his tenure.

This proposal to hand over the banks to the European creditors went against the interests of the Greek people. This was one of Varoufakis's six *sine qua non* conditions for agreeing to become finance minister. It is extraordinary that he gave it up in the

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<sup>3</sup> Yanis Dragasakis (1947): a Syriza leader, a friend of bankers', a member of the 'trio' with Tsipras and Pappas. Deputy Prime Minister from February 2015 to July 2019. Pushed towards the capitulations of 20 February and 13 July 2015.

<sup>4</sup> George Chouliarakis: President of the council of Economists; Finance Minister in the interim cabinet from 28 August to 21 September 2015; one of Greece's main negotiators in Brussels to set up the 13 July agreement. He systematically defended the Troika's interests.

very first days of his tenure in the Ministry.

This was only the beginning of a long series of broken promises. Varoufakis explains that he embarked on various significant projects along with his team. Some are extremely interesting: ‘developing the parallel payments system’ in case of conflicts with the creditors; the campaign against the previous government’s decision to promote gambling for increasing public revenues; certain measures to counter widespread tax evasion, etc. Other projects were more than dubious, or even downright unacceptable, for instance, a tax amnesty project. Varoufakis (2017, chap. 6) describes it as follows:

I would announce that for the next fortnight a new portal would be open on the ministry’s website on which anyone could register any previously undeclared income for the period 2010-2014. Only 15 per cent of this sum would be required in tax arrears, payable via web banking or debit card. In return for payment, the taxpayer would receive an electronic receipt guaranteeing immunity from prosecution for previous non-disclosure.

### THE RADICAL IMAGE OF VAROUFAKIS

On January 30 in Athens, Varoufakis held his first meeting with Jeroen Dijsselbloem, the Dutch Socialist minister who was then the President of the Eurogroup. A press conference followed, and it was largely instrumental in presenting an immensely radical image of Varoufakis to the public eye, nationwide and abroad. TV channels from all over the world telecast the clash between Varoufakis and Dijsselbloem. Varoufakis defied an arrogant Dijsselbloem, who was obviously rude to the minister he had come to meet.

The mainstream media attacked Varoufakis, but the Troika officials, as well as the foreign dignitaries, behaved like bullies who could not bear those signs of resistance, while Varoufakis seemingly symbolized a nonconformist government resisting the injustice of the powerful.<sup>5</sup>

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<sup>5</sup> This is how Varoufakis describes the scene: when the press conference of January 30 ended, Jeroen Dijsselbloem ‘jumped to his feet to storm out. But I had managed to stand up at the same time and offer him my hand. Somewhat thrown by my gesture, and as he had to walk past me to reach the exit, he awkwardly took my hand in his without stopping. The photographers pounced. Their pictures showed an ill-mannered Eurogroup president rudely brushing past me before the customary handshake had been completed’.

He goes on to add: ‘The streets of Athens would never be the same for me after that press conference. Taxi drivers, suited gentlemen, old women, schoolchildren, policemen, conservative family men, nationalists and far-Left recalcitrants alike – a whole society whose sense of pride and dignity had been offended by the previous governments’ servitude to the troika and its political bosses – would stop me in the street to offer thanks for that brief moment’ (Varoufakis 2017, chap. 6).

Stathis Kouvelakis, who was then a member of Syriza’s Central Committee, describes the Varoufakis phenomenon in this way: ‘We must say a few words about the immense impact that the phenomenon called Varoufakis had. It’s rather ambiguous. Certainly, there is some political theatre involved with it

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## VAROUFAKIS AND THE SYRIZA GOVERNMENT'S PROGRAMME

The Thessaloniki Programme, presented in September 2014, promised to terminate the second Memorandum and introduce a national reconstruction plan instead, abolish most of the public debt, discontinue the austerity measures, reinstate the Greek people's social rights, restore wages and pensions to where they were before the first Memorandum of 2010, end privatization, nationalize the banks, establish a public development bank, reduce the public and private debts of low-income households, create 300,000 jobs, and revive democracy.

Varoufakis was opposed to this programme and made no bones about it in his book. His take on September 2014 is as follows:

(...) Alexis had delivered a major speech in Thessaloniki outlining Syriza's economic platform. Gobsmeared, I got hold of the text and read it. A wave of nausea and indignation permeated my gut. Straight away I went to work. The article that emerged less than half an hour later was used soon after its publication by Prime Minister Samaras to lambast Syriza in parliament: "Even Varoufakis, your economic guru, says that your promises are fake". And so they were (...) It was in fact such a ramshackle programme that I did not even bother to criticize it point by point (Varoufakis 2017, chap. 4).

He claims to have accepted the ministerial post on condition that six economic proposals would be implemented on a priority basis. Let us take a look at those measures once again.<sup>6</sup> 'Debt restructuring comes first' (author's note: without reducing the debt stock, while the Thessaloniki Programme promised to write off most of the 'public debt's nominal value'). 'Second, a primary surplus of no more than 1.5 per cent of national income and no new austerity measures. Third, wide-ranging reductions in sales and business tax rates. Fourth, strategic privatizations under conditions that preserve labour rights and boost investment. Fifth, the creation of a development bank that would use remaining public assets as collateral to generate a domestic investment drive, and whose dividends would be channelled into public pension funds. Sixth, a policy of transferring bank shares and management to the European Union...' (Varoufakis 2017, chap. 4).

Of these six priorities, only the second and fifth corresponded to the Thessaloniki Programme, but these were abandoned after the agreement of February 20, 2015.

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and that contributes to depoliticising the situation. But it is not only that: Yanis Varoufakis was considered to be really different, and this could not be narrowed down to his looks (...) Apparently this went alongside his assertion of a genuine political dissent. The Varoufakis phenomenon certainly would not have occurred had he not exploded in one of his first official appearances and in the presence of Jeroen Dijsselbloem, the president of the Eurogroup: "Go hang yourself! We want nothing to do with the Troika anymore!" Apparently it was a breach in the system, certainly with some very superficial elements, but it also expressed the desire to leave the current political framework, a desire which temporarily found its signifier in Varoufakis' (Kouvelakis 2015).

<sup>6</sup>I cited those six measures, with my comments, in the first article of this series (see Toussaint 2017b).

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## THE PROPOSALS VAROUFAKIS MADE TO THE TROIKA

Contrary to the caricature presented in the dominant media and by the governments of the creditor countries, Varoufakis, as chief negotiator, made very moderate propositions to the Troika which were a setback, or even in contradiction with the Thessaloniki Programme. He assured the 'Adults' that the Greek government was not asking for a reduction of the debt. He suggested that the different forms of debts held by the Troika be exchanged for new issues over a longer period, thus reducing the annual strain on the Greek budget. He did not dispute the legitimacy or the legality of the debts. This is very serious.

He did not point out the right and the will of the Greek government to conduct an audit of the debt. In his book, there is no mention of the debt audit commission created by the President of the Greek parliament. Not one word. This certainly was not because this initiative was not known in Greece. On the contrary, it was very well spotlighted. Varoufakis chose to remain completely silent on the debt commission because it did not enter into his vision of the negotiations.

He proposed to redraft a part of the ongoing Memorandum in order to prolong it and to adopt certain of the measures it proposed. He repeatedly affirmed that 70% of them were acceptable. He added that many measures that could be applied were positive but that 30% of the Memorandum should be replaced by measures that would have a neutral effect on the budget. That meant introducing new measures, mainly to ease the humanitarian crisis, which would not increase the deficit that the Samaras government had budgeted because they would generate increased revenues or have the result of reducing spending in certain areas.

Varoufakis confirmed that the government he represented would not challenge the privatizations that had taken place since 2010, and moreover, more were possible on condition that the price was right, and the buyers respected the labour rights.

Varoufakis also confirmed that Greece could not be salvaged unless it remained in the Eurozone. He held back any mention to the opposing negotiators that the Syriza party programme implied that the Greek State would exercise control over the private banks of which it was the majority shareholder.

One of the genuinely radical elements in Varoufakis's discourse is that on several occasions at the start of his period in office he said plainly that the Troika was not democratically legitimate, and his government would not collaborate with it. However, when referring to his book, it is evident that, in practice, he accepted the Troika. It only disappeared in words. The only concession the Troika made was to agree to the pretence that it did not exist. Although the Troika played hide and seek, it knew how to make its presence felt. Varoufakis shows that the Troika was always present and real at all the key moments of negotiation and of decision taking.

Varoufakis well describes how heavy the debt burden was. He had worked out the needs for repayments for the year 2015: '(...) it turned out that for 2015 alone the Greek state needed €42.4 billion just to roll over its debts, the equivalent of 24 per cent of national income. Even if the troika were to disburse all the money specified by the second bailout loan agreement, we would still be €12 billion short. For a country with

no capacity to borrow from private investors, empty coffers and a devastated population, meeting these debt repayments meant only one thing: the plunder of what was left in the reserves of pensions funds, municipalities, hospitals and public utilities, while going to the troika cap in hand to borrow huge amounts more, pledging to squeeze our pensioners, municipalities, hospitals and public utilities yet further, all in order to give the money back to the troika. Only a lobotomy could have convinced me that doing this was in our people's interest' (Varoufakis 2017, chap. 5). Further on he says, recounting his first meeting with the President of the Eurogroup on 30 January in Athens, '(...) debt repayments for 2015 alone amounted to 45% of all the taxes it hoped to collect' (Varoufakis 2017, chap. 5).

The problem is that in accepting, on 20 February, to continue all debt payments according to plan until 30 June 2015, he accepted a situation worse than the hellish one described above because the creditors had not taken on any promise to make the least payment. €7 billion would be needed before the end of June 2015. That sum must be compared with the €2 billion needed by the Thessaloniki Programme to meet humanitarian needs, to the end of 2015. My own figures show that because of debt repayments, no more than €200 million was spent by the Tsipras government between February and June 2015, which was quite insufficient.

It was clear that in continuing to repay without the guaranty of receiving fresh money, the situation could only get worse. It was just as clear that the second Memorandum had to be followed by a third for the creditors to grant new loans to repay the previous ones.

Varoufakis's claim that another outcome was possible was only a fanciful belief that the creditors could be simply persuaded to allow Greece to end the most antisocial of the austerity measures, the shackles of the Memorandum, and to reduce the size of repayments during 2015 (without changing the outstanding capital). This position could not hold water.

### VAROUFAKIS'S NEGOTIATING STANCE

At the meeting on 30 January between Varoufakis and the President of the Euro-group, Jeroen Dijsselbloem, the latter clearly indicated that he was not interested in the mandate that the Greek people had granted to the Tsipras government. He refused to replace the Memorandum with a new agreement and would not even modify the Memorandum as it existed, saying that the European Central Bank could prevent Greek banks from having normal access to liquidities.

Hoping to find support from their so-called 'socialist' governments in loosening the grip of austerity policies, Varoufakis met the French and Italian leaders and the British leaders who at the time were seeking to turn their economy around even if that caused a bigger deficit. Then he went to Frankfurt to try to sweet-talk the ECB and finally to Berlin.

Before going a meeting was held with Tsipras, Pappas and Dragasakis. Varoufakis got the green light to not ask for a morally sound debt write-off. In so doing Varoufakis renounced a fundamental argument before international public opinion that could



have put the creditors into difficulty on one their weakest points. Varoufakis recognized that the secret agreement at this meeting was in contradiction with the official Syriza orientation: ‘Syriza’s position on public debt had been nothing more than a crude demand for an unqualified write-down. With half the party still demanding a unilateral haircut of most of the debt, most not even privy to the idea of a debt swap, and with only a tenuous, verbal covenant binding the leadership trio to my strategy (...)’ (Varoufakis 2017, chap. 5). Thus, Varoufakis rejected the programme on which Syriza had been elected to government and rebuffed the Syriza base.

As from 1<sup>st</sup> February, a week after Syriza formed its government, Varoufakis began his first tour of Europe as a Minister in the company of Euclid Tsakalotos. On Sunday 1<sup>st</sup> February the schedule was tight: an official meeting with Michel Sapin, French Minister of Finance, another with Emmanuel Macron, French Minister of the Economy and four unofficial meetings with Poul Thomsen, deputy director of the IMF for European affairs, Pierre Moscovici, European commissioner for economic and monetary affairs, Benoît Cœuré, second in command at the ECB and with Francois Hollande’s Secretary. On Monday second February he was in N°10 Downing Street in London with George Osborne, the British Conservative Prime Minister, after which he gave a talk to two hundred financial actors invited by the Deutsche Bank. The next day Varoufakis went to Rome to meet the Italian Minister of Finance, Pier Carlo Padoan. Finally, on the 4<sup>th</sup> he had a meeting in Frankfurt with Mario Draghi and the executive council of the ECB.

At each occasion, Varoufakis proposed an exchange of debt without reduction or write-down.<sup>7</sup> He made it clear that the Greek government would pay private sector debt on the nail (about 15% of the Greek debt was held by private holdings – Greek or foreign banks, investment funds or vulture funds, among others).

The first contact with Benoît Cœuré, a Director of the ECB, was very revealing. He came straight to the point – did the government have, or have not, the intention to restructure unilaterally the Greek government bonds that the ECB owned? Putting the issue in this urgent fashion plainly revealed it was what the ECB feared more than anything else. It was an entirely feasible option that Varoufakis had mentioned several times before becoming Minister. The values in question had been issued under Greek jurisdiction over the 2010-2011 period. The ECB had bought them at 70% of their value but counted them at 100% while at the same time demanding excessive interest rates. Equivalent values held by Greek pension funds had undergone a ‘haircut’ of 53% in March 2012. The ECB had refused that the same measure be applied to the values it held. The Greek government would have had the moral, and indeed the legal, right to take such an action. It will be seen further on that; finally, the Greek government never would take such action on the ECB-held values, even though it should have done so and would have had a very good chance of winning on the issue.

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<sup>7</sup> As he himself indicates, Varoufakis’ main proposal in terms of debt restructuring is in line with the text entitled *A Modest Proposal for Resolving the Euro Zone Crisis* (2013). Carrying out this proposal, which consisted of pooling public debts in the Eurozone, would have involved a joint decision by the governments of the Eurozone so as to provide relief to public finances and to leave austerity policies behind.



In London, before a hall full of bankers and investment fund directors, Varoufakis sought to reassure them that private creditors have nothing to fear. He reiterated his false thesis of the 2010 Greek government failure (see details here: Toussaint 2017c). This comforted them and gave them leave to concentrate on the public debt crisis. He told them: ‘Second, I admitted that we had a divided cabinet; that, yes, there were those who wanted Grexit, who were not interested in negotiating with the EU and the IMF, convinced that nothing good would come of it, and who just wanted out. And then there were those of us around the prime minister whose objective was a negotiated solution within the eurozone. But I added on a positive note, this division would not affect the negotiations, which would be conducted by my core team. Our Grexiteer colleagues would not get in the way but would be patient and give us a chance to demonstrate that a viable agreement was possible. As long as Greece’s official creditors, the EU and the IMF, were willing to strike a mutually advantageous agreement, the world of finance had nothing to fear from my Left Platform colleagues in government’ (Varoufakis 2017, chap. 5). Several times, Varoufakis tried to convince his hearers that the majority of the government had totally reasonable positions, which should be given support in order to neutralize, within the Syriza government and in the party, what he considered to be an irresponsible extreme left. He was sure he had convinced the hall: ‘As I had remarked to the City’s financiers (...) it was a measure of the depth of the euro crisis that it took a radical left-wing government to table mainstream liberal proposals for its solution’ (Varoufakis 2017, chap. 5).

While in Rome Varoufakis met the Italian Minister of Finance, who informed him that he softened-up the German government and particularly Schäuble by pushing through a labour market reform in the face of opposition from the social movements. ‘That turned out to be “labour market reform” – code for weakening workers’ rights, allowing companies to fire them more easily with little or no compensation and to hire people on lower pay with fewer protections. Once Pier Carlo had passed appropriate legislation through Italy’s parliament, at significant political cost to the Renzi government, the German finance minister went easy on him. “Why don’t you try something similar?” he suggested. “I’ll think about it,” I replied. “But thanks for the tip”’ (Varoufakis 2017, chap. 5).

In the end, that is where the strategy that Tsipras and Varoufakis choose together led. The Italian ‘socialist’ Minister’s words contain a profound truth. The reasoning of the European leaders is to inflict the easing of constraining labour legislation and lower wages to render European goods and services competitive in the face of foreign-produced merchandise and services. The conditions inflicted on Greece are part and parcel of this strategy, and Varoufakis has refused to understand that or radically oppose it. The enormous Greek debt is a fundamental weapon used by the public creditors to make an example of Greece to drive home what it costs to any people who may resist their power, and of course to strip workers of their rights.

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## ON 4 FEBRUARY, THE ECB BRINGS OUT ITS TOP GUNS ON THE GREEK GOVERNMENT

On 4 February in Frankfurt, Varoufakis met ECB directors: Mario Draghi, its President, and three others – the Frenchman Benoît Cœuré, the German Sabine Lautenschläger and the Belgian Peter Praet. Euclid Tsakalotos still accompanied Varoufakis.

Mario Draghi announced that the Board of Directors of the ECB would probably decide, during that afternoon, to cut-off access to liquidities for Greek banks. As Varoufakis says, ‘It was an explicit, calculated act of aggression’ (Varoufakis 2017, chap. 5).

This requires explanation. The ECB provides liquidities to the banks in the Eurozone. To gain access, the banks (whether public or private) must deposit financial securities as guarantees. This is called ‘collateral’. The collateral may be of different types, such as, among others, public debt securities or securities on private corporations. The ECB may consider that the instruments that are deposited are doubtful, either because they lack sufficient guarantees or are low quality. In this case, it may block access to further funds. This provokes doubt and a ‘run’ on the banks.

The only way out for the banks in difficulty is to get emergency liquidities from the national central bank. This is a costly solution. Should the national central banks do this, they must demand a high-risk interest rate. What is more, the sums available are limited and evolve weekly. When this happens, the national central bank’s directors meet each Friday to fix the amounts to be made available for the week to come, after analysis of their situation. Again, the ECB must agree and may limit the volume of liquidities that may be made available. Should this happen, the government will order banks to shut their doors, which is what happened at the end of June 2015 when the ECB stopped all emergency liquidities in order to influence the 5 July referendum. This forced the Greek government to close the banks as from Monday 29 June (see Voanews 2015).

Back to 4 February 2015. The ECB decision to close Greek banks’ access to funds was clearly a quick and aggressive strategy to destabilize the Greek government. This strategy had been enacted even before the elections took place. In fact, at the end of December 2014, once the Greek government had called snap elections to take place on 25 January 2015, the director of the Greek central bank, Stournaras, a one-time friend of Varoufakis (see Toussaint 2017c), deliberately made announcements aimed at worrying depositors in Greek banks. In coordination with Samaras, Stournaras weighed on the Greek voters, hoping to maintain the outgoing ‘New Democracy’ conservative government. Consequently, withdrawals began to increase sharply.<sup>8</sup> Samaras’s oft-repeated campaign themes were: ‘If you vote Syriza relations with Brussels will be difficult; the ECB will cut liquidities; chaos is just around the corner’. Despite this co-

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<sup>8</sup> Varoufakis writes: ‘Since 15 December, when Stournaras accelerated the bank run that Prime Minister Samaras had begun, depositors had withdrawn €9.3 billion from Greek banks, and the rate of withdrawals had hit €1 billion daily. By the time of the election, €11 billion would have found its way abroad or under mattresses. To be able to pay out so much money, the banks had had to increase their dependence on the ECB to the tune of more than €60 billion’ (Varoufakis 2017, chap. 5).

ercion, Syriza won the election, but Stournaras remained the governor of the Greek central bank – he is in Greece the plenipotentiary of Mario Draghi and the European leaders opposed to Syriza.<sup>9</sup> He should have been replaced. He was not, and as we shall see further on it was Varoufakis who convinced Tsipras to keep him in place.<sup>10</sup>

So, the ECB decided on 4 February 2015 to immediately apply extreme measures on the Tsipras government. Not moral pressure or coercion but direct aggressive action, as Varoufakis describes it in the passage cited above.

The effects of such decisions are, in fact, immediate. First, the Greek banks are forced to pay higher rates to have access to liquidities. This weakens their positions. Second, short-term financing for the Greek State becomes much more difficult. This meant that the liquidities granted by the ECB were used to purchase short-term (less than one year) Greek treasury bills. This permitted the Greek government to keep going (Eurozone governments cannot borrow from their own central banks). As the ECB was limiting liquidities, the Greek government had to borrow from Greek banks at much higher interest rates, thus adding to the Greek debt burden.

So, by reducing Greek banks' liquidities and increasing the cost of financing, the ECB made it more difficult for the Greek treasury to find funds from the Greek banks.<sup>11</sup>

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<sup>9</sup> Varoufakis sums up the import of Stournaras's speech at the annual meeting of the Central Bank's shareholders in Athens on 26 February: 'I realized it was the kind of speech that Antonis Samaras, the former prime minister, would have made had he defeated us on 25 January: a paean to the previous government's policies, a repetition of the lie that Greece had been recovering prior to our election, a total espousal of the troika's agenda and a series of veiled threats against the government' (Varoufakis 2017, chap. 10). He also writes 'As for Governor Stournaras, he was the troika's local functionary in more ways than one'.

<sup>10</sup> In 2014 already, Varoufakis had claimed that it would not be necessary to replace Stournaras if Syriza came to power. Varoufakis tells about a conversation he had at a meeting with Tsipras, Pappas, Dragasakis, Tsakalotos and Stathakis in June 2014: "Is it a coincidence that three days from today Prime Minister Samaras will transfer Stournaras from the finance ministry to the governorship of the central bank?" I asked. "It's obviously a stratagem in anticipation of your electoral victory". At that point, Alexis grew angry. "The first thing I shall do as prime minister is demand Stournaras' resignation. I will drag him from the central bank kicking and screaming if need be". Pappas offered several even more drastic solutions to this problem. I pointed out that it hardly mattered who sat in the governor's office' (Varoufakis 2017, chap. 3). Another passage in Varoufakis's book shows that he told Tsipras he should not get rid of Stournaras: 'Alexis had repeatedly told me and others that removing Stournaras was his top priority. Ironically, I had advised moderation and tempered his animosity towards Stournaras, pointing out that the government could not remove the governor of the Bank of Greece without a major clash with the ECB's executive council (...) But in trying to contain Alexis's fury towards Stournaras, I had created the impression among the Syriza leadership that I was soft on the troika's favourite son in Athens' (Varoufakis 2017, chap. 10).

<sup>11</sup> Private banks receive cash with which they buy government securities for profit. Then they deposit these securities as collateral with the central bank in order to obtain liquidity (credit) that they use to buy other public securities (Greek banks are granting less and less credit to the private sector, and the share of non-performing loans in their credit portfolio is increasing at a rate of 45% in 2015. So they are

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At the same time, on the one hand, other private foreign funding was difficult to find, or downright non-existent. On the other hand, as we have seen, the ECB no longer intended to cede to Greece the profits that it had made on its debt (€2 billion should have been reimbursed over 2015). This also was a purely political decision. In 2014 the ECB had made some reimbursements to the Samaras government even though it was behind in applying the second Memorandum. Even before the result of the election of Tsipras was known emissaries of the Euro group and the ECB made it known that the promised €2 billion would not be paid.

Finally, because the ECB considers that securities lose their value because of the situation of the banks, as well as of the State, deteriorates, this increases withdrawals and further restricts the State's access to funds.

There is further proof of the politically aggressive nature of the ECB's decision to cut off liquidities to Greek banks. As we have said, the ECB may consider that a country's banks are of such high risk that they should not receive further liquidities and a rescue plan should be applied to them, for example, by injecting fresh capital (which had been done in the framework of different Memorandums). The problem for the ECB is that in June 2014 all the Greek banks had passed the European banking authority stress test. It was clear that the result had been overvalued in order to justify the ECB helping Greek banks during the period of the Samaras government, who had just lost the European elections to Syriza. What is certain is that the banks were in a very bad way, in 2009 as in 2014 and in 2015. The ECB pretended surprise in discovering the real situation just days after the election of Tsipras. This was all purely political manoeuvring.

On the morning of 4 February, how did Varoufakis, who describes the decision of the ECB to restrict normal access to liquidities to Greek banks as a premeditated act of aggression, react to this news? Very moderately! Unbelievable! This is what he said: 'I began my reply by expressing my great and genuine respect for the manner in which Draghi had striven from the first day of his presidency to do whatever it took to save the euro while adhering as far as possible to his bank's charter and rules. This skilful balancing act was what had bought Europe's politicians the time they needed to get their act together, address the crisis properly, and thus alleviate the impossible circumstances in which the ECB had found itself: responsible for saving the eurozone's failing economies while being prohibited from using the essential means – ones available to any normal central bank – of doing so.

"Alas, the politicians did not use the time you bought for us wisely, did they?" I said. The expression on Mario's face conveyed embarrassed agreement. I continued: "You have done a fantastic job in keeping the eurozone together as well as in keeping Greece in the euro, especially in the summer of 2012. What I am here to put to you today is that you continue to do this during the next few months, granting us politicians the time and monetary space necessary to strike a workable deal between Greece and

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lending more and more to the state because it is safer than lending to the private sector). If the central bank limits access to liquidity, banks buy less securities and demand a higher yield, which increases the cost of borrowing for the government.

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the Eurogroup...” (Varoufakis 2017, chap. 7).

Not a word on the brutality of the ECB since 2010, nor on the scandalous profits made by buying Greek bonds between 2010-2012. On the contrary, Varoufakis compliments the Board of the ECB for its ‘fantastic job’. Then he continues by again proposing to exchange values in order to avoid reducing the value of the Greek bonds held by the ECB.

Draghi refused the proposal and did not allow himself to be cajoled by it. Draghi reproached Varoufakis for having mentioned, several times, a possible unilateral write-down of the ECB’s Greek bonds (see further up). Varoufakis replied: ‘I will not even think of it – as long as you do not close down our banks’ (Varoufakis 2017, chap. 7).

How could Draghi interpret that? The only conclusion he could come to was that if that afternoon the decision was taken to close Greek banks’ access to liquidities, without going so far as actually to close them, there would be no significant reaction from the Greek government. So it was done! In doing so, this put pressure on the Greek government started to stifle it and bring it to bay in the hope of extracting concessions.

Another criticism can be made about Varoufakis’s proposal. Whereas he himself, several times before he became Minister of Finance, had denounced the unacceptable, abusive and highly scandalous nature of the ECB operation on the Greek securities bought during the 2010-2012 period, he proposed to Draghi a ‘money laundering’ operation. These old securities (which are dubious, to say the least) are replaced by new securities that carry the same value (but at lower interest rates). We must realize that by doing so, Varoufakis made it almost impossible to apply a Plan B (which included the unilateral haircut proposal): if the negotiations failed, it would be difficult to explain to journalists and public opinion that the Greek government has the right to apply a unilateral haircut. Indeed, if Greece was prepared to exchange its debt securities held by the ECB for securities of the same value, why should it then be right for it to apply a discount? Consistency in argumentation is necessary to convince. The government should have told the truth loud and clear about the scandal of Greek securities purchased between 2010 and 2012. That consistency was wanting in Varoufakis’s reasoning.

Moreover, it is obvious that this proposal by Varoufakis had absolutely no chance of success because it would have set an unacceptable precedent for those in favour of austerity. The problem is not technical: Varoufakis’ proposal did not raise any real technical problem. The obstacle was and still is political: European leaders are totally opposed to the idea of allowing European states (whether they are in the Eurozone or not) to pool their debts because this would remove a major possibility of pressure for continuing the neoliberal offensive. Varoufakis’s proposal went completely against the logic of the most recent European treaties. It had no chance of success, and the negotiating strategy should not have been based on this fantasy.

The demand included in the Thessaloniki Programme should have been put forward: the cancellation of most of the debt, explaining that it was illegitimate, odious, illegal and unsustainable. Of course, European leaders could not accept this request, but the Greek government could develop an international campaign of explanation in order to gain broad public support. It could initiate an audit process and declare a



moratorium until the audit was completed.

It was essential not to get caught in the wheel of repayment. It was necessary to use the principle of international law that allows a State to declare a moratorium on payments in view of the state of necessity in which it finds itself<sup>12</sup>. The existence of a humanitarian crisis was the indisputable proof of such a state of necessity. The following reasoning had to be developed: ‘We are launching an audit (with citizen participation) because what is at stake is finding out why we have reached such a high level of indebtedness – national and international public opinion must know. We do not anticipate on the results of the audit, but it is only normal for payments to be frozen during an audit. Therefore, we suspend repayments during the audit, except for short-term debt. We were elected to replace the Memorandum with a new reconstruction plan. Let’s give time to the negotiation process and meanwhile be patient as we suspend scheduled payments on long-term debt’. If it had launched and used an audit process, the Greek Government should have said, in order to strengthen its position vis-à-vis the Troika: ‘I am merely enforcing Article 7 (9) of Regulation 472 adopted by the European Parliament on 21 May 2013 requiring EU Member States subject to a structural adjustment plan to carry out a full audit of their debt in order to explain why the debt has reached an unsustainable level and to detect possible irregularities’.

Payment suspension had to be urgently decreed, for instance on 12 February 2015. Indeed, between 12 February and 30 June 2015, Greece was to repay €5 billion to the IMF.

If we take into account the other amounts to be paid to the IMF in 2015, an additional €3 billion must be added. The ECB demanded repayment of more than €6.5 billion to be made in July-August 2015.

Actions also had to be taken regarding banks. As the ECB took the initiative to sharpen the Greek banking crisis, it was necessary to act at this level as well and implement the Thessaloniki Programme which said: ‘With Syriza in government, the public sector will take over control of the Hellenic Financial Stability Fund (HFSF) and exercise all its rights over the recapitalised banks. That means that it will make decisions about the way they are run’. It should be noted that in 2015 the Greek State, through the Hellenic Financial Stability Fund, was the main shareholder of the four largest banks in the country, which accounted for more than 85% of the entire Greek banking sector. The problem is that, because of the policies pursued by previous governments, its shares had no real weight in the banks’ decisions because they did not entail the right to vote. It was, therefore, necessary for the Parliament, in accordance with what Syriza had pledged, to transform the so-called preferential shares held by the public authorities (which do not entail voting rights) into ordinary shares giving the right to vote. Then, in a perfectly normal and legal way, the State could have exercised its responsibilities and provided a solution to the banking crisis.

Finally, two important steps still had to be taken. Firstly, in order to deal with the banking and financial crisis sharpened by Stournaras’s statements since December

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<sup>12</sup> About the state of necessity as inscribed in the 1969 Vienna Convention on the law of treaties see Vivien and Lamarque 2011.



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and by the ECB's decision on 4 February, the government should have decreed a control of capital movements in order to put an end to the flight of capital out of the country. Secondly, it should have set up a parallel payment system. Varoufakis claims that he had a concrete proposal in this respect, but he did not propose to implement it following the ECB's aggression on 4 February.

We shall comment on the alternative strategy to be followed concerning the debt and on the banking crisis further in this series.

In the evening of 4 February, after receiving a phone call from Mario Draghi confirming that the granting of normal liquidity had ceased, Varoufakis published a press release which began as follows: 'The ECB is basically trying to abide by its own rules, motivating both us and our partners to reach a political and technical agreement quickly, while keeping the Greek banks liquid' (Varoufakis 2017, chapter 7). He himself characterizes his statement as follows: 'packaging a shock as a non-event' (Varoufakis 2017, chap. 7).

On 5 February 2015, Yanis Varoufakis, accompanied by Euclid Tsakalotos, was in Berlin to meet his German counterpart, Wolfgang Schäuble,<sup>15</sup> on the one hand, and Sigmar Gabriel, Vice-Chancellor and Federal Minister for Economic Affairs and Energy within the grand coalition of Angela Merkel's CDU-CSU and the SPD, on the other hand.

Varoufakis's meeting with Schäuble began badly, as the latter refused to shake hands with him. Varoufakis made the following two points: 'First, I was not asking for a debt write-down, and I made clear that the over-all unity of my debt-swap proposals would benefit Germany as well as Greece. Second, I stressed the importance I placed on catching tax cheats and effecting reforms that would encourage entrepreneurship, creativity and probity across Greek society' (Varoufakis 2017: 211).

They finished by giving a press conference together. Schäuble, excluding any possibility of common ground, declared right away: 'We agreed to disagree' (Varoufakis 2017: 214).

After a light-hearted retort, Varoufakis adopted an ecumenical tone: '(...) I visited a European statesman for whom European unity is a lifelong project and whose work and efforts to unify Europe I have been following with great interest since the 1980s'. Among other things, he said: 'On the challenges facing the EU more generally, I suggested that we respect the established treaties and processes without crushing the delicate bud of democracy' (Varoufakis 2017: 214). How could anyone seriously think that respecting the treaties and procedures of the EU is compatible with the blossoming of the fragile bud of democracy? Indeed, throughout the book, Varoufakis demonstrates that the EU stranglehold violates Greek democracy.

On the Greek side, it was unwise to invoke the respect for the treaties as this could provide a powerful argument to European leaders to demand that they should be applied in Athens. It was something to avoid at all costs since the two Memoranda signed by Greece in 2010 and 2012 themselves amounted to international treaties.

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<sup>15</sup> Federal Minister of Finance from 28 October 2009 to 24 October 2017. Since then, he has presided the Bundestag.

## 7 FEBRUARY. FIRST MEETING OF THE COMPLETE NEW GOVERNMENT

‘On Saturday morning, 7 February, I attended our first cabinet meeting’. One imagines that he is referring to the first meeting of the complete new government, but this is not certain... merely a supposition. Whichever meeting it was, he carries on: ‘Oscar Wilde’s quip about democracy was at the back of my mind: “It is impractical and it goes against human nature. This is why it is worth carrying out”. Having wasted a few precious hours on a largely ceremonial occasion at which too many of us spoke for too long to say too little, I rushed back to my office where the Lazard team and my people were working on the three non-papers I would be taking to Brussels [author’s note: these were working papers with no official status]’ (Varoufakis 2017: 226). This is all Varoufakis tells us about that assembly. His terse comments on the government’s first meeting go a long way to revealing Varoufakis’s perception of how politics should be conducted and his disdain of, or failure to understand, the battles to be waged within a government as well as within civil society, if democracy is to be put into practice. Varoufakis confined himself, without trying to break out of it at the time and without questioning that attitude today, to the intimate inner circle that Tsipras created and to which he was summoned when the prince judged necessary.

## MONDAY 9 FEBRUARY

Varoufakis shows no real interest in the debates of the Greek Parliament. The only time he mentions them in any sort of detail is the session of Parliament held on Monday 9 and Tuesday 10 February, when he presented and defended the proposals, he intended to make at the meeting of the Eurogroup that was to take place two days later in Brussels. ‘Tomorrow I shall be telling my Eurogroup colleagues that we accept the principle of continuity between previous government undertakings and our new government’s mandate (...)’ (Varoufakis 2017: 227). This was unacceptable because of the mandate that voters had given the government in the elections of 25 January. The Thessaloniki Programme that was Syriza’s reference during the electoral campaign declared: ‘We assume responsibility and are accordingly committed to the Greek people for a National Reconstruction Plan that will replace the Memorandum as early as our first days in power, before and regardless of the negotiation outcome’ (see the box on the Thessaloniki Programme in Toussaint 2018).

If these words meant anything, it was a commitment by Tsipras as head of government to assert to the Eurogroup and everyone else that his government refused the principle of continuity regarding commitments made by previous governments as far as the Memoranda were concerned. It was not simply a question of the meaning of words, but of the effective application of a policy of change. By asserting the principle of continuity without the slightest exception, Varoufakis was enclosing negotiations in the narrow, coercive framework of application of the Memorandum. Unfortunately, this was indeed what was to happen, and in particular, because of this early renunciation of applying the programme for which Syriza had been elected to government.

Varoufakis’s reasoning, which resulted in capitulation, deserves to be read carefully: ‘The official document describing Greece’s programme, known as the Memorandum of

Understanding (MoU), was a list of reforms (austerity targets, the institutional elimination of social benefits, privatization targets, administrative and judicial changes and so on) that the previous government had agreed to as the conditions (conditionalities in Troika-speak) for receiving the second bailout loan. There was no way we would implement these conditions in full, since doing so would involve accepting massive pain for absolutely no gain, especially as more than 90% of the bailout loan had been disbursed before we were even elected. However careful study of the MoU list in 2012 had made clear to me that many of its measures could be implemented without too much social damage. Accepting these elements, which comprised about 70% of the MoU, in return for our demands, while rejecting the genuinely toxic measures of the remaining 30%, was a strategic move' (Varoufakis 2017: 228). This negotiating position amounted to abandoning the commitment of the Thessaloniki Programme to replace the Memorandum by a reconstruction plan. He says that he clearly declared to Parliament: 'As reasonable partners we shall include in our reform agenda up to 70% of the measures in the existing programme (...)' (Varoufakis 2017: 228).

Pursuing this logic of submission, he made the following announcement: 'I commit to not passing any legislation during the negotiations that derails our target for a small budget primary surplus' (Varoufakis 2017: 227). That meant that the Minister of Finance would oppose any law, however good and necessary it might be, if its impact on the budget might be to prevent the securing of a primary surplus.<sup>14</sup> In other words, the deadly dictatorship of the primary surplus would carry on regardless. This is not theoretical; it is purely practical. When Varoufakis said that, he knew that the creditors, starting with the ECB, had no intention of providing any further finance to Greece (as mentioned above, '90 % of the bailout loan had already been disbursed before we had even been elected' and Varoufakis knew that the Troika had no intention of paying the remaining 10%). Yet in the Thessaloniki Programme the possibility of realizing a primary surplus was based on the fact that the money owing to Greece would be paid (in particular the €2 billion of ECB profits on Greek bonds and the outstanding amount that the Troika was to pay Greece under the terms of the 2<sup>nd</sup> Memorandum, due to end on 28 February 2015).<sup>15</sup> Varoufakis knew that this would not happen, which meant that the money required to combat the humanitarian crisis and revive the economy would not be available unless Greece agreed to respect its previous commitments to pay off

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<sup>14</sup> Securing a primary surplus usually means compressing expenses not related to debt repayment so that receipts (income) would be higher than expenditure (outflow). So the primary surplus is calculated without taking public-debt repayments into account. Once the payments are taken into account, the budget is in deficit and new loans are required to keep going.

<sup>15</sup> The Tsipras government also hoped to be able to count on the sum of €11 billion which was the balance of the amount allocated for the recapitalization of banks and that Syriza wished to redirect towards the creation of a development bank and to reinforce the public sector. Excerpt from the Thessaloniki Programme: 'Regarding the starting capital of the intermediary organization and the cost of establishing a public development bank as well as special-purpose banks, totalling €3 billion, we will finance it from the so-called "comfort pillow" of around €11 billion of the Hellenic Financial Stability Fund, intended for the banking system' (see Toussaint 2018).

its creditors and realize a primary surplus. He was careful not to explain all this to Parliament, mostly composed of people who were not economists, but led them up the garden path as Finance ministers so often do.

In his summary of how he presented his policy to the Greek Parliament, Varoufakis never once alludes to the demand for cancellation of a greater part of public debt as enshrined in the Thessaloniki Programme. This contrasts with the speech made in the same forum by Zoe Konstantopoulou at the time of her election as Speaker of Parliament on 6 February 2015: 'Initiatives (...) will be taken to ensure that Parliament makes an essential contribution in promoting the demands for cancellation of most of the debt, the integration of clauses on growth and guarantees to stop the humanitarian crisis and come to the rescue of our people. Parliamentary diplomacy is neither purely ceremonial nor the equivalent of public relations. It is a precious tool that we need to make good use of through the President, as well as through international relations committees and friendship committees.

We need to ensure, in this way, that the case of Greece – the demand for a fair solution that will benefit our people, through the cancellation of debt and a moratorium on payments – becomes the object of energetic claims in an interparliamentary campaign. This campaign will rely on directly informing other parliaments and national assemblies, as well as those European populations who are already mobilized in solidarity with our people' (see Konstantopoulou 2015). The Speaker of the Greek Parliament was right to insist on the need to declare a moratorium on debt payments as a means of getting most of the debt cancelled. It was a condition *sine qua non* of the fulfilment of Syriza's commitments and the start of the changes the population had been promised.

## 20 FEBRUARY IN BRUSSELS: THE ROAD TO CAPITULATION

Varoufakis went to Brussels and, just before the Eurogroup meeting began, Jeroen Dijsselbloem gave him two pieces of bad news, which Varoufakis does not see as such: 1. The €11 billion of the Hellenic Financial Stability Fund (HFSF) left over after the recapitalization of banks – money that the Tsipras government had planned to use to realize part of its electoral promises – was being sent to Luxembourg instead of being placed at Greece's disposal; 2. The Memorandum was to be extended to 30 June (which suited Varoufakis).

In reality, the agreement of 20 February is the equivalent of a vassal subjecting himself to a suzerain, at the same time proclaiming himself the equal of the suzerain. Let us recall Varoufakis's words before the Hellenic Parliament just ten days before: 'If you cannot imagine walking out of a negotiation, you should never enter it. If you cannot fathom the idea of an impasse you might as well confine yourself to the role of a supplicant who implores the despot to grant him several privileges but who accepts in the final analysis whatever the despot grants' (Varoufakis 2017: 227-228).

Varoufakis reports contradictory reactions. Jeffrey Sachs congratulates him, while he is severely criticized by Manolis Glezos, a hero of the Resistance and Syriza MEP since February 2015, and the well-known composer Mikis Theodorakis – both left-

wing childhood heroes of his, as he puts it (p. 281). In a public communiqué, Manolis Glezos apologized to the Greek people for having encouraged them to vote for Syriza in January 2015.

Varoufakis explains that from 21 February, he proceeded to write the reforms that they would propose ‘as a substitute for the MoU’ to be submitted to the Eurogroup on 23 February. It is interesting to note that today, Varoufakis makes no bones about the fact that the idea was to try to amend the current Memorandum; but at the time, Tsipras and he told the population that it was a new agreement and that Greece was now no longer the prisoner of the Memorandum and the Troika, renamed ‘the institutions’.

On the evening of 23 February, Varoufakis writes, ‘Once it [the text] was submitted on Monday evening, Mario Draghi, Christine Lagarde and Pierre Moscovici would have the following morning in which to review it before the Eurogroup teleconference scheduled for Tuesday afternoon. There would be no quibbling; the three of them would pass judgement on the list of measures in turn, giving it either a green light or a red flag, with ministers having no say’ (2017: 281-282). How then could anyone claim, as Varoufakis did in public at the time, that the Troika no longer existed, and that Greece was free again? He himself acknowledges that he agreed to submit to Lagarde (IMF), Draghi (ECB) and Moscovici (European Commission) the list of proposals that the Greek government then intended to send officially to the Eurogroup.

The agreement made with the Eurogroup on 20 February 2015 states that: ‘The Greek authorities reiterate their unequivocal commitment to honour their financial obligations to all their creditors fully and timely’ and ‘commit to refrain from any rollback of measures and unilateral changes to the policies and structural reforms’. By signing it, Varoufakis and Tsipras were breaking their commitment to put an end to the Memorandum and to replace it with a programme of reconstruction. They renounced their intention to question the legitimacy of the debt and suspend payments. They were subjecting Greece to the whims and wishes of the Troika once more, for it was quite certain that the latter was not going to agree to a programme of measures enabling the government to realize its electoral promises. The agreement of 20 February was the first official document whereby Varoufakis and Tsipras abandoned the main proposals of the programme for which Syriza had been brought to government.

### **VAROUFAKIS BARELY MENTIONS THE IMPORTANT DEBATE WITHIN SYRIZA’S PARLIAMENTARY GROUP**

On the evening of 25 February and until late into the night, Syriza’s parliamentary group held a crisis meeting. In his book, Varoufakis mentions it once, very vaguely, in a single line and with no date given: ‘The grumblings of some Syriza MPs notwithstanding, the mood across the land was ebullient’ (2017: 305).<sup>16</sup>

In fact, at the meeting of Syriza MPs, about a third were opposed to the 20 February

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<sup>16</sup> The story about ‘the grumblings of some Syriza MPs’ is the official version that was taken up by certain media (*To Vima* in particular, though not *Kathimerini*). All, however, noted that the atmosphere at the meeting had been ‘dramatic’.



agreement. Among these were the President of the Hellenic Parliament, Zoe Konstantopoulou, and all the ministers and deputy ministers of the Left Platform (P. Lafazanis, N. Chountis, D. Stratoulis, C. Ysichos) as well as Nadia Valavani, Deputy Minister of Finance, and Thodoris Dritsas, Alternate Minister for Shipping and the Aegean.<sup>17</sup>

It is obvious that Varoufakis underestimated the significant opposition that was expressed very early on within Syriza's parliamentary group and among government members, not to mention Syriza's Central Committee. Later, when a vote was held at the meeting of the Central Committee on 28 February and 1<sup>st</sup> March 2015, 41% of Central Committee members opposed the agreement of 20 February. From Varoufakis's account and other sources, it is clear that the parliamentary group and government ministers who were not in the war cabinet were not kept fully informed about the negotiations. In fact, what transpired was that neither the Cabinet, nor the MPs, nor Syriza officials had been made aware of the decisions made ahead of the agreement. At best, Tsipras would give them a biased briefing afterwards.

### **TSIPRAS AND VAROUFAKIS ADVANCE TOWARDS FINAL CAPITULATION**

From the end of April 2015, under pressure from European leaders, Tsipras left Varoufakis out of the negotiations in Brussels, though not withdrawing his Minister of Finance portfolio.

Tsipras agreed to make further concessions to the Troika, involving multiple contacts and discussions. Varoufakis claims that Tsipras wrote to the Troika at the end of April 2015 signalling his agreement to achieve a primary budgetary surplus of 3.5 % per annum for the period 2018-2028. This fresh climb-down would have made ending

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<sup>17</sup> An indicative vote by a show of hands had been held towards the end of the meeting, very late at night. At that point, there were about 120 MPs present, and about 40 of them voted 'no' or indicated a 'blank' vote, which in Greece is tantamount to voting against. The six ministers concerned voted blank. A brief account of this meeting was published on 26 February 2015 on the Greek alternative press website, 'ThePressProject' in an article written by Vasiliki Siouti: 'It seems that the SYRIZA government is having a difficult time gaining support for the deal signed between Varoufakis and the Eurogroup. At a twelve hour-long meeting of the SYRIZA Parliamentary Group held on Wednesday 25th February, parliamentarians criticized the deal signed between the Greek government and the Eurogroup. The meeting culminated with an indicative vote for or against the deal. Panagiotis Lafazanis, the leader of the Left Platform and current minister for productive reconstruction and energy, requested that the votes be counted, but this was rejected. Nonetheless, with about thirty MPs having left the room when the vote took place, a third of the MPs present rejected the deal either with a 'no' or a 'blank' vote.

All deputies of the Left Platform and several others – amongst them Zoe Konstantopoulou, the President of Parliament; Nina Kasimati and others – voted 'no' or blank. Government ministers such as Panagiotis Lafazanis, Nikos Chountis, Dimitris Stratoulis, Kostas Isichos, Nadia Valavani and Thodoris Dritsas voted blank. Many of those deputies who voted blank expressed disapproval of Varoufakis's manoeuvres.

Deputies took their positions based mainly on briefings from Varoufakis and prime minister Alexis Tsipras, since they have not received full documentation of what was agreed at the Eurogroup' (New Left Project 2015).



austerity impossible as it meant further cuts in social spending and the acceleration of privatization. Yet the Troika was still not satisfied, demanding even more concessions, and no agreement was reached.

Meanwhile, the Truth Committee on Greek Public Debt, set up by the president of the Hellenic Parliament, was working hard to produce its Report and recommendations before the end of the second Memorandum, which had been extended until 30 June 2015. The plan was to present the Report in an open session of Parliament on 17 and 18 June 2015 as a contribution to discussions on the Memorandum and negotiations. The Committee's mandate was to identify the proportion of debt that could be defined as illegitimate, illegal, odious or unsustainable.

The Truth Committee was composed of 30 members, 15 from Greece and 15 from abroad, including several professors of law from universities in Great Britain, Belgium, Spain and Zambia, a former United Nations independent expert on the effects of foreign debt and respect of human rights, experts on international finance, auditors of public accounts, people who had previous experience of public debt audits, a former president of a central bank and former minister of the economy, bank specialists having acquired profound knowledge of the banking sector in the course of their careers. Of the 15 people from Greece, several had experience of the world of banking, in the domains of international finance, law, journalism and health.

The members of the Truth Committee, of which I was the scientific coordinator, agreed on definitions for terms corresponding to illegitimate, odious, illegal and unsustainable debt, and on a work method. They were divided into six working groups, of which three analysed debts claimed by the various creditors: one group audited debts claimed by the IMF, the second those claimed by the ECB and the third those by the 14 countries of the Eurozone that had granted bilateral loans in 2010. The latter also audited debts due to two organizations founded by the European Commission to make loans to Greece, the European Financial Stability Fund (EFSF) and the European Stability Mechanism (ESM) that followed it. There were three other working groups. One was to produce an analysis of the process of incurring public indebtedness before 2010. The second was to make a rigorous evaluation of the measures dictated by the Troika (and accepted by successive governments since 2010) and of their impact on the exercise of fundamental human rights. The sixth and final working group was composed of several legal experts who drew up conclusions in legal terms and made recommendations for the Greek government.

The various creditors (IMF, ECB and 14 Eurozone countries) that were represented by the Troika held more than 85 % of Greek debt in 2015.

A significant part of the Committee's work was carried out in public. The sessions took place in parliament and were broadcast live on the parliamentary channel. Over the weeks, the audience grew and grew, as the public began to turn away from the private television channels that were hostile to the Tsipras government. The public channel ERT, closed since June 2013 at the request of the Troika, only resumed broadcasting on 11 June 2015, a week before the audit Committee presented its conclusions.

The Truth Committee then proceeded to interview witnesses, and those hearings were also broadcast live on the parliamentary channel. Philippe Legrain, a former di-

rect advisor to the president of the European Commission during the First Memorandum, came from London to testify<sup>18</sup>, as did Panagiotis Roumeliotis, Greece's former representative at the IMF at the beginning of the First Memorandum<sup>19</sup>. These interviews enabled a wide public to grasp the real reasons for the intervention of the European Commission, the ECB and the IMF.

Despite our repeated requests, Yanis Varoufakis did not help the Truth Committee to carry out its mission. It is patently obvious that he was not the slightest bit interested in the Committee, as he does not mention it once in the book in which he recounts the events of 2015. He failed to understand that the Truth Committee and the conclusions it produced could be a huge aid to Greece in freeing itself from its creditors, with powerful arguments that would convince public opinion in Greece and across the world. Of course, for the Committee's proposals to be translated into action, the government members would have to publicize the challenges the Committee had faced and the work it had done. Who was better placed in the government to bring the debt audit into the limelight than the minister of finance himself?

Varoufakis's and Tsipras's refusal to mention the Truth Committee's work on the international stage was directly related to the disastrous strategy they had decided upon. They found it hard to swallow the fact that Zoe Konstantopoulou<sup>20</sup> the president of the Hellenic Parliament had given the Committee an official mandate.

As for Tsipras, his support for the Truth Committee was purely formal, and he was careful never to mention it in his public declarations abroad.

Within Syriza too, a deep malaise was developing. Nevertheless, it was difficult for party activists, even those at the top level apart from the narrow inner circle around Tsipras, to really perceive what was happening. Tsipras, who was both the leader of the party and prime minister, communicated very little with his comrades. He did not tell them of the concessions he was making to the Troika and let it be understood that he was about to take a radical shift in the position since the European leaders were not responding positively to the government's demands. He made maximum use of attacks from enemies of Syriza to ask party members to stand united and trust the government.

Yet on 24 May 2015, at a meeting of Syriza's central committee, an amendment proposed by the Left Platform criticizing government strategy and the way negotiations were going and calling for unilateral measures to effectively implement the Thessa-

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<sup>18</sup> Hearing of Philippe Legrain, former advisor to Barroso, at the Hellenic Parliament (11 June 2015): 'le gouvernement grec a tout intérêt à ne pas céder aux créanciers' (It is in the Greek government's best interests not to give in to its creditors) (CADTM 2015). Also quoted by Ozlem Onaran (2015).

<sup>19</sup> Hearing of Panagiotis Roumeliotis (15 June 2015), former representative for Greece at the IMF from March 2010 to December 2011: 'Il faut que les créanciers reconnaissent leurs responsabilités' (Creditors must acknowledge their responsibility) (Paumard 2015).

<sup>20</sup> Zoe Konstantopoulou (1976): Syriza MP from 2012 to September 2015, President of the Hellenic Parliament from February to September 2015. Set up the Committee for Truth on the Greek Debt in March 2015. Opposed the 20 February 2015 agreement and the betrayal of the 5 July 2015 referendum. In 2016, she created the party called Course on Freedom.

loniki programme, had won 44 per cent of votes<sup>21</sup>.

On 17 June, in the Hellenic Parliament, the Truth Committee presented its Preliminary Report before the president of the Hellenic Parliament, the prime minister and a dozen members of the government. It fell to me to deliver the main report and that was broadcast live on the parliamentary channel<sup>22</sup>. A dozen MPs from other countries attended. They came from France, Belgium, Germany, Spain, Argentina, Tunisia and other countries to show their support of the Committee's work and of the demand for cancellation of illegitimate debt. The Report concludes that the entire debt claimed by the Troika is illegitimate, odious, illegal and unsustainable. Tsipras, who came to greet the Committee at the beginning of the session, left without making any public declaration. The public presentation of the different parts of the Report took two whole days. The Report, just under a hundred pages long, was distributed in Greek as well as English and published straight away on the Hellenic Parliament's website. In the weeks that followed, it was translated and published in French, German, Italian, Spanish and Slovenian.

Meanwhile, on 18 June at the meeting of the Eurogroup in Brussels, the Troika put the squeeze on the Greek government. Benoît Coeuré, of the ECB, announced that Greek banks might have to close on 22 June (Dendrinou and Varvitsioti 2019: 112). Christine Lagarde, for the IMF, was also aggressive.

Confronted with the Troika, who wanted a humiliating capitulation for which Tsipras did not feel ready, he finally called a referendum. He made the decision on 26 June, after a summit held in Brussels on 25 June where once again, the presidencies of the European Commission, and the Eurogroup, the heads of government of the Eurozone, the ECB and the IMF had brought maximum pressure to bear on him.

Tsipras left Brussels on 26 June and announced that a referendum would be held on 5 July 2015. Over the following days, to all those who were waiting for Tsipras to finally take a firm stance to stop the concessions being made to the Troika, the call for a referendum seemed like a wonderful signal of renewed hope. The hope was all the stronger since the government was asking the people to say what they thought of the Troika's demands and called for them to be rejected.

This is the way that the question the Greeks were to answer was formulated: 'Do you approve of the proposal made to Greece by the European Commission, the IMF and the ECB during the Eurogroup meeting of 25 June, and composed of two parts, which constitute their unified proposal? The first document is entitled *Reforms for the Completion of the Current Program and Beyond* (2015) and the second, *Preliminary*

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<sup>21</sup> After the 20 February agreement, the Left Platform's amendments got more than 40 per cent of votes in the Central Committee, well over the 30 per cent of elected members of the Left Platform. A 'break-away' bloc had formed within Syriza including, apart from the Left Platform itself – that is, the Lafazanis tendency – and the Trotskyist organization DEA (International Workers' Left), Zoe Konstantopoulou, the former Maoists of the KOE tendency (Greek Communist Organization), a splinter-group from PASOK, and finally Manolis Glezos and Yanis Milios.

<sup>22</sup> See the video with English subtitles: Eric Toussaint's speech at the presentation du Preliminary Report of the Truth Committee on Greek Public Debt, 17 June 2015 (Toussaint 2015).

*Debt Sustainability Analysis for Greece* (2015), the possible answers were stated as 'Not approved/No' and 'Approved/Yes'.

The two documents referred to were made public by the government and could be read or downloaded on the referendum website.

This was making democracy triumph over the dictates of the creditors, no more, no less. It was late in the day, but there was still time for the government to pull itself together and push through a series of alternative measures should the people mandate the government to reject the Troika's demands.

It is not clear what Tsipras really intended in calling the referendum.

Varoufakis considers that the aim of Tsipras's inner circle (from which he excludes himself on this matter) in calling the referendum, was to get the legitimacy for capitulation. When he called the referendum, was Tsipras already thinking that the government would lose it, as Varoufakis claims? It is hard to know. Varoufakis says that Tsipras expected the 'yes' vote to carry it which would give him the legitimacy to capitulate.

One thing is certain: for Tsipras calling a referendum did not signal breaking away from the Troika. It was a tactical move aimed at regaining the initiative to get out of the deadlock and continue negotiations in better conditions.

That Varoufakis should have been convinced that the 'yes' vote would carry it shows just how disconnected he was from how the majority of Greeks felt.

The fact that the 'no' vote won without there having been a proper campaign organized by the government shows how determined a large part of the population was to resist the creditors.

As for the Troika, their reaction was violent: the ECB managed to force the government to close the banks during the week before the referendum.

On Monday 29 June, Juncker condemned the call for a referendum – an unheard-of step for a president of the European Commission – and appealed to Greeks in no uncertain terms to vote 'yes' rather than 'to commit suicide'. His words may well have been counterproductive.

On 30 June, Benoît Coeuré, Member of the Executive Board of the ECB, announced that if the Greeks voted 'no', they would almost certainly be expelled from the Eurozone, whereas if they voted 'yes', the Troika would come to Greece's rescue. François Hollande made a similar declaration.

The mainstream media in Greece all appealed for a 'yes' vote and explained that if 'no' carried it, it would lead to catastrophe.

On 3 July, people swarmed to Syntagma Square to listen to Tsipras and clamoured their fervour for the 'no' vote. Many eyewitnesses noted that Tsipras was visibly uncomfortable as the crowd applauded him heartily for his courage in facing down the creditors. He kept his speech brief.

There were far fewer people at the 'yes' rally than the 'no' one.

On 5 July, the results were unmistakable: a high rate of participation (62.5 per cent) and 61.31 per cent of 'no' votes. In the working-class areas, the 'no' vote reached 70 per cent. A poll indicated that 85 per cent of young people between 18 and 24 years

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old voted ‘no’ (Kouvelakis 2015: 148).<sup>23</sup>

The European leaders were totally nonplussed: their threats had not produced the desired effect on the Greek people.

Yet on 6 July, Tsipras met with the parties who had campaigned for the ‘yes’ vote and, within 24 hours, had drawn up with their help a position that conformed to the Troika’s demands, even though those demands had been rejected in the referendum. This was a betrayal of the people’s verdict, all the more flagrant as he had publicly sworn to respect the result of the referendum, whichever way it went.

Tsipras immediately renewed contact with Brussels and found that the European Commission and leaders of the Eurogroup, very angry with him, intended to make him pay for his insolence and to humiliate the Greek population.

Despite this, Tsipras went to Brussels to hand over the proposal that he had concocted with the ‘yes’ parties. It closely resembled the proposal rejected two days earlier by the 61.31 per cent of the Greeks who had taken part in the referendum. However, the European leaders told Tsipras that they no longer trusted him and demanded a vote in the Hellenic Parliament on the proposals which from their point of view was the only way to make them credible and the condition upon which they insisted before resuming official negotiations. Tsipras did as he was told and on 10 July, he received massive support from the Hellenic Parliament to submit his plan to the Troika once more. The three parties which had lost the referendum voted in favour of the new plan while the president of the Hellenic Parliament, six ministers and deputy ministers from the Left Platform and other Syriza MPs refused to approve it (Varoufakis was absent, having chosen to be with his daughter in his residence outside Athens). Out of 300 MPs, 251 voted in favour of the capitulation plan proposed by Tsipras. It was a full-blown crisis for Syriza.

Regarding debt, the text clearly said that there would be no reduction of the amount of Greek debt: ‘The Euro Summit stresses that nominal haircuts on the debt cannot be undertaken. The Greek authorities reiterate their unequivocal commitment to honour their financial obligations to all their creditors fully and in a timely manner.’<sup>24</sup>

The pressure brought to bear by the European leaders triggered vigorous expressions of rejection the world over. On 13 July, the hashtag #THISISACOUP was tweeted 377,000 times all around the globe.

On 15 July, Syriza’s crisis deepened. A letter signed by 109 members (out of 201) of Syriza’s central committee rejected the 13 July agreement, referring to it as a *coup d’Etat* and demanding an emergency meeting of the central committee. Nevertheless, Tsipras, as president of Syriza, did not call a meeting of the central committee until two weeks later.

On 15 and 16 July, Parliament, with the votes of New Democracy, Pasok and To Potami, but without the votes of thirty-nine Syriza MPs out of 149 (thirty-two against,

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<sup>23</sup> Note that the Communist Party (KKE) called for a blank vote, with the risk that the ‘yes’ vote would carry it. (See Kouvelakis 2015: 165).

<sup>24</sup> See the Statement of the Euro Summit at Brussels, on 12 July 2015, accessible on the Council of Europe’s official website (Euro Summit Statement 2015).



including Varoufakis, six abstentions and one absence), approved the first package of austerity measures, regarding VAT and pensions, demanded by the 13 July agreement.

On 17 July, in the wake of the 13 July agreement, the European Commission announced that they were releasing a further loan of 7 billion euros. Alexis Tsipras proceeded with a cabinet shuffle, dismissing in particular two ministers from the Left Platform, Panagiotis Lafazanis and Dimitris Stratoulis. Varoufakis had resigned on 6 July and Nadia Valavani, the deputy finance minister, on 15 July.

On 20 July, Greece repaid €3.5 billion to the European Central Bank and €2 billion to the International Monetary Fund.

On 22 and 23 July, Parliament adopted the second package of immediate measures demanded by the Troika. Among the Syriza MPs, thirty-one voted against, and five abstained. Varoufakis voted in favour.

On 14 August, the Hellenic Parliament adopted the Third Memorandum by 222 votes against sixty-four (thirty-two of which were Syriza members out of a total of 149). There were eleven abstentions (ten from Syriza).

On 20 August, Greece repaid €3.2 billion to the ECB.

Next Tsipras called for early elections on 20 September. He won because a good many Syriza voters could see no way out other than voting for Tsipras to avoid the right returning to government. They voted for the lesser evil because they knew that the right would do even worse things in terms of austerity measures. The list of Popular Unity put up by the great majority of Syriza members and MPs who had rejected the Third Memorandum did not obtain a high enough score to enter parliament (the list won 2.86 per cent while the threshold was at 3 per cent). There was not enough time for the list to be made known, and it failed to propose a credible alternative.

On 23 September, the Truth Committee for Greek Public Debt held a meeting at the Hellenic Parliament, called by Zoe Konstantopoulou, who was still the president of parliament at that point as the new cabinet had not yet been sworn in. The Committee adopted two new reports and deemed the new debt contracted through the Third Memorandum also odious.<sup>25</sup>

Three days later, on 26 September, Tsipras had Nikos Voutsis elected as president of Parliament. They decided to dissolve *ipso facto* the Truth Committee on Greek Public Debt and to remove all documents relating to its work from the parliamentary website.

## CONCLUSION

Over the two-month period following the betrayal of the people's verdict of 5 July, Tsipras put into practice an orientation which led to disaster. On several occasions, he could have taken a different turn but failed to do so. The enthusiasm that the referendum of 5 July had given rise to was intense and ended in terrible disappointment.

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<sup>25</sup> Truth Committee for Greek Public Debt, 'Illegitimacy, Illegality, Odiousness and Unsustainability of the August 2015 MoU and Loan Agreements' published 5 October 2015 (CADTM 2015b), consulted 16 September 2019. See also: 'The Third Memorandum is unsustainable just like the previous two' published 1 October 2015 (CADTM 2015c), consulted 16 September 2019.



Did Varoufakis steadfastly defend a credible alternative, as he claims? Clearly, he did not. He accompanied Tsipras and his inner circle and never publicly distanced himself while there was still time. When he resigned, he did it in terms that compound the confusion. In the public explanation of his resignation on 6 July he wrote:

Soon after the announcement of the referendum results, I was made aware of a certain preference by some Eurogroup participants, and assorted partners, for my... 'absence' from its meetings; an idea that the prime minister judged potentially helpful to him in reaching an agreement. For this reason, I am leaving the Ministry of Finance today. I consider it my duty to help Alexis Tsipras, as he sees fit, to exploit the capital that the Greek people granted us through yesterday's referendum (...) I shall fully support Prime Minister Tsipras, the new minister of finance and our government. (Varoufakis 2017: 472)

As for his Plan X, it was not until his decision to close the banks that Varoufakis discovered, as he himself declares, that the Bank of Greece disposed of a reserve of bank-notes in euros to the amount of €16 billion which, had the government chosen to, could have been put back into the circuit, for example by stamping them as a non-convertible complementary currency, and put into circulation via automatic cash machines. At this point, he confesses that he had opposed the use of this financial manna while the leader of the Left Platform was trying to persuade Tsipras to make use of it.

Fortunately, Varoufakis did add his voice to the refusal of the Third Memorandum in the night of 15 to 16 July, voting 'no' with the MPs of the Left Platform and Zoe Konstantopoulou.

There were no major spontaneous mobilizations because the majority of left-wing people who had fought mainly between 2010 and 2012 trusted Tsipras, and he never called upon the people to mobilize. As for the left-wing forces outside parliament who called for mobilization, they were too weak.

The factors which led to disaster are clearly identifiable: the refusal to confront European institutions and the Greek ruling class, the practice of secret diplomacy, repeated announcements that the negotiations would obtain good results, the refusal to take the necessary strong steps (that is, they should have suspended debt payments, controlled capital flows, taken control of the banks and cleaned them up, put a complementary currency into circulation, raise salaries and pensions, lower VAT rates on certain commodities and services, cancel illegitimate private debt), the refusal to make the rich pay, the refusal to call for national and international mobilization, and more.

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## FAKE NEWS AS A WEAPON OF PERSUASION

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**ABSTRACT:** Our study is qualitative research. It is a content analysis of more than 2,500 European and American posters of war propaganda identifying modern principles of persuasion and forms of discourse. The analysis of the themes demonstrates that the techniques used one hundred years ago to convince civilians to enlist had enormous potential for development to such a degree that they were adopted by modern political and commercial persuasion. Therefore, we can consider the propagandists of the Great War as modern spin doctors. The idea evolved after reading *Propaganda* (1928) by Edward Bernays, the nephew of Sigmund Freud. This is an astonishing book; it provides illuminating interpretations both for understanding of war propaganda – not just for the Great War – and for the commercial discourse of which Bernays became a promoting agent.

During the Great War the propagandists used emotional and rational stratagems to convince volunteers to leave to the front. Among these, the fake news played an important role in the production of the posters that served to motivate and galvanize people to defend the ideals of the war. It was an organized disinformation action because, especially for American people, the war was very far in kilometres and in interest. Fake news has two different factors: wrong or unreasonable argumentations and false information used as premises. The success of the posters was that of moulding the agenda-setting and the opinion of citizens in order to increase the enlistment to defend the identity of the nation.

**KEYWORDS:** propaganda, persuasion, manipulation, fake news

## INTRODUCTION

In *Falsehood in Wartime* (1928) Lord Ponsonby denounces the manipulative role played by the newspapers and the posters during the Great War. He lists and discusses the stratagems used by Allied Forces to sustain the war effort:

1. we do not want war, we have to defend;
2. only the enemy is responsible;
3. anyone who criticizes is a traitor;
4. the enemy is using weapons which are forbidden;
5. the enemy commits atrocities willfully, ours are involuntary errors;
6. we have few casualties, the enemy has suffered enormously;
7. war has a sacred peculiarity;
8. demonize/dehumanise the enemy;
9. the war is for a noble cause.

We can consider these statements as ‘fake news’ because we can read them in the description of every modern war. As a conclusion, Lord Ponsonby (1928: 3) declare that ‘when war is declared, truth is the first casualty’.

Actually president Woodrow Wilson justified armed intervention as the defence of American values (democracy, liberty, justice and family)<sup>1</sup>, emphasizing the fact that only the enemy is responsible. The same did the Allies and also German. For this reason, the war was only a preventive measure.

This strategy was the persuasive tactic chosen by the government in order to have the consensus and the support for its decisions. The strategy consisted in spreading insecurity through the diffusion of messages which they guided in two complementary directions: the condemnation of the threats and crimes committed by the enemy (Ponsonby Nr 5) and its consequent demonization (Ponsonby Nr 8). In spreading this fear, the government had formed the paradigm of dread, which facilitated acceptance on the part of its public of messages containing indications of how to confront the threat. What the enemy did elsewhere, could happen to you in your country, especially if you don’t do anything to repel him.

Therefore, the most important verb is ‘to defend’ (Ponsonby Nr 1): your home, your country and the defenceless part of the society. As we said, the same did the enemy. Everybody has to defend, but nobody attacks (Ponsonby Nr 2).

Years later, Hitler ordered ‘false-flag’ attacks against german targets; in this way he could sustain that his next assault would be a defensive action.

We find interesting to outline that during the Great War the politician who worried about the war was called ‘Minister of the War’, but after the war, he became the ‘Minister of the Defence’. An essential change of the perspective that ennoble this function.

According to Kahneman (2012) today, the defence of the *status quo* guide our decisions, and it is a powerful, persuasive principle. Remembering the inhumanity of the enemy towards the most vulnerable members of society and its private affection for them, was consequently a useful expedient for mass persuasion.

Reflecting on the general situation of today N. Chomsky (1988:207) wrote: ‘A con-

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<sup>1</sup> According to Cialdini (2006) this belong to the principle of scarcity.



fused and frightened public, used to believing that demons (...) are ready to take away everything they possess, are predisposed to fanatic nationalism’.

Beyond the trust they wished to infuse into the target, the propagandists hoped to obtain a consensus by means of the expression of a value, which could also have taken place by representing its opposite, and of associations shared by the culture of the spectator and his identity.

To communicate effectively, therefore, it was absolutely necessary a solid base of values, beliefs and familiar accords which could guarantee shared areas of meaning and predictability. Consequently, with reference to W. Lippmann’s ‘consensus factory’ (Lippmann 2010), culture is a filter through which messages are chosen.

The source of the message is the government and people trust in it. Denouncing a problem and suggesting the solution to liberate the listener from the task of finding one and guiding him along desired channels of interpretation is a manipulative strategy (Chomsky 1988).

We can find this stratagem in the writings and discourses of politicians and religious leaders from the first centuries a.d. until our days.

### **METHODOLOGY OF RESEARCH**

We exemplify the results of our qualitative research (Pedrini 2017) by presenting the persuasive principles (Ariely 2008, Cialdini 2006, 2016, and Kahneman 2012) which have emerged from the examination of more than 2,500 posters of the American and British propaganda, with a few examples from other countries. To collect the material, we have visited the Canadian War Museum (Ottawa), the Imperial War Museum (London), the Museum of the City of New York (New York) and the Library of Congress (Washington).

The posters have been subdivided and discussed on the basis of the various techniques and distinctive themes of persuasion, of the theory of decision-making and of social psychology. Thus we have found out a persuasive strategy of the posters.

### **RESULTS OF RESEARCH**

We firmly think that the use of fake news has been a convincing argumentation, a robust method of persuasion. We have found out that the more significant part of the posters was depicted with the same social techniques that are used today in the construction of advertising messages and political discourses. In other words, we can say that today we sell products with the same techniques used by the propagandists to sell the Great War. Communication techniques are scientifically the same, meekly obeying the universal laws of persuasion, with no difference whatsoever. War propaganda used a simple and accessible tool: billboards which once were the real mass media. However popular sub-consciousness has been subjected to tools namely satire, parody, humour and fear – therefore, emotion and rationality – to line-up the parties (male for drafting, women on the homefront and investors focused on bonds) for the required reaction. The thorny issue of communication ethics arose even when TV didn’t still

exist.

## DISCUSSION

During the Great War the government of all combatant nations presented public arguments for patriotic behaviour to legitimate the war with the medium of billboards. At a general level, all nations shared a common strategy in the use of posters because all the government recognized that they communicate essential information rapidly and efficiently!

Billboards were the voice of the government will and therefore represented the authority<sup>2</sup>, also known with the name 'experts heuristic' (Kahneman 2012).

According to Aristotle (1999: 43) sources facilitating the persuasiveness of messages are highly regarded, worthy of confidence, authoritative, believable, expert (competent, professionally successful), honest and trustworthy.

Through the use of authoritative figures, Propaganda illustrates behavioural models to adopt and suggests words to employ when thinking of and to describe the enemy or interpreting its actions. Authority is also confirmed by means of phrases taken from speeches by influential political figures or literary quotations. A billboard repeats Shakespeare's verse of Macbeth: 'Stand not upon the order of your going. However, go at once. Enlist now'.

With a considerable advance on the modern advertising theory, every nation agreed that images were stronger than words and that it was the most crucial medium for the construction of a pictorial rhetoric of national identities.

Both British and American soldiers were idealized and described as courageous, cordial, good-looking<sup>3</sup>, happy to serve their country and to celebrate the successes obtained in the name of civilization.

The use of pictures of good, happy soldiers is a way of re-enforcing national group identity and of tranquillizing parents who stay at home waiting for news coming from the front (Ponsonby Nr 6). Nevertheless, it was also a way to motivate people to leave to the front.

For this winning goal, propagandists suggested a lot of personalized promises and benefits like to learn a trade, to have an education, to earn, to have success, to travel around the world for free (the text of two magnificent and eloquent billboards say: 'See the World. And you get paid for it'; 'You cannot be a Man of the World unless you see the World. Join the Army and travel round the World for nothing'), and to stir up admiration in your country.

The text of billboards incited the pride telling that you will be 'Honored and Respected by all. Enlist for the Infantry – or in one of the other 12 branches'.

But the main 'reason why' (Reeves 1960) is that leaving is a significant value and in-

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<sup>2</sup> According to Cialdini (2006) authority is also a principle of persuasion.

<sup>3</sup> This observation connects us to the words of Aristotle (1999: 55): 'The soul is like the form of the body'.

It goes without saying that, for Hitler (2000: 41), the Jewish physiognomy was rather far from his aesthetic tastes to the point that he complained because 'thousands of girls have fallen in love with repulsive Jewish bastards with crooked legs'.

vestment for your future, 'A wonderful Opportunity for you', as a billboard concludes. 'Opportunity' is a very diffused word. Theirs was the struggle of good against bad. It was a 'mission of peace', as today we are used to say.

Combatting became a mission of civilization (Ponsonby Nr 9) to 'make the world safe', or to 'keep the world safe for Democracy', or to 'make the world a decent place to live in' as different slogans of the allies' billboards say.

The Americans used the weapon of fear<sup>4</sup> in many posters to emphasize the difference between their civil way of fighting and the barbarous deeds of the enemy and to motivate everyone to join their mission of civilization and the diffusion of democracy.

As the text of an American billboard summarizes, the war is needed 'For the safety of Womanhood, for the Protection of Childhood, for the Honor of Manhood and for Liberty throughout the World. Help till it hurts'.

The real war was between two different vision of the problem: the german 'Kultur' (a word that is always written in german), that commit every kind of atrocity (as a British poster report: 'It's more serious than you think. The barbarian is almost at your gates. He violates, plunders, murders. Don't let him get a footing on British soil') and the 'humanity' of the Allies, that first of all protect the undefended, the weakest part of the society, help them to run away and want to stop the german cruelty and to repel its invasion (Ponsonby Nr 5).

As Pratkanis and Aronson recall (1992: 177) in 1932, Hitler incited his followers with words meant to alarm them with the strategy of fear:

There is confusion in the street. The Universities are full of rebellious students in revolt. The communists are trying to destroy the country. Russia is threatening us with its power, and the republic is in danger. Yes, in danger from within and from without. We need law and order! Without these, a country cannot survive.

The stories of atrocities committed by enemies are an essential element of every war propaganda, even of the modern one. There is a broad distribution of narratives describing German as barbaric and militaristic; his leader as a demoniac despot (because it has always been more natural to hate a person than people) and his army a blood-thirsty rapist and a direct threat to the civil ideals.

All these billboards would have successfully played on the emotions of the time. All these billboards would have played an essential role in defining identity<sup>5</sup>. Furthermore, having an obstacle by which to measure the values of civil people.

Therefore it is essential to have an enemy, and if he does not exist, governments must create him in order to perceive themselves as a close and reliable group!<sup>6</sup>

The slogan of an American billboard says: 'Are you 100% American? Prove it! Buy U.S. Government Bonds'. Now you have to demonstrate your attachment to the nation and the government tell you how. Even a British billboard, titled 'The real Irish spirit', shows a civilian stopping a soldier and telling him 'I'll go too!' with enthusiasm. The

<sup>4</sup> According to the principles of Cialdini (2006), we can see this as the principle of scarcity.

<sup>5</sup> According to Cialdini (2016), identity is a principle of persuasion.

<sup>6</sup> According to Cialdini (2006), this belong to the principle of social proof.

text of another one tells that 'Britons have never failed in their duty. And never will. Enlist for the defence of your homes and country'.

Mainly Goebbels and Hitler regarded the Program of Information of the American Government during the Great War as a model from which they took the inspiration for building their own information industry.

They exploited this expedience to build a solid German identity representing a worrisome Jewish and communist threat, and emphasizing a common Aryan heritage, they justified the cruelties to be perpetrated against the enemy.

The enlistment is a natural action if you love your fatherland and you recognize you as an enviable patriot. Billboards showed the correct and desired attitude and behaviour.

Even if you didn't leave to the front and you decided to stay home, it was by looking at posters that citizens learned to see themselves as members of the Home Front. Women took posters as evidence that their contribution to the war effort was essential. They were proud to be the second line of the army, but without weapons. Many billboards praised them for the work, and this was indeed a new attitude towards the women, exploiting the principle of reciprocity: 'On her their lives (of the soldiers) depend', 'These women are doing their bit. Learn to make munition', 'The spirit of women-power', 'The kitchen is the key to victory', 'She is doing her part to win the war', etc.

The Home Front is trained to link its individual strength to the national interest. Women are valued, and their patriotic fervour is aroused: 'your work is a form of military service': there are regulations to respect and orders to follow: enlistment is mandatory!

Women are also urged to the persuasive goal of convincing men to enlist. Posters reach out to male viewers through the gendered rhetoric of shame with the clear message: enlist now, before you suffer the shame of being dragged to the recruiting office by a more patriotic female relation.

Without the consent and material support of the Home Front, combatant nations would not have been able to sustain the enormous losses of the war.

But a group has not the same psychological characteristics as an individual and is therefore motivated by impulses, habits and emotions.

Some years later after the end of the war Edward Bernays (1928: 72) perceived by intuition that the public is like 'a flock that needs to be guided' and that this renders people 'well disposed towards the ruling class'. Therefore, it is necessary to tell them what to think because, by themselves, they are not capable of doing so rationally.

As Thaler and Sunstein (2008) demonstrate, this principle is still valid, and even today, it is necessary to give people some datum-point to orient the compass of their attitude and behaviour.

Incidentally, we should mention that even Hitler, too, many years later was convinced that his action against 'the abuses and vile practices that the Jews committed every day' against the German public was a 'duty of civilization' to conserve 'Aryan man' (2000: 96).

Precisely this takes still place when the army of a nation with a lifestyle comparable to ours decides to fight against one with different conceptions of civility, freedom and

justice: for example, the wars in Korea (1950), Vietnam (1965), Kuwait and Iraq (1991), Libya and Syria, etc.

We could recall that in 2003 the English Prime Minister T. Blair succeeded in manufacturing an accusation against S. Hussein, which accused him of being in possession of weapons of mass destruction (Ponsonby Nr 4).

Even during the Great War, the opposing parties swapped the reciprocal accuse of using the prohibited gas. As we said above, the propaganda follows a manipulative strategy in denouncing Germany as the cause of all the problems and in suggesting the enlistment as the unique solution.

The definition of the enemy has arrived at by means of the creation of stereotypes or heuristic of representativeness (Kahneman 2012), a technique whose purpose is to arouse public prejudice, labelling the other as individuals that people fear, hate and avoid.

It is one of the primary mechanisms by which reality becomes finally easy to confront: it is a mental short cut, useful for rapid recognition, which seeks the help of generalization and therefore of stereotypes. Actually, the fact that one event seems more typical than another does not make it more probable.

The creation of stereotypes proved to be the fundament of every propaganda effort whose ultimate goal was that of generating the perception that our actions were ethical, whereas those of the enemy were not.

The creation of stereotypes is also the essence of every modern advertising campaign through which designers enhance a characteristic of a product as a plus, so that in the minds of consumers it becomes an essential point of reference and in this way our analysis of a product reduces itself to a quick confirmation of stereotypes with which it has been inculcated.

All of this closely resembles the primacy effect (Kahneman 2012) or the tendency of first impressions to assume a greater significance and to provide a pattern according to which successive information is interpreted. Thus, our perception of events always depends on what we have in our minds (Ariely 2008).

George Creel, the founder and chief of the Committee of Public Information (1917-1919) – the laboratory of modern propaganda formed by intellectuals, war ministers, journalists and advertisers – wrote (2012: 23) that during the Great War propaganda was ‘the world greatest adventure in advertising (...) a vast enterprise in salesmanship’.

In fact, both reveal problems and offer solutions; they are used to obtain approval and to create expectations with the goal to control the actions of influencing attitudes. To join this aim, they both often use the strategy of distraction, thank to which facts are presented selectively, any information is omitted, and you can use euphemism if that helps you to create a persuasive message and ‘to convince of the goodness of an ideal’ (Hitler 2000: 36).

Propaganda and advertising also insist on details that evoke emotional responses. For the modern time Chomsky (2002: 47) consider that propaganda is an essential component in the entire political process and writes that ‘Democratic systems must control what people do and think because in a democracy the politically active segments of the population, the most educated and privileged, have to be kept under



control’.

Posters referring to religion (Ponsonby Nr 7) were also exhibited, and even Woodrow Wilson’s Declaration of War concludes with the words ‘God helping her, she can do no other’.

An Irish billboard shows a farmer who has a vision of St. Patrick during his work and the slogan asks: ‘Can you longer resist the Call?’, where the term ‘Call’ is written with capital letter, and so you can’t distinguish if the author of the question is the propagandist (or the government) or St. Patrick himself, who reflect the divine Will. In this way, you confuse the origin of the war, and you make an excellent appeal to the numerous believers.

The message of this kind of billboards had a didactic function in that it suggested appropriate behaviour to the public and indicated what the nation, but overall the government, expected of him.<sup>7</sup> For this reason, soldiers were called and portrayed as crusaders fighting against evil and contributing to the diffusion of democracy and American values in the world (Creel 2012).

As Morelli (2010: 119) wrote, the Allied cause took on a sacred character referred by President T. Woodrow Wilson in a second address to gain public approval<sup>8</sup>: ‘This was a war for democracy, a war to finish all wars, a war to protect liberalism, a war to free barbarous Europe, a crusade’.

By the way, in September 1919 only, he admitted that ‘We all know that this was a commercial war’. This topic also appeared in French and British propaganda. The infidel was the other, the unknown, and therefore the Hun, which was a further motive to combat him. Enemy is the devil, a monster different from us in everything (even physically) and in his way of life. Many slogans suggest you ‘Halt the Hun’ or ‘Beat back the Hun’, denouncing that ‘Germans are Barbarian’ and therefore you have to ‘Destroy this mad Brute’.

Enemy is someone who is different from us, he has different habits from ours (he is overall a Hun), and his diversity means a real threat to our civil life.

The British humour coined the neologism ‘Germ-Hun’ joking on the alliteration with ‘German’. To convince the public to defend the borders and freedom of the homeland, neutral Switzerland also diffused by postcards, and not by billboards, a national poem which last verse was ‘Mit uns Gott’ (God is with us). Similarly, together with the swastika, years later the Nazi logo likewise expressed ‘Gott mit uns’.

Regarding our times, Bush invaded Iraq using the invocation ‘God bless America’, while the ISIS movement is presented as a divine mission to be fulfilled in the name of a prophecy. We need only think of the ample use of fear on the part of ISIS, maintaining that everyone is free to kill infidels ‘until you eliminate from the world human life which does not respect Allah’ (Erelle 2015: 88).

Returning to the Great War we have to say that also the words used to form the slogans are often borrowed from the religion: ‘They crucify American Manhood’; ‘Your sons are fighting for you. Sacrifice to help them win. Buy Liberty Bonds’; even children

<sup>7</sup> According to Cialdini (2006), this belongs to the principle of social proof.

<sup>8</sup> According to Cialdini (2006) this belongs to the principle of liking.



are invited to make 'An Heroic Sacrifice' and to avoid eating cookies and ice-creams in order to save sugar.

The success of the persuasive strategy used to create billboards is evident: at the outbreak of the war the British Army numbered of 450,000 men, but in six months, between August 1914 and January 1915, 30,000 people were leaving for the front every day. At the end of the year 1915 they were 5 million strong, half of these enlisted in only 16 months when the enlistment was not obligatory yet.

On the American side, the army numbered no more than 200,000 men at first, but in the end, after 20 months of the war, it was composed of more than 4 million people. The 'Liberty Loan' campaign also helped involve ordinary citizens in the war effort. Parents are willing to grasp onto anything that can give them an ounce of hope and make them feel as if they are contributing as much as they can to bringing their son home safe. It makes them feel like they are at least a tiny bit in control.

The final aim is to guilt people into buying loans, and the success of the outcome is stupefying: nearly one-third of the entire American population purchased at least 1 'Liberty Loan' or 'Government Bond' or, in Australia, 'Peace Bond', in favour of the army. In this way, two-thirds of the total cost of the war has been covered.

To encourage people to giving money to the army, the propagandists used the ancient persuasive principle of reciprocity. Many posters show soldiers looking for visual contact with the viewer and telling 'We are fighting for you' or 'We are on the top for you' with the question 'What are you doing for us?' that remains implied.

Some billboards take their inspiration from the fear strategy and warn: 'German Slavery or Liberty Bonds'. Other billboards show a happy and satisfied soldier with a warm coffee on the one hand and a sandwich in the other hand. An off-screen voice comments: 'If you only knew! – how much joy your dollars bring "Over there" you'd give and give and give!!!'.

The 'War Saving Certificates' paid a good interest on the loan, and therefore it was desirable to buy them because, as the slogan of a billboard remember: 'Old age must come'. Sure life insurance.

According to Robin Dickinson, after the war, the psychological methods are utilized to shift the critical function of the consumer from the product to himself. The advertiser has to awaken feelings of guilt and fear; insist on the fact that respectable people do not live as he does. The reference to fear becomes fundamental, and the mission is to 'make him aware of the size of the pores on his nose or of his bad breath' (Dickinson 1937: 73). In 1937 the director of an advertising agency in New York urged his colleagues to put 'A bit of fear into their advertising... fear of being shabby women, of being unsuccessful men' (1937: 84).

The fundamental principles used in the recent past are a useful and instructive instrument to understand modern persuasion and time.

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## CONCLUSIONS

The content of the Ponsonby' list exist, with different priorities, in the description of every modern conflict (Morelli 2010), and continues to be regarded as real. Chomsky describes it (2002: 208) as 'the fundamental doctrine according to which the State is of itself good and guided by the noblest intentions, only trying to defend itself and does not figure as an active subject in world affairs but simply reacts to the crimes of others, at times imprudently because of its own naivety, the complexity of history or its incapacity to understand the evilness of the enemy'.

In re-reading the Great War posters according to the principles of modern persuasion, we have provided an interpretation of them and a useful organization in defining the strategy of the propagandists. We have implicitly demonstrated how these modern principles were anticipated by them one hundred years ago to obtain public consensus, modifying and controlling public opinion.

In particular, at first, the goal is to cultivate a positive tie, and therefore reciprocity and liking are suitable. Then, people want to see if it is worth it, and the priority becomes the reduction of uncertainty with authority and social proof. Lastly, with the principle of scarcity and consistency, a reason for action is stated.

The nucleus of the strategy to manipulate the enemy has always been the war of information<sup>9</sup> to gain an internal consensus and conquer enemy territory without fighting. The success of the subjects and the effectiveness of the persuasive techniques used to create poster campaigns which were carried out to induce agreement and modify attitudes was incontestable.

Understanding what propaganda is and the mechanism that it uses is an essential task for understanding modern time. Today we can find the same principles of persuasion in political discourses and commercial advertising.

Immediately after the Great War, psychological methods were increasingly employed by advertisers to shift the critical functions of consumers from the product to themselves. What they wanted was to awaken sentiments of guilt and fear by insisting on the fact that respectable people did not live as they did.

Products became the solution to psychological complexes because they lent personality and status to purchasers, allowing them to feel at peace with themselves and giving them the illusion of finding aspects of themselves in the objects they acquired. Products mirrored their history.

We must also take into consideration the discourse of politicians, insurance agents and doctors who show their interlocutors potential problems while offering in advance plans of action, contracts or products as solutions. Marketing strategists know that they attract more customers if they stress risk and fear, exploiting this by selling products which promise security and personal safety, thus rendering the uncertainty of the future less problematic.

This is a market which is growing exponentially and which is ignored neither by

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<sup>9</sup> In 1917 Lord Beaverbrook, owner of the Daily Express, commented that propaganda was the popular weapon of diplomacy in which 'the munitions of the mind became not less vital for victory than fleets or armies' (Welch 2013: 86).

political posters during electoral campaigns, in which it functions as an important resource for winning a consensus, nor by the mass media which offer a view of the world which is presented as very dangerous and threatening in order to have more listeners and viewers.

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## FAKE NEWS AND THE RITUALISATION OF THE SELF

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**ABSTRACT:** Two hundred years have passed since the question of subjectivity (re-interpreted through Kierkegaard's existentialism) became central in modern philosophy. Over these two centuries, multiple theories addressed and questioned the borders between authentic subjectivity and an internalized panopticon of the hegemonic views that dominate the subject. Nevertheless, they still have to be definitively defined. As we may try to point Fake News (FN) is an opponent to subjectivity, and yet it comes from the subject. FN is the intentional spreading through new technologies of false information on a global level by subjects that use social media, a process influencing not only the sense of socio-political reality but also the concept of identity. Identities (personal or collective) are in general the combination of the socially determined understanding of 'who I am' and the socially and psychologically influenced 'mental model' of 'what the world - and the self within it - should be', all expressed and produced under the fundamental influence of our idiosyncratic characteristics.

One of the fields that all these factors meet and interact is the new mediated environment where almost everyone can participate and contribute. According to the Sociology of Communication as founded by Giddens, Habermas and Luckmann (Leydesdorff 2000) this makes the public part of our identity the dominant one, creating a ritual in which our narcissistic elements dominate our private ones. The Self, addressing itself into the public like an echo and back to the Self, becomes ritualized. In our paper, we explore the interrelation of this phenomenon with the creation and distribution of Fake News, from the vantage point of Kierkegaard's existential philosophy. **KEYWORDS:** personal identity, socio-political identity, mediated identity, folklore, rituals, situated knowledge, discourse, narrative, existentialism, Kierkegaard

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## INTRODUCTION

We live in an era of blistering changes that transform our perceptions of the world and its fundamental institutions profoundly. Moreover, they also change our concept of the Self and its fundamental functions. Identities, being in constant interaction with the sense of socio-political reality and influencing the directions that both the self and the world might take, become mediated, or else formed (to a certain extent) by the symbolic use of data that happens massively in the media. Nevertheless, to quote Fornas and Xynaris (2013: 11): ‘a discussion of how identity formation issues links to the concept of new media literacies, forms a transition to three sections that in turn analyse the social trends, the policy trends and the scientific trends that may be discerned in this area’. In other words, the common question set here is: What is the exact relationship - and its dynamics - between our distant selves and a reality that becomes less and less concrete?

In that sense, a symposium about Fake News in accordance to Kierkegaard’s philosophy, a philosophy that dared to set the comparison between concrete human reality and ‘distant’ abstract thinking based on individual, subjective choices, is of considerable significance and relevance with today’s social needs and scientific trends. Communication, after all, was never perceived as wholly separated from philosophy. On the contrary, it was seen primarily as a social, psychological, possibly also a philosophical, term (Silverstone 2005). As it happens, in this new context, communication becomes a ‘communicative event’ in which the broader ideas, views, taken for granted assumptions, meanings, and most of all ‘ideal selves’ are part of a mediated identity and in particular contexts of use.

## RESEARCH METHODOLOGY

This paper combines content analysis (i.e., studying documents) and triangulation (i.e., navigating texts and ideas) in order to explore the interrelations between this Ritualized Self and the Need for Fake News to be created and spread. It examines the concepts and propositions of Kierkegaard’s texts, and specifically *Concluding Unscientific Postscript*, because *Climacus*, i.e., Kierkegaard’s alter ego, explores and focuses on the notion of ‘truth’ in relation to ‘reality’ and ‘subjectivity’. Assuming that Fake News as a phenomenon stands at the threshold of these notions, the analysis proceeds to break down some of *Climacus* thoughts into their constituent parts and partly comparing them with the constituent parts of the Fake News analysis. Kierkegaard’s philosophical ideas are then utilised to gain knowledge about the subjective understanding of reality, the manipulation that may occur because of it, and the need to invent or reinvent it according to the neotribe we want to belong. Both may shed creative light into the philosophical issues in which the concept of Fake News is involved (Beaney 2003).



## RESEARCH RESULTS

The analysis leads to the conclusion that ‘while in the traditional societies the social cohesion was constructed using the *Unheimlich* as an enemy, which led to the Ideal National (aka Collective) Self, in neoliberal societies of post-modernity the new *Unheimlich* is critical thinking and alas reality itself. The bitter irony, so close to Kierkegaard’s critique to the press of his era, is that critical thinking led to a notion of pedagogy which identified the educational praxis with the creation not of a full mind (meaning full of information) but of an open mind, meaning able to absorb news ideas and emotions. Nevertheless, the *open* social space of contemporarily, linked with the *sociological imagination*, might lead to an ambiguous future of information, where our more personal space might be manipulative and under manipulation. Manipulated first by ourselves and then by the convincing *others*’.

## DISCUSSION

As mentioned before, we live in an era where rapid changes impact society, economy and communication, challenging not only the ways we used to define our personal and collective ‘Self’ and the ‘Other’ but also their public manifestations. Interacting with our subculture and idiosyncrasy, the traditional groups or formations that used to firmly mould our worldview and identity, such as the Nation-State and the Church, or class and gender, seem to withdraw and new formations, like social media and their new tribes, to evolve, challenging our notion of locality and identity.

‘Far from identity disappearing in contemporary society, it is rather reconstructed and redefined’ wrote Douglas Kellner (Bauman 1992: 18), pointing out that ‘identity today becomes a freely chosen game, a theatrical presentation of the self’ and that ‘when one radically shifts identity at will, one might lose control’. It seems a hegemonic shift to evolve, from the stable, dominant forms that the ‘great narratives’ (Lyotard 1984) used in order to establish the power relations, to a complex network of cultural micro powers that our narratives use in order to recreate a sense of ‘a self’ or a ‘reality’, in a multi-segmented world that everything might be assimilations. Including news and ‘truths’. ‘Fake News’ and ‘fake truths’ created by any ‘anon’ in Facebook or any institution or political force in this vast network of micro powers. A vast, global network spread among us like the ‘bugs’ of the Empire of the Self of the abandoned, isolated and yet having the false believe of being in the centre of it all individual, to quote Cristopher Star (2012) and his question of how political reality affects the concepts of body, soul, and self.

### A PIONEER OF THE MEDIATED IDENTITY OR A REBEL OF AN EVOLVING INNER INDEPENDENCE?

Kierkegaard dared to ask how the interrelation between reality and the self, objectivity and subjectivity, between the choice of faith or the lack of it, affects the concepts of body, soul, and self. In an era where religion was the ultimate source of any legitimate worldview’s construction, Kierkegaard is well known for claiming that in

religious matters 'truth is subjectivity'. 'Objectively there is no truth' claims Johannes Climacus, (Kierkegaard 1992: 224) his alter ego, in *Concluding Unscientific Postscript*. By claiming that 'an objective knowledge about the truth does not exist' Climacus challenged any 'ultimate source' from which the one and only truth derives, and he brought in the mainstream the social subject as the only real responsible for seeking his or her truth.

Kierkegaard expelled the social subject into a chaotic environment of no solid worldview, of no solid identity, of not a unique logical 'reality'. This environment seems so similar to the chaotic mediated world of the modern social subject where there are no stable ideas, 'truths', or solid groups to construct our identity. In other words, in chaos were 'you', as a person, from the complicated 'ocean' of controversial information, should decide what to believe or not.

Nevertheless, does this mean that Kierkegaard was an ancestor of the Fake News mentality? Was he a pioneer of the multiple forms of 'reality' and the excuses we make for it, where 'Truth', (named as God or Paradise or Social Justice or actual Personal happiness or Professional success under the influence of various narratives that mark humanity since Moses and Odysseus), the monomyth that humanity never cease to search in order to complete itself, stops to exist and no one cares to proceed into a quest for it?

Climacus says: 'The way the objective truth goes away from the subject, and while the subject and subjectivity become indifferent, the truth becomes indifferent, and that is precisely its objective validity, because the interest, just like the decision is subjectivity' (Kierkegaard 1992: 193). Moreover, with this simple line Kierkegaard separates philosophy or even faith, from one-dimensional perspectives of absolute truth and the monocultural totalitarian beliefs or 'goals' (never completely innocent) that go along with them and he – along with other great minds – constructs the foundation stone of the modern, contradictions and evolving in his/her identity, social subject.

Let us consider, having as a given the various differentiation from one era to the other if these characteristics describe the general context of modern mediated environments in their most reliable form. In other words, if Climacus seems to introduce the subject, from a keyhole, to the historical future, or in fact to the reasons why persons and societies need to create and use Fake News.

### **IS FAKE NEWS BASED ON SUBJECTIVITY OR THE LACK OF IT?**

For Climacus, the very notion of faith would make no sense if based on proof. As Kierkegaard wrote: 'Without risk, there is no faith. Faith is the contradiction between the infinite passion of inwardness and objective uncertainty. If I am able to apprehend God objectively, I do not have faith; but because I cannot do this, I must have faith' (Kierkegaard 1992: 204). In other words, God is interested in many things but one. To 'empirically manifest' Itself. Furthermore, Man, according to Climacus, is able for many things, too. Nevertheless, one of the things he or she cannot do is to realise God empirically.

Of course, Kierkegaard, aka Climacus, addresses the concept of faith and implies

that faith is not related to evidence or proof. There is no 'objective' faith (a daring thing to say even in his era), on the contrary faith is based on 'existential' needs, on personal interests, on an objective understanding of realities.

It is akin to claiming that the choices upon which the faith is based, or absence thereof, became a nickname for autobiographical narrations that challenge faith as a constructed worldview. It would then also turn into the significant mark of our personal rationality toward the Self and the World and its generalized irrationality.

In other words, its relativism has nothing to do with irrationality in the first place. Of course, seeking safety and comfort, we tend to excuse irrational attitudes related to our personal or collective self, choosing to be blind or arrogant with our actions and the motives beneath them. Nevertheless, there seems to be a very moral, or at least understandable, quest under the need or the choice of faith. The need to bring order into chaos, justice in the explanation of pain, cause in the eternal vanity. In other words, Truth. Faith, as a personal narrative, as an existential need, has a therapeutic ethos easing the given dystopias, not creating new ones in the name of actual profit.

Here lies a significant difference as well as an essential similarity with today's Fake News: both religious faith and Fake News, aka mediated faith, are based on an arbitrary decision that aims to ease the cognitive and sentimental conflict between the self and reality. From the ocean of information, one chooses to believe those who comfort them and reassures their worldview or ideology. Nevertheless, concerning faith, what Climacus means by *objective uncertainty* 'is not, *empirical* uncertainty, but rather the kind of uncertainty that accrues to making *certain existential* choices' (Schönbaumsfeld 2010: 133).

Kierkegaard separates faith from objectivity, not from Reality. He does not involve the latter; neither tries to manipulate it. He respectfully lets it be. This would be a crucial point if we wanted to realise the similarities and dissimilarities between Climacus subjectivity and Fake News.

Because the later abandon subjectivity and claim for themselves the objective truth at the expense of one's mind, regardless if they distort reality according to their new tribe's interests or sentimental investments. Were Climacus, aka Kierkegaard, expresses the need to construct a social subject able to choose to believe or not, Fake News aim to deconstruct any kind of a substantial social subject and replace it with a manipulated and yet manipulative member of a new tribalistic perception that, to a certain degree and in many cases, erase society and critical thinking imposing fakery as truth.

### **FAKE NEWS, THE NOTION OF SUBJECTIVITY AND NEOTRIBALISM**

According to social psychology, any significant change in societal or psychological level that causes difficulties creates intense anxiety and the need to negotiate the 'old' and the 'new' in order to adjust in the new reality (Bauman 1992).

The power of fear and the need for happiness are equal (Adorno 2017: 223) the inevitable contradictions of the human condition. Trauma reflects both, transforming each other in a constant dialogue, that mediates the various expressions of our socio-psychological transformations.

The significant transitions that societies face globally carry a variety of changing functions in the societal financial and cultural field. Those functions, never wholly liberated from the hegemonic discourses, are at the same time associated with the acceptance or the disapproval of reality, the other and the self-inside its realm. Such acceptance or disapproval underlie the socio-psychological strategies groups create in order to adjust to an evolving world.

As it has already been pointed out, one of these strategies, aiming to eliminate the growing anxiety of our chaotic actual and virtual world, is people to seek safety and confirmation of their identity (this combination of self and world view) inside of neo tribes. In other words, in the effort to adjust our self in this new brave world<sup>1</sup>. The selection is performed among multiple pieces of information what creates less cognitive and emotional conflict, what challenges least likely the narcissistic perception of our self and our ideological ethical or practical choices. This selectivity, this subjectivity, is hidden under 'rational' or 'ethical' criteria that domesticate the mediated perceptions of the world. It is in a sense a transfer of the old Self and the convenient World we used to know, or we aimed to live into the multi-cultural field of the complicated socio-political realities, using selective criteria of a 'proper' reality.

#### **HOWEVER, IS THIS SUBJECTIVITY RELATED TO KIERKEGAARD'S SUBJECTIVITY?**

Sociologist Michel Maffesoli was perhaps the first to argue in a scholarly context that individuals have the growing urge to live in tribal communities, as opposed to mass society, and thus will naturally form social networks constituting new tribes. Although Maffesoli meant it as an evolution in the actual social field, new, constantly evolving technologies gave it a new dynamic and perspective. Ulrich Beck (1992) argued about how the technological risks function in the context of the so-called second modernity, in order to expose their implications in terms of new forms of reflexivity in complex societies and evolving selves.

A Self never wholly liberated from the 'naturalization processes' and the hegemonic forces, the gatekeepers of this new mediated world. Because no matter if the world seems multi fragmented in isolated selves, interacting with each other through their PCs, still 'identities in an era of postcolonialism, neoliberalism, and transnational media, promote the cultivation of a *global proletariat* in the context of the complex, vibrant, and hybridized cultures that crosscut the globe' (Durham 2009: 27; McMillin 2009).

Nevertheless, since these beliefs frequently involve cases of false ideology and inner impositions of naturalised hegemonic views, this antithesis is a contradiction that makes people think for themselves something that might very well be (or is, in fact) an imposition of hegemonic forces. The manipulation they exercise upon our individual needs is proven faith's most significant, most controversial and most dominant characteristic.

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<sup>1</sup> Shakespeare, W. 2013, *The Tempest*, Cambridge University Press. This quote is also used in Arthur Huxley's book challenging a dystopian future were mass media will be broadly used for manipulation.

The involvement in treatises and the choice to believe into Fake News without second thoughts, without the responsibility to search and proceed critically, reveals a therapeutic function, that tries to solve in the field of representations what is unsolved, or not easily solved, in the field of reality — leading to the question whether there is any similarity to the criteria we use to believe God?

Climacus believes that it is impossible for any, existing being to apprehend truth from the point of eternity (*sub specie aeterni*) All paganism consists in this, that God is related directly to a human being, ‘as the remarkably striking to the amazed’ (Kierkegaard 1992: 245). This is not irrelevant to the modern paganism of media and (since we learn through what consists our being), the notion of existence during a specific period and its context within a certain life.

In both cases, paganism objects against inwardness and inwardness is the crucial notion to differentiate Kierkegaard’s existential subjectivity from the socially determined subjectivity of social media. Actually, what Climacus calls the ‘absolute paradox’ is the last thing that separates existential inward faith according to Kierkegaard’s philosophy from the mediated faith of fake news and their hegemonic, yet, personal, normativity. The Absolute Paradox does not address itself as an issue from an ‘objective’ point of view. It does not claim that it represents the naturalized language of the collective society, although services particular interests. Its pure form, which consists its only ‘real’ form, is not involved in any institution although those can easily manipulate it. ‘When Climacus, therefore, speaks of the paradox as *absolute*, what he means is that only an existential (*subjective*) response to the question is possible’ (Schönbaumsfeld 2010:132) Kierkegaard’s subjectivity is open despite it addresses itself into a dogma. Fake news subjectivity is closed although it addresses itself into a superficial pluralism of postmodernity.

### **THE SELF IN THE FAKE NEWS ERA: A VIRTUAL RITUALISATION IN PROCESS**

Where all these evolutions lead the concept of the Self? In reality, whereas the self-sustaining subject at the centre of post-Cartesian western philosophy has been comprehensively advanced, the endlessly performative self (Butler 1993; Quinn 2003) continually being scripted by hegemonic social conventions and ideologies (Felluga 2006) has been the critical conception of cultural identity in this new mediated environment. Nevertheless, this is what makes Kierkegaard more relevant than ever. The question of subjectivity and its unconscious processes of formation and perpetual evolution was at the very centre of Kierkegaardian philosophy. His quest for authenticity of the human subject, his notion of the personal responsibility of the thinking the acting, the feeling, and the living human individual against the whole world and the big narratives of society and religion that tried to disempower him, the existential attitude (Stack 1973: 109), as a sense of disorientation, does describe the voyage and the urge of our era.

His sense of disorientation was a genuine feeling ‘of the bugbear that spurred the rulers and the philosophers into ordering and legislating frenzy’. What Kierkegaard did was to introduce the original vagabond in the philosophy of modernity. Moreover,



to quote Bauman (2011: 28), '[h]is human subject was masterless, not responsibility, and being masterless was one condition power could not bear and thus spent the rest of history fighting'. That gave an excellent sense of a direction in order of an authentic identity to be found.

Nevertheless, throughout modernity identification was constructed having recognition of a homogenous characteristic (based on race, colour, religion, nation, sexuality, class) that makes you fit in, excluding Others. Even so, viewing culture as dynamic, and identity as constructed continuously and negotiated, having humanity to face the rapid changes in social cultural and financial level that signalled the passage from modernity to postmodernity, identification itself became a construction, a process never completed - always 'in process' including (and excluding) superficially anything. It is not determined, and every minute can be sustained or abandoned. Every minute can create a 'new Self' and a 'New Other', depending on the needs of social cohesion and geopolitics. Though not without its determinate conditions of existence identification is, in the end, an Introduction (Hall 1996: 2-3).

Like any other introduction, the concept of identification inherits a rich semantic legacy that addresses itself not just to the core of the 'Self' but also to the core of the 'Other'. Introduction demands an audience, and an audience is constructed under the influence of a quest. Such a quest is magnified in this era of social media where anything private becomes public. Northrop Frye identifies the central myth of humanity, in its narrative aspect, with the quest myth. He sees the significance of the quest myth as Frye pointed 'in its vision of the end of social effort, the innocent world of fulfilled desires, the free human society' (Dunham 1996: 133). Thus, the quest-myth is an Archetype of the biblical paradise, hidden under various political-cultural or metaphysical manifestations that shape the Self and the Other all those centuries. Located in our psyche, it is the repository of shared memory, an inheritance from our common ancestors. Hence, our narrative stories are *ritualised events* (Swchartzman 1979) or the public expressions of our private experiences. In a way, reality (actual or imagined) of any group or collectivity was preconditioned inside fiction and vice versa, sustaining its cohesion and world view at a global level.

This was the world where the Kierkegaardian Self should oppose in order to find its destiny and through it its decency. However, what is the impact in an era in which our narrative stories do not express primarily any collectivity (although they still carry at some extent their - anything but neutral - common-sense) but primarily the view of oneself, a self-shaped and formed in a world where no collectivity has the right to consider itself 'holly'?

This painful presence of an absence (the absence of holly of one truth), this deep cataclysmic loneliness inside of social media, creates the need to reverse it, to make it your own, to transform it into its total opposite, creating a convenient absence of a presence (of reality) creating, using and spreading Fake News, mediated identities and wor(l)ds.

In fact, Fake News is not a new phenomenon, but due to the spread of social media in a globalised economy and world, it has become more prevalent. In 2018, an MIT study by Soroush Vosoughi, Deb Roy, and Sinan Aral found that Fake News and their



'realities' now spread faster than real news. It is like trying to interfere in the cataclysmic controversial and anything but a coherent ocean of information promoting one's own set of beliefs. Since these beliefs were influenced in a pre-given context of internalised hierarchies and stereotypes, they tend to reproduce the previous givens of monoculture and nation-state. This is why the majority of Fake News reproduce, empower and circulate modern populism, typing up conspiracy theories that hurts the socio-political order of the planet so much. 'Fanatism is the only will can have people that never a will of their own', to quote Nietzsche.

### **CONCLUSION: A NEW AGAINST AN OLD PARADOX?**

While the need to believe the way Climacus explains, it reminds us of the need to open ourselves to the multiple variations of subjectivity and its choices, to open ourselves to the tremendous possibilities of a controversial world in need of inward peace. The choice to believe in Fake News reveals a deep need to manipulate outer reality at a personal level in order to ease the magnified anxiety that modern, multicoated world -where no alternative seems to exist- creates, depressing the postmodern social subject.

However, Fake News remains harmful. According to the *Future of Truth and Misinformation Online research* (Anderson and Raine 2017), 'it can spread untruths about events, people and situations. It can target certain groups in society who may be vulnerable, such as people with mental health problems or refugees or believers or people with different sexual orientation or women, or political opponents in certain regimes. It can discriminate and cause hatred against certain groups'.

The need to abandon one's Self and responsibility as a free-thinking citizen for a fake reality is a manifestation of broader issues in the modern information environment that impact the knowledge and through it the possibility to be information literate. Even if this fakery supports the subject's needs for security and recognition (a kind of postmodern virtual paganism based on ritual and not material), or for any identification, this impacts the possibility to be less recognized and more human. If we think about it, in an era where our certainties have become fluid, the mediated identities are the only certainty we have. In that sense fake becomes the new ritual, taking along in its shift the self.

### **A RITUALISED SELF**

Rituals have many continually evolving forms of expression that act as a 'system of values, ideas and practices'. This multicoated system functions as an essential tool to establish an order which will enable individuals to orientate themselves in their material and social world. However, this orientation is never completely independent from the broader social and cultural establishments, within the framework of which communication takes place among the members of a community.

By definition, this means that the Self who addresses itself to an audience, the Public Self, accepts to be mediated. Nevertheless, the self we project in Social Media is

Public and entails necessarily way more narcissistic elements than our private one. Likewise, our identity is way more ritualized than in the past.

This is what makes Fake News so well received. Those who participate in Fake News are not exclusively or are not always reclusive figures, sharing populist political views and conspiracy theories on their website, blog or social media. However, in reality, the successful creation of Fake News involves many people, and many agencies, and some of them may not even realize they are part of it.

Fake News is convenient, they create not a reality but our 'personal' (?) reality, fitting in the box of our political or ethnic or religious or gender or class world view. Our self becomes not masterless as Kierkegaard or Bauman wanted, but responsibility. Moreover, responsible is the exact opposite of masterless.

The popularity of Fake News is not irrelevant to the way the human subject is being constructed these days. While in the traditional societies the social cohesion was constructed using the *Unheimlich* as an enemy, which led to the Ideal National (aka Collective) Self, in neoliberal societies of post-modernity the new *Unheimlich* is critical thinking and alas reality itself. The bitter irony, so close to Kierkegaard's critique to the press of his era, is that critical thinking led to a notion of pedagogy that the educational praxis was identified with the creation not of a full mind (meaning full of information) but of an open mind: 'Neither belief is a hypothesis, and even if it were one, there would not be any absolute justification for it. As he puts it: Well, if everything speaks for a hypothesis and nothing against it – is it then certainly true? One may designate it as such. – However, does it certainly agree with reality, with the facts? – With this question you are already going round in a circle' (Kierkegaard 1992: 191).

Nevertheless, the open social space of contemporarily, linked with the *sociological imagination* (Giddens 1996), might lead to an ambiguous future of information, where our more personal space might be manipulative and under manipulation. First by ourselves and then by convincing 'others'.

Judeo-Christian culture, writes Richard Sennett (Ritivoi 2002: 26) 'is, at its very roots, about experiences of spiritual dislocation and homelessness (...) Our faith began at odds with place'. Nowadays, as we have been catapulted in the chaos of the postmodern mediated world, the only place we got is this invented Self. Identities are about questions of using the resources of history, language and culture in the process of becoming rather than being: partly constructed in fantasy, or at least within a fantastic field, fit in this communication of disinformation spread via traditional media or online social media. We truly live in a world where we trick first ourselves and then the Others. However, in this way, we become our Inner Other ourselves. Kierkegaard's quest for authenticity in subjectivity still knocks our door.

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## **WHAT COLOR IS THE WHITE HOUSE? OR JOURNALISM IN THE POST-TRUTH ERA INTERVIEW WITH PATRICK VISONNEAU**

Interview conducted by William F. Cipolla

PATRICK VISONNEAU<sup>1</sup> & WILLIAM F. CIPOLLA<sup>2</sup>

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The following interview took place during the conference *Truth and Communication in the Era of Misinformation from Kierkegaard to Social Media* held at St. John's University, November 16-17, 2018.

CIPOLLA: It is a great pleasure for me to introduce my friend Patrick Visonneau. Patrick has had a long and distinguished career in journalism in France where he served as Editor in Chief for *Le soir sur la 3* with Christine Ockrent as well as producer for the political broadcasts *Dimanche soir* (1994-1997) and *France Europe Express* (1997-1999). He was named News Director for France 3 in 1996 and served as Regional Director of France 3 for Paris and the Ile de France from 2001 until 2010 when he became Director of France 3 Nord Ouest, which covers the six neighboring regions: Paris Ile de France, Brittany, Pays de la Loire, Haute-Normandie, Basse-Normandie and Centre. Patrick has been named *Chevalier de l'Ordre National du Mérite* for distinguished public service.

CIPOLLA: Your title seems an obvious provocation, Patrick, since everyone knows the answer to that simple-minded question.

VISONNEAU: Well, no, I'm not so sure of that. According to certain eminent scholars the squirrels on the lawn see green; the flies in front of the oval office windows see

black and, when he watches CNN, Donald Trump undoubtedly sees red. Is it possible, then, that the truth could be a question of point of view?

Now first let me say a word on the expression *post-truth era* which seems bizarre: a Swiss journalist, Jean Amann considers this expression as 'one more *post*-something, after *post*- modernism, *post*-industrialism, *post*-structuralism, etc. What was there before the *post*-truth era? Was it really the era of truth? The era of the *Protocols of the Elders of Zion*? The *War to end all Wars*? The Russians calling Stalin *le petit père des peuples* (the little father of the people)?' Or perhaps Colin Powell's bottle filled with the proof of biological warfare shown to the world at the General Assembly of the United Nations. No, as we have seen, fake news is not a new phenomenon. What is new is this dangerous elixir where emotion, magnification, speed, and information overload meet in an astonishing contemporary cocktail.

CIPOLLA: You have mentioned four different elements in this heady mix. Let's start with the first. What exactly do you mean by emotion in the context of journalism?

VISONNEAU: The great adversary of journalism, the one that privileges fake news, is feeling or emotion. Emotion levels everything, it becomes a parasite on analysis and prevents the journalist from establishing a hierarchy.

CIPOLLA: Can you give us an example?

VISONNEAU: An example? I have a clear memory of two TV news stories, two days apart, in which two reports struck me by their similarity in form and tone but where the essence of the stories was completely and dramatically different. In the first story, a woman in the South of France who had lived through a flood in her town, appears in her kitchen showing, by pointing to a line on the wall, the height the flood water had reached. In tears, after pointing out that all her appliances had been destroyed, she says 'I have lost everything'. In the second story, a woman in Bosnia who lost her husband and her son in the bombing, turns to the camera and says, 'I have lost everything'. Two women use the same words, with the same shattering cry of pain, but for two news items of completely different dimensions. These were two news stories whose goal was to evoke the compassion of the viewers; two stories where emotion dominates reporting, but in which we lose the true sense of value, the loss of a dishwasher as opposed to the loss of a husband and son.

CIPOLLA: Okay, I understand. But hasn't emotion, always played a role in journalism?

VISONNEAU: Yes, it has, but in the beginning, in print journalism, emotion played a much smaller part. Then with the introduction of radio, it became more import-

ant. The arrival of life coverage, as in sports broadcasts, sought to make the spectator tremble with excitement. Then with television, it came into full bloom. At first there was the shock of the images, and soon followed what we call in French, the *micro-trottoir*, interviewing the man-on-the-street. When the practice started, it was a good thing, because previously the news had been cold and institutional, and this new form of expression allowed us to measure the temperature of public opinion. After a while, however, it became a complete disaster; emotion soon began to tyrannize the news. Now with social media we have arrived at the paroxysm of emotion in full splendor.

As an example, I would like to make a short digression based on my own personal experience. In 1981 a socialist president, François Mitterand, was elected in France after 23 years of conservative rule. At the time I was editor-in-chief of a televised news broadcast in Nice and I experienced this change as a revolution. At that time the key word in journalism was *change*. The news, which until then had been very institutional, suddenly thrust open its doors and windows to greet life, true life itself. My team of journalists and I were very enthusiastic, but when I look back on it today, I think that even if this movement was positive at the beginning, it unfortunately went quickly to the other extreme. In 1981 in France there were only three public channels. Then suddenly with the appearance of CNN in the U.S., the landscape of television news was irrevocably altered. Several all-news stations appeared in France. Here again, it was, at first, a good development, but soon after, they became the precursors of the loss of journalistic credibility: the domination of short-form reporting (75 seconds, for example, devoted to the Middle East), loop repetition, the importance of *fait divers*, that is, stories of fires, shootings, natural catastrophes, etc. that became a new form of entertainment. We call it *infotainment* and this word is also used in French. The final stage of this evolution is to be found in the profusion of experts and pseudo-experts who are called in to comment on the events. Too many people speaking on too many different topics has the effect of reducing credibility.

CIPOLLA: Let's get back to the question of this elixir that you mentioned. After *emotion*, you said the next element was *amplification*. What do you mean by that?

VISONNEAU: This is where social media come into play. Social media provide an enormous instrument for amplification. This is in the nature of crowds and our attraction to them, but it also underscores the risks of crowd sourcing. Then there are also the panic reactions: anger, lynching, bashings etc. that come with unleashed collective emotional response. Kierkegaard warned us about this: 'the crowd is untruth while the individual is the awakening of the spirit'.

CIPOLLA: What was the third ingredient of the elixir?

VISONNEAU: Oh, yes, the third ingredient is *speed*. What's new here is the speed of

transmission of the news. It also includes the number of people reached. We live in a society of speed, of the instantaneous. With their 'live-on-the-spot' coverage, the all-news stations broadcasting 24/7, and the social networks like TWITTER, INSTAGRAM, and FACEBOOK, now more than ever before, the rallying cry of the media is FASTER, FASTER, FASTER. We must remember the importance of *getting it right* before that of *getting it first*. Finally, the last point is what we call *infobésité* (infobesity), that is, information overload. People are surrounded by stories (Twitter, Facebook, etc.); there is no time for critical reflection. Information overload can also be a deliberate communicative strategy that could be used in news driven cyberwar. Infobesity makes it impossible to establish a hierarchy and renders analytical distance impossible. It reminds me of an old proverb: if you can't convince them, confuse them.

CIPOLLA: We understand; the elixir is a poison; fake news has infected us. Do you think that journalists can provide an antidote?

VISONNEAU: Well, it is very difficult to answer this question with any kind of certainty. The very problem of speaking about fake news is precisely, speaking of fake news! For example, if you tell me a rumor that I have never heard anything about, I am infected. Then when I pass it on, I become the next instrument of the rumor's transmission. That is why – as a journalist – it is so important to choose which fake news stories you will work against. For instance, when Trump denies climate change, it is absolutely necessary to attack him because this idea has already convinced so many believers.

CIPOLLA: Because it is so dangerous.

VISONNEAU: To give another example, a video was viewed more than one million times with the headline: *Mainstream Media Does Not Want You to See This*. The video showed someone, identified as an immigrant, brutally beating nurses in a hospital. In reality, this was an old video of a Russian drunk in a hospital in Siberia. And, by the way, this is a true story! One last example that is closer to us here in New York, concerns a story about Russians hacking the power system through an electrical grid in Vermont. This was an error made by the Washington Post, but it was picked up by Agence France Presse and spread throughout Europe. The British journalist Glenn Greenwald, writing in the online magazine *The Intercept*, commented that the story, although it might seem trivial, is important, and here I quote Greenwald, 'because it reflects the deeply irrational and ever-spiraling fever that is being cultivated in U.S. political discourse and culture about the threat posed by Moscow'.

Here I would like to make three remarks. First, the press is not exempt from error, but at least the press recognizes its mistake, corrects it and apologizes. (Trump has never made a mistake, nor has he ever apologized). Second, fake news has a viral potential six times more potent than a corrected news item. False news stories are more

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widely and more quickly shared than true ones. Third, fake news is *binary* while the journalist's work is more finely shaded. The criteria of *like* and *share* on Facebook do not apply to journalism. Journalism is contextualization, doubt, research, contradictory versions, all of which create subtle shades of meaning. Now this leads us to the difference between making judgements and reasoning. To judge is binary, to think is complex. The more one thinks objectively, the less one exists. In the political news class, the craze for judgement overrides far too often, the concern for understanding. Judging is quick and easy; thinking is long and tiring.

CIPOLLA: Is there any remedy for this sick state of affairs?

VISONNEAU: We must consider that we are suffering from a form of moral panic. We are living through something far more widespread than the Trump phenomenon. This is not only the shattering of the news as such, it is a global crisis of what it means to inform. We must use the arms at our disposal, and first, language. We must begin by ceasing to speak about fake news.

We should be speaking about trust rather than truth. Words, our own words, have been turned against us by those who have declared war against journalism. Trump also speaks of fake news? In reality we are experiencing a kind of conceptual bankruptcy. In all of this, social media must accept the burden of their responsibility, because, in the algorithm of Facebook, there is no objective way to speak of things.<sup>1</sup> The loss of contact with reality, the now famous *divorce of the elites from the masses* haunts the press and democracy alike. Journalism is shaken to its foundation, and the morality of its practice is far from explaining the scope of the crisis. In fact, and we see this more and more clearly, the news has never had as many different demands placed on it, as many ethical codes, as many critical accusations, and all of this is for the good of the people. The news is rediscovering the virtue of taking an offensive position in interviews, of total immersion in the situation, also of humility when confronting witnesses, ordinary people who now publish their own stories themselves. The question of responsibility remains. Whose fault is all this? Could it be Truman Capote's with his non-fiction novels like *In Cold Blood*? Perhaps Tom Wolfe is responsible with his *Bonfire of the Vanities*. Or perhaps the fault is that of the philosophers: Derrida, following Nietzsche, or that gang of French Theorists that Bill says were sometimes referred to as intellectual terrorists. On this last point he may speak to you tomorrow.

New York, November 16, 2018

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<sup>1</sup> Aine Kerr, former head of global journalism partnerships for Facebook.

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