

## Grexit or Jubilee? How Greek Debt Can Be Annulled

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*The crushing Greek debt could be canceled the way it was made - by sleight of hand. But saving the Greek people and their economy is evidently not in the game plan of the Eurocrats.*

Greece's creditors have finally brought the country to its knees, forcing President Alexis Tsipras to agree to austerity and privatization measures more severe than those overwhelmingly rejected by popular vote a week earlier. No write-down of Greece's debt was included in the deal, although [the IMF has warned](#) that the current debt is unsustainable.

Former Greek finance minister [Yanis Varoufakis calls the deal](#) "a new Versailles Treaty" and "the politics of humiliation." [Greek defense minister Panos Kammenos calls it](#) a "coup d'état" done by "blackmailing the Greek prime minister with collapse of the banks and a complete haircut on deposits."

"Blackmail" is not too strong a word. The European Central Bank has turned off its liquidity tap for Greece's banks, something all banks need, as explained earlier [here](#). All banks are technically insolvent, lending money they don't have. They don't lend their deposits but create deposits when they make loans, [as the Bank of England recently confirmed](#). When the depositors and borrowers come for their money at the same time, the bank must borrow from other banks; and if that liquidity runs dry, the bank turns to the central bank, the lender of last resort empowered to create money at will. Without the central bank's backstop, banks must steal from their depositors with "haircuts" or they will collapse.

What did Greece do to deserve this coup d'état? [According to former World Bank economist Peter Koenig](#):

[T]he Greek people, the citizens of a sovereign country . . . have had the audacity to democratically elect a socialist government. Now they have to suffer. They do not conform to the self-imposed rules of the neoliberal empire of unrestricted globalized privatization of public services and public properties from which the elite is maximizing profits - for themselves, of course. It is outright theft of public property.

According to a July 5<sup>th</sup> article titled "[Greece - The One Biggest Lie You're Being Told By The Media](#)," the country did not fail on its own. It was made to fail:

[T]he banks wrecked the Greek government, and then deliberately pushed it into unsustainable debt . . . while revenue-generating public assets were sold off to oligarchs and international corporations.

[A Truth Committee convened by the Greek parliament reported](#) in June that a major portion of the country's €320 billion debt is "illegal, illegitimate and odious" and should not be paid.

### **How to Cut the Debt Without Loss to the Bondholders**

The debt cannot be paid and should not be paid, but EU leaders justify their hard line as necessary to save the creditors from having to pay – the European taxpayers, governments, institutions, and banks holding Greek bonds. It is quite possible to grant debt relief, however, without hurting the bondholders. US banks were bailed out by the US Federal Reserve to the tune of more than \$16 trillion in virtually interest-free loans, without drawing on taxes. Central banks have a printing press that allows them to create money at will.

The ECB has already embarked on this sort of debt purchasing program. In January, [it announced](#) it would purchase 60 billion euros of debt assets per month beginning in March, continuing to at least September 2016, for a total of €1.14 trillion of asset purchases. These assets are being purchased through "quantitative easing" – expanding the monetary base simply with accounting entries on the ECB's books.

The IMF estimates that Greece needs debt relief of €60 billion – a mere one month of the ECB's quantitative easing program. The ECB could solve Greece's problem with a few computer keystrokes. Moreover, in today's deflationary environment, the effect would actually be to stimulate the European economy. As financial writer [Richard Duncan observes](#):

When a central bank prints money and buys a government bond, it is the same thing as cancelling that bond (so long as the central bank does not sell the bond back to the public).

. . . The European Central Bank's plans to create €1.1 trillion over the next 20 months will effectively cancel the combined budget deficits of the Eurozone national governments in both 2015 and 2016, with a considerable amount left over.

Quantitative Easing has only been possible because it has occurred at a time when Globalization is driving down the price of labor and industrial goods. The combination of fiat money and Globalization creates a unique moment in history where the governments of the developed economies can print money on an aggressive scale without causing inflation.

They should take advantage of this once-in-history opportunity to borrow more in order to invest in new industries and technologies, to restructure their economies and to retrain and educate their workforce at the post-graduate level. If they do, they could not only end the global economic crisis, but also ensure that the standard of living in the developed world continues to improve, rather than sinking down to third world levels.

That is how it works for Germany after World War II. [According to economist Michael Hudson](#), the most successful debt jubilee in recent times was gifted to Germany, the country now most opposed to doing the same for Greece. The German Economic Miracle followed massive debt forgiveness by the Allies:

All domestic German debts were annulled, except employer wage debts to

their labor force, and basic working balances. Later, in 1953, its international debts were written down.

Why not do the same for the Greeks? [Hudson writes](#):

It was easy to write down debts that were owed to Nazis. It is much harder to do so when the debts are owed to powerful and entrenched institutions - especially to banks.

### **Loans Created with Accounting Entries Can Be Canceled with Accounting Entries**

That may be true for non-bank creditors. But for banks, recall that the money owed to them is not taken from the accounts of depositors. It is simply created with accounting entries on the books. The loans could be canceled the same way. To the extent that the Greek debt is owed to the ECB, the IMF and other financial institutions, that is another option for canceling it.

[British economist Michael Rowbotham explored](#) that possibility in 1998 for the onerous Third World debts owed to the World Bank and IMF. He wrote that of the \$2.2 trillion debt then outstanding, the vast majority was money simply created by commercial banks. It represented a liability on the banks' books only because the rules of banking said their books must be balanced. He suggested two ways the rules might be changed to liquidate unfair and oppressive debts:

The first option is to remove the obligation on banks to maintain parity between assets and liabilities, or, to be more precise, to allow banks to hold reduced levels of assets equivalent to the Third World debt bonds they cancel. Thus, if a commercial bank held \$10 billion worth of developing country debt bonds, after cancellation it would be permitted in perpetuity to have a \$10 billion dollar deficit in its assets. This is a simple matter of record-keeping.

The second option, and in accountancy terms probably the more satisfactory (although it amounts to the same policy), is to cancel the debt bonds, yet permit banks to retain them for purposes of accountancy.

### **The Real Roadblock Is Political**

The Eurocrats could end the economic crisis by writing off odious unrepayable debt either through quantitative easing or by changing bank accounting rules. But ending the crisis is evidently not what they are up to. As Michael Hudson puts it, "finance has become the modern-day mode of warfare. Its objectives are the same: acquisition of land, raw materials and monopolies." He writes:

Greece, Spain, Portugal, Italy and other debtor countries have been under the same mode of attack that was waged by the IMF and its austerity doctrine that bankrupted Latin America from the 1970s onward.

Prof. Richard Werner, who was on the scene as the European Union evolved, [maintains that](#) the intent for the EU from the start was the abandonment of national sovereignty in favor of a single-currency system controlled by eurocrats doing the bidding of international

financiers. The model was flawed from the beginning. The solution, he says, is for EU countries to regain their national sovereignty by leaving the euro en masse. He writes:

By abandoning the euro, each country would regain control over monetary policy and could thus solve their own particular predicament. Some, such as Greece, may default, but its central bank could limit the damage by purchasing the dud bonds from banks at face value and keeping them on its balance sheet without marking to market (central banks have this option, as the Fed showed again in October 2008). Banks would then have stronger balance sheets than ever, they could create credit again, and in exchange for this costless bailout central banks could insist that bank credit – which creates new money – is only allowed for transactions that contribute to GDP in a sustainable way. Growth without crises and large-scale unemployment could then be arranged.

But Dr. Werner acknowledges that this is not likely to happen soon. Brussels has been instructed by President Obama, no doubt instructed by Wall Street, to hold the euro together at all costs.

### **The Promise and Perils of Grexit**

The creditors may have won this round, but Greece's financial woes are far from resolved. After the next financial crisis, it could still find itself out of the EU. If the Greek parliament fails to endorse the deal just agreed to by its president, "["Grexit" could happen even earlier.](#)" And that could be the Black Swan event that ultimately [breaks up the EU](#). It might be in the interests of the creditors to consider a debt jubilee to avoid that result, just as the Allies felt it was in their interests to expunge German debts after World War II.

For Greece, leaving the EU may be perilous; but it opens provocative possibilities. The government could nationalize its insolvent banks along with its central bank, and start generating the credit the country desperately needs to get back on its feet. If it chose, it could do this while still using the euro, just as Ecuador uses the US dollar without being part of the US. (For more on how this could work, see [here](#).)

If Greece switches to drachmas, the funding possibilities are even greater. It could generate the money for a national dividend, guaranteed employment for all, expanded social services, and widespread investment in infrastructure, clean energy, and local business. Freed from its Eurocrat oppressors, Greece could model for the world what can be achieved by a sovereign country using publicly-owned banks and publicly-issued currency for the benefit of its own economy and its own people.

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