

The Never-Ending Depression

The Economy Can Only Recover If We Repudiate the Debt

By [Washington's Blog](#)

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Economics Professor: "[We'll Have] a Never-Ending Depression Unless We Repudiate the Debt, Which Never Should Have Been Extended In The First Place"

Economists: The Economy Can Only Recover If We Repudiate the Debt

Leading Austrian-school economist Murray Rothbard – an American – [wrote](#) in 1992:

I propose ... out-right debt repudiation. Consider this question: why should the poor, battered citizens of Russia or Poland or the other ex-Communist countries be bound by the debts contracted by their former Communist masters? In the Communist situation, the injustice is clear: that citizens struggling for freedom and for a free-market economy should be taxed to pay for debts contracted by the monstrous former ruling class. But this injustice only differs by degree from "normal" public debt. For, conversely, why should the Communist government of the Soviet Union have been bound by debts contracted by the Czarist government they hated and overthrew? And why should we, struggling American citizens of today, be bound by debts created by a ... ruling elite who contracted these debts at our expense?

Although largely forgotten by historians and by the public, repudiation of public debt is a solid part of the American tradition. The first wave of repudiation of state debt came during the 1840's, after the panics of 1837 and 1839. Those panics were the consequence of a massive inflationary boom fueled by the Whig-run Second Bank of the United States. Riding the wave of inflationary credit, numerous state governments, largely those run by the Whigs, floated an enormous amount of debt, most of which went into wasteful public works (euphemistically called "internal improvements"), and into the creation of inflationary banks. Outstanding public debt by state governments rose from \$26 million to \$170 million during the decade of the 1830's. Most of these securities were financed by British and Dutch investors.

During the deflationary 1840's succeeding the panics, state governments faced repayment of their debt in dollars that were now more valuable than the ones they had borrowed. Many states, now largely in Democratic hands, met the crisis by repudiating these debts, either totally or partially by scaling down the amount in "readjustments." Specifically, of the 28 American states in the 1840's, nine were in the glorious position of having no public debt, and one (Missouri's) was negligible; of the 18 remaining, nine paid the interest on their

public debt without interruption, while another nine (Maryland, Pennsylvania, Indiana, Illinois, Michigan, Arkansas, Louisiana, Mississippi, and Florida) repudiated part or all of their liabilities. Of these states, four defaulted for several years in their interest payments, whereas the other five (Michigan, Mississippi, Arkansas, Louisiana, and Florida) totally and permanently repudiated their entire outstanding public debt. As in every debt repudiation, the result was to lift a great burden from the backs of the taxpayers in the defaulting and repudiating states.

The next great wave of state debt repudiation came in the South after the blight of Northern occupation and Reconstruction had been lifted from them. Eight Southern states (Alabama, Arkansas, Florida, Louisiana, North Carolina, South Carolina, Tennessee, and Virginia) proceeded, during the late 1870's and early 1880's under Democratic regimes, to repudiate the debt foisted upon their taxpayers by the corrupt and wasteful carpetbag Radical Republican governments under Reconstruction.

Economics professor Steve Keen is also calling for a debt jubilee, stating:

We should write the debt off, bankrupt the banks, nationalize the financial system, and start all over again.

We need a twenty-first century jubilee.

[We're going into] a never-ending depression unless we repudiate the debt, which never should have been extended in the first place.

If we keep the parasitic banking sector alive, the economy dies. We have to kill the parasites and give a chance to the real economy to thrive once more and stop the financial [crooks] doing what they did this time around ever again.

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Michel Chossudovsky
Andrew G. Marshall (editors)

Economics professor Michael Hudson – who also calls for a debt jubilee – [writes](#):

The only way to resolve the [European debt crisis] is to negotiate a debt write-off.

As I've noted for years, the entire strategy of the Bush and Obama economics teams have been to prevent the big banks, bondholders and other creditors from having to take haircuts by writing down the bad loans, phony instruments and bad debt. They have suspended any objective accounting requirements, allowed endless shell games to hide the debt and pretend all of the insolvent creditors are solvent, done everything under the sun to artificially prop up asset prices, turned a blind eye to the underlying fraud which caused the bubble, the toxic investment instruments and false representations, and then helped cover up the mess. See [this](#), [this](#), [this](#) and [this](#).

I [noted](#) last month:

America - like most nations around the world - decided to bail out their big banks instead of taking the necessary steps to stabilize their economies (see [this](#), [this](#) and [this](#)). As such, they all transferred massive debts (from fraudulent and stupid gambling activities) from the balance sheets of the banks to the balance sheets of the country.

Failing to acknowledge the bad debt is dooming the world economy. As leading independent banking analyst Chris Whalen [points out](#):

The invidious cowards who inhabit Washington are unwilling to restructure the largest banks and GSEs [government sponsored enterprises, like Fannie and Freddie]. The reluctance comes partly from what truths restructuring will reveal. As a result, these same large zombie banks and the U.S. economy will continue to shrink under the weight of bad debt, public and private. Remember that the Dodd-Frank legislation was not so much about financial reform as protecting the housing GSEs.

Because President Barack Obama and the leaders of both political parties are unwilling to address the housing crisis and the wasting effects on the largest banks, there will be no growth and no net job creation in the U.S. for the next several years. And because the Obama White House is content to ignore the crisis facing millions of American homeowners, who are deep underwater and will eventually default on their loans, the efforts by the Fed to reflate the U.S. economy and particularly consumer spending will be futile. As Alan Meltzer noted to Tom Keene on Bloomberg Radio earlier this year: "This is not a monetary problem."

The policy of the Fed and Treasury with respect to the large banks is state socialism writ large, without even the pretense of a greater public good.

The fraud and obfuscation now underway in Washington to protect the TBTF banks and GSEs totals into the trillions of dollars and rises to the level of treason.

And in the case of the zombie banks, the GSEs and the MIs, the fraud is being actively concealed by Congress, the White House and agencies of the U.S. government led by the Federal Reserve Board. Is this not tyranny?

And Paul Mason - economics editor for BBC Newsnight - [told](#) Democracy Now on July 1:

[Interviewer]: Is there a qualitative difference in our era where you have essentially financial institutions that are far more powerful than any governments? Where you had a situation where during the 2008 crisis the United States government was bailing out banks in Europe that had been involved in investments here as well as its own banks, that this concept of too-big-to-fail for banks, but not for countries, or not for populations that end up having to suffer?

[Paul Mason]: You're absolutely right that the situation we are in is unprecedented..... And we are entering a situation where the entire system seems incapable of recognizing bad debt. The bad debt has been flowing around the system since Lehman.

Repudiating Debt is MORAL

Religions were founded on the concept of debt forgiveness.

For example, [Matthew 6:12](#) says:

And forgive us our debts, as we forgive our debtors.

As I've previously [noted](#), periodic times of debt forgiveness - or debt "jubilees" - were a normal part ancient Jewish and Christian religions.

David Graeber, author of "Debt: The First 5,000 Years" [told](#) Democracy Now recently:

Most revolutions, more revolts in human history have been about debt. It's the most perennial tool that's been used by people who are powerful to make the victims of structural inequalities feel that it's somehow their fault. So I wanted to unveil that and show that we're actually part of a very very long history. There's also a lot of hope in it. Because the other thing I realized is that much of the world religions grew out of social movements, which were exactly about "problematizing" debt. Basically saying, who owes what to who?

That made me think that we're actually at a very strange historical moment because they've managed to convince people around the world that debt is somehow something sacred. I mean, a debt is just a promise, right? It has no greater moral standard than any other promise that you would make. Yet, here we have people accepting that it's perfectly reasonable to say well, we can't possibly keep our promise to the public, politicians say, to give you health care because it's absolutely unthinkable we could break our sacred promises to bankers to give them a certain percentage of interest every year. How did that become a convincing argument? It's utterly odd if you think about in terms of any kind of principle of democracy. As I say, if you look at the history of world religions, of social movements what you find is for much of world history what is sacred is not debt, but the ability to make debt disappear to forgive it and that's where concepts of redemption originally come from.

[Interviewer] David Graeber in this long history is there a qualitative difference in our era where you have essentially financial institutions that are far more powerful than any governments? Where you had a situation where during the 2008 crisis the United States government was bailing out banks in Europe that

had been involved in investments here as well as its own banks, that this concept of too-big-to-fail for banks, but not for countries, or not for populations that end up having to suffer?

[Graeber]: I think that marks a significant break in world history. I think when we look back at this, we're gonna think of 2008. 1972 when the U.S. went off the gold standard was the first moment we sort of moved toward a system of virtual money where we realize that money is not a thing, it's an arrangement between people. In 2008, where it became clear that the old global financial system is something that's created politically and has to be periodically recreated, it doesn't maintain itself, like they want us to believe. I mean, that really marks a break. The question is now that we understand that money is a political construct, that they really do just print it, it is a promise that people make to each other. Well who has control over that process of making promises? Who gets to make them and to whom?

Ambrose Evans-Pritchard [wrote](#) in 2009:

In the end, the only way out of all this global debt may prove to be a Biblical debt Jubilee.

Repudiating Debt is "Odious" Debt LEGAL

Former Managing Director and board member of Wall Street investment bank Dillon Read, president of Hamilton Securities Group, Inc., an investment bank, and former government servant Catherine Austin Fitts [wrote](#):

Look up "fraudulent inducement." My position as the former Assistant Secretary of Housing-Federal Housing Commissioner and then as lead financial advisor to the U.S. Department of Housing and Urban Development is that the majority of the mortgages originated in the United States after 1996 were fraudulently induced.

The way to deal with criminals is to treat our contracts with them in a manner reciprocal to how they have treated their contracts with us.

Congresswoman Kaptur [advises](#) her constituents facing foreclosure to demand that the original mortgage papers be produced. She says that - if the bank can't produce the mortgage papers - then the homeowner can stay in the house.

As I [pointed out](#) last year:

There is an established legal principle that people should not have to repay their government's debt to the extent that it is incurred to launch aggressive wars or to oppress the people.

These "odious debts" are considered to be the personal debts of the tyrants who incurred them, rather than the country's debt.

Wikipedia gives a good [overview](#) of the principle:

In international law, odious debt is a legal theory which holds that the national debt incurred by a regime for purposes that do not

serve the best interests of the nation, such as wars of aggression, should not be enforceable. Such debts are thus considered by this doctrine to be personal debts of the regime that incurred them and not debts of the state. In some respects, the concept is analogous to the invalidity of contracts signed under coercion.

The doctrine was formalized in a 1927 treatise by Alexander Nahum Sack, a Russian émigré legal theorist, based upon 19th Century precedents including Mexico's repudiation of debts incurred by Emperor Maximilian's regime, and the denial by the United States of Cuban liability for debts incurred by the Spanish colonial regime. According to Sack:

When a despotic regime contracts a debt, not for the needs or in the interests of the state, but rather to strengthen itself, to suppress a popular insurrection, etc, this debt is odious for the people of the entire state. This debt does not bind the nation; it is a debt of the regime, a personal debt contracted by the ruler, and consequently it falls with the demise of the regime. The reason why these odious debts cannot attach to the territory of the state is that they do not fulfil one of the conditions determining the lawfulness of State debts, namely that State debts must be incurred, and the proceeds used, for the needs and in the interests of the State. Odious debts, contracted and utilised for purposes which, to the lenders' knowledge, are contrary to the needs and the interests of the nation, are not binding on the nation - when it succeeds in overthrowing the government that contracted them - unless the debt is within the limits of real advantages that these debts might have afforded. The lenders have committed a hostile act against the people, they cannot expect a nation which has freed itself of a despotic regime to assume these odious debts, which are the personal debts of the ruler.

Patricia Adams, executive director of Probe International (an environmental and public policy advocacy organisation in Canada), and author of *Odious Debts: Loose Lending, Corruption, and the Third World's Environmental Legacy*, has stated that:

by giving creditors an incentive to lend only for purposes that are transparent and of public benefit, future tyrants will lose their ability to finance their armies, and thus the war on terror and the cause of world peace will be better served.

A recent article by economists Seema Jayachandran and Michael Kremer has renewed interest in this topic. They propose that the idea can be used to create a new type of economic sanction to block further borrowing by dictators.

Jubilee USA [notes](#) that creditors may lose their rights to repayment of odious debts:

Odious debt is an established legal principle. Legally, debt is to be

considered odious if the government used the money for personal purposes or to oppress the people. Moreover, in cases where borrowed money was used in ways contrary to the people's interest, with the knowledge of the creditors, the creditors may be said to have committed a hostile act against the people. Creditors cannot legitimately expect repayment of such debts.

The United States set the first precedent of odious debt when it seized control of Cuba from Spain. Spain insisted that Cuba repay the loans made to them by Spain. The U.S. repudiated (refused to pay) that debt, arguing that the debt was imposed on Cuba by force of arms and served Spain's interest rather than Cuba's, and that the debt therefore ought not be repaid. This precedent was upheld by international law in *Great Britain v. Costa Rica* (1923) when money was put to use for illegitimate purposes with full knowledge of the lending institution; the resulting debt was annulled.

The launch of the Iraq war was an unlawful war of aggression. It was based on false premises ([weapons of mass destruction](#) and a [connection between Iraq and 9/11](#); see [[this](#)], [this](#), [this](#), [this](#), [this](#), [this](#) and [this](#)). Therefore, the trillions in debts incurred in fighting that war are odious debts which the people might lawfully refuse to pay for.

The Bush and Obama administrations have also oppressed the American people through spying on us – even [before 9/11](#) (confirmed [here](#) and [here](#)) – harassment of innocent grandmothers and other patriotic Americans criticizing government action, and other assaults on liberty and the rule of law. See [this](#). The monies borrowed to finance these oppressive activities are also odious debts.

The government has also given trillions in bailouts, loans, guarantees and other perks to the too big to fails. These funds have not helped the American people. For example, the giant banks are [still not loaning](#). They have solely gone into speculative investments and to line the pockets of the muckety-mucks in the form of bonuses. PhD economist Dean Baker [said](#) that the true purpose of the bank rescues is “a massive redistribution of wealth to the bank shareholders and their top executives”. [Two leading IMF officials, the former Vice President of the Dallas Federal Reserve](#), and the [the head of the Federal Reserve Bank of Kansas City](#) have all said that the United States is controlled by an oligarchy. PhD economist Michael Hudson [says](#) that the financial “parasites” have killed the American economy, and they are “sucking as much money out” as they can before “jumping ship”. These are odious debts.

[Bush and Obama officials] who ordered that these debts be incurred must be held personally liable for them. We the American people are not responsible to creditors – such as China, Saudi Arabia – who have knowingly financed these illegal and oppressive activities which have not benefited the American people, but solely the handful of corrupt politicians who authorized them.

Repudiating Debt Is Politically EMPOWERING

Matt Taibbi [wrote](#) last year:

As powerful as these Wall Street banks may seem, they are also exquisitely vulnerable. Right now virtually all of them are dependent upon the government keeping accounting standards lax enough for all of them to claim to be functional businesses. It is generally accepted that if the major banks on Wall

Street were forced to mark all of their assets to market tomorrow, they would all be either insolvent or close to it.

Thus their “healthy” financial status is already illusory. So imagine what would happen if large numbers of those dubious loans on their balance sheets that they have marked down as “performing” were suddenly pushed ahead of time into the default column. What if Greece, and the Pennsylvania school system, and Jefferson County, Alabama, and the countless other municipalities and states that are wrapped up in these corrupt deals just decided to declare their debts illegitimate and back out?

I think it’s an interesting question and would like to hear what knowledgeable people in the field have to say about it. But the big picture, to me, is that these companies are almost totally dependent not only upon the continued good faith of aggrieved debtors, but upon the government recognizing the (sometimes fraudulent) loans made to those debtors as fully performing.

Similarly, Gregor MacDonald [argued](#) in February 2009:

The private sector debt in the United States exerts the same power over the banking system as the public debt of the United States exerts over our international creditors. Collectively, the debtors are in control. Not the creditors. This is why the the Creditors, not the Debtors, will be making most of the concessions in the years ahead. Whether the US public debt is inflated away, rescheduled, or repudiated—or some combination of all three—it doesn’t matter much. The process is already underway.

The most cynical (but not necessarily inaccurate) view of debt I’ve seen is that banks loan out imaginary money they don’t really have, which money is “collateralized” by capital they do not really have, which is, in turn, based upon central bank printing presses which create money out of thin air which the central banks don’t really have. But then when debtors have trouble repaying onerous loans, the bankers seize real assets. See [this](#), [this](#) and [this](#).

In other words, according to the most cynical view, the entire debt-money system is a scam ... and should be repudiated.

Repudiating Debt is POPULAR

Walking away from home mortgages has actually become mainstream, being trumpeted by:

- [CBS](#)
- [CNBC](#)
- The [New York Times](#) (and [New York Times Magazine](#))
- [The Wall Street Journal](#)
- [MSN](#)
- [NPR](#)

- [The Arizona Republic](#)
- Even popular personal finance advisor Suze Orman is [highlighting](#) the debtors revolt phenomenon on her national tv show

And Max Keiser [predicts](#) that the revolts in Greece, Spain and elsewhere will play out in the U.S. in the form of mass defaults on mortgages later this year.

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