Greece and the Euro: Fifty Ways to Leave Your Lover

Alternatives to an "Ugly Divorce"

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> The problem is all inside your head she said to me
> The answer is easy if you take it logically
> I'd like to help you in your struggle to be free
> There must be fifty ways to leave your lover.
>
> –Lyrics by Paul Simon

The Euro appears to be a marriage of incompatible partners. A June 1st article in the UK Telegraph titled "Why Europe's Love Affair with the European Project Is Ending" reported that two-thirds of 9,000 respondents thought that having the euro as their single currency was a mistake.

For Greece, it was a tragic mismatch from the beginning; and like many a breakup, it is really about money. Greece is a vivacious young woman chained to a tyrannical old man. She yearns to be free to dance on her own; but breaking up is hard to do. Defaulting on her debts will force her out of the Eurozone and back to issuing drachmas, and she could get brutally beaten by speculators on foreign exchange markets for her insolence.

Fortunately, there are alternatives to an ugly divorce. The treaties binding the 17 member nations are just a set of rules, entered into by mutual agreement; and rules can be bent or broken, especially in crises. The ECB (European Central Bank) broke a litany of rules to save the banks, and so did the Federal Reserve to save Wall Street in 2008. Rules that can be bent for banks can be bent for people and nations—not just Greece, but all the other Eurozone countries threatening to file for divorce.

Paul Simon says there are 50 ways, but here are five creative alternatives.

1. The Open Marriage: Return to the Drachma Without Abandoning the Euro

James Skinner, former chairman of NEF (the New Economics Foundation in the UK), suggests that the Greek government could start issuing drachmas without abandoning the euro. Drachmas could be reserved for domestic use—to pay the government's budget, hire workers, build infrastructure and expand social services. He writes:

> Greece is suffering from a lack of money because the only source, the single currency, has dried up. But there is no law that states that there has to be only one currency.

> . . . By enabling the Government, monitored by the Central Bank, to spend newly created money directly into the economy, bypassing the banking sector, the burden of increasing national debt can be avoided. . . .
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> This programme for creating a new Greek Drachma, bypassing the private banking sector, could start tomorrow. Its immediate effect would be to get the unemployed back to work. All existing Euro transactions can continue as before, quite separately from the new currency. The two currencies can perfectly well co-exist and run alongside each other. . . . Foreign banks will continue to deal in Euros and other currencies as usual.

This solution was successfully used in Argentina when its currency collapsed in 2001. The government walked away from its debts and started issuing its own Argentine pesos. Three years after a record debt default on more than $100 billion, the country was well on the road to recovery. Exports increased, the currency was stable, investors returned, unemployment diminished and the economy grew by 8 percent for 2 consecutive years.

2. Separate Bank Accounts: Fire Up the Printing Presses at the Greek Central Bank

In a March 19 article on Seeking Alpha, George Kesarios observed that the Greek central bank has the power to issue more than just drachmas. The ECB is not an ordinary central bank:

> Rather, it is a confederation of central banks. Each European national central bank can theoretically do the same types of market operations as the ECB and then some. The forefathers of the euro have left many monetary windows open, which, if used correctly, can solve the European debt crisis in a very short period without taxpayer funds.

He cited article 14.4 of the Protocol on the Statute of the European System of Central Banks, which provides:

> 14.4. National central banks may perform functions other than those specified in this Statute unless the Governing Council finds, by a majority of two thirds of the votes cast, that these interfere with the objectives and tasks of the ESCB. Such functions shall be performed on the responsibility and liability of national central banks and shall not be regarded as being part of the functions of the ESCB.

That means the National Center Banks can do whatever the ECB can do—and even things it can't. The Greek central bank could step in and start issuing euros itself. Again, there is precedent for this. It was under Article 14.4 that the Irish Central Bank was able to print 80 billion euros as "emergency liquidity assistance," and the Greek central bank has already printed 44 billion euros itself.

The Greek government could print euros, refinance its sovereign debt, and pay the interest to itself, effectively eliminating the interest burden. Among other precedents, there is Canada, which borrowed from its own central bank from 1939 to 1974 to fund major infrastructure projects and social programs. It pulled this off over a 25-year period without hyperinflating the currency, driving up prices, or increasing the public debt, which remained low and sustainable.

There is the concern that the euro might suffer by devaluation if other Eurozone members followed suit. But Kesarios points to the Japanese experience, "where one can print and print and then print some more, without the value of the currency being marked down (due to positive trade flows)." The euro might be equally resilient.

3. Divorce: Just Walk Away

According to the May 29th New York Times, the 130 billion euro bailout that was supposed to buy time for Greece is now mainly just servicing the interest on the debt. The "troika"—the ECB, IMF, and European Commission—which holds three-fourths of the debt, is sequestering the bailout funds to be paid right back to themselves in interest payments. This is merely going to compound the debt to disastrous levels, without a single cent going to the Greeks or their comatose economy.

Interest rates on Greek ten-year bonds have gone to nearly 30 percent recently. Under the Rule of 72, at 30% compounded annually, debt doubles in 2.4 years. If the Greeks can't even pay the interest on the debt today except by borrowing, how are they going to repay double the principal in a mere 2.4 years? At 30%, the Greeks could be paying over 100% of their GDP in interest charges. Legally, a contract that is impossible to perform is void.

Alexis Tsipras, leader of the radical left-wing Greek party Syriza, which is now in second place in the Greek parliament, calls it an "odious debt," a legal term for a national debt incurred by a regime for purposes that do not serve the best interests of the nation. An odious debt under international law need not be repaid.

4. Spousal Support: The Public Bank Option

If divorce is too much to contemplate, Greece's crippling interest burden can be relieved by taking advantage of the ECB's very generous 1% rate for bankers. Article 123 of the Maastricht Treaty forbids member governments from borrowing directly from the ECB, but it makes an exception in paragraph 2 for "publicly-owned credit institutions"—something Greece will have plenty of when it nationalizes its banks. They can line up at the ECB's window for its bargain-basement 1% banking rate and use the borrowed funds to buy up the national debt.

Researcher Simon Thorpe wrote to the ECB and asked whether they would object if a publicly-owned credit institution were to borrow from the ECB and use the funds "to supply the money to a government such as the Greek government in order for that government to pay off its debts to financial markets." The ECB replied:

> According to the Treaty—as you have just quoted—such publicly owned credit institutions "shall be given the same treatment by national central banks and the ECB as private credit institutions." It is up to the banks to decide how to use the money they have borrowed from the central bank system.

5. The Dowry: Impose a Financial Transaction Tax

Thorpe notes that the ECB has issued and lent nearly one trillion euros to the banks at 1% since December 2011—three times the total Greek debt of 355 billion euros. If Greek public banks borrowed from the ECB at 1% and bought Greece's sovereign debt, the debt could be paid off in 10 years just from the returns on a very modest Financial Transaction Tax (FTT) of 0.3%.

Imposing a tiny FTT on all financial trades would not only be a lucrative source of revenue but would prevent the attacks of speculators, both on the newly-issued drachma and on the sovereign debt of Greece and other Eurozone countries. The FTT has already been implemented in many countries. In 2011, there were 40 countries that had FTT in operation, raising $38 billion (€29bn).

Where There Is a Will, There Is a Way

The problem is finding the will, particularly among the Eurocrat leaders holding the reins of power, who may not be looking for an amicable workout. The marital problems of Greece and the Eurozone stem from an arbitrary set of rules that were entered into and can be changed by agreement. But as Mike Whitney maintained in a June 3 article titled "Europe Moves Closer to Banktatorship":

> These people are not interested in fixing the EZ economy. They are engaged in a stealth campaign to . . . solidify the power of big finance over the individual states . . . .

To avoid that dire scenario, the popular majority needs to grab the reins of power. It is fitting that Greece, the birthplace of European culture and democracy, is the focus of the struggle against bondage to an elite banker class. Greece can dance again if she can set herself free.