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A New Mode of Warfare The Greek Debt Crisis and Crashing Markets

By Michael Hudson

June 29, 2015 "Information Clearing House"-- Back in January upon coming into office, Syriza probably could not have won a referendum on whether to pay or not to pay. It didn't have a full parliamentary majority, and had to rely on a nationalist party for Tsipras to become prime minister. (That party balked at cutting back Greek military spending, which was 3% of GDP, and which the troika had helpfully urged to be cut back in order to balance the government's budget.)

Seeing how unyielding the opposition was, Syriza's stance was: "We would like to pay. But there's no money."

This kept throwing the ball back into the troika's court. The Institutions were so unyielding that Syriza's approval rating in the polls rose by 13% by June. Greek voters became increasingly incensed at the Troika's demand for further pension cuts and privatizations.

Tsipras and Varoufakis were willing to pay the IMF with the IMF's own funds, in what V. called "extend and pretend." But their only interest in keeping current on debt was to obtain additional funding that could be used to pay domestic pensions and other basic government budgetary expenditures.

The basic tactic in such tensions between creditors and debtors is clear: once debt repayments exceed new loans, stop paying.

So when The Institutions made it clear that no more credit would be forthcoming without Syriza adopting the old Pasok/New Democracy capitulation to Troika demands, Tsipras and Varoufakis decided it was time to call a referendum eight days hence, on Sunday, July 5.

Late Friday night and into the early Saturday morning hours, Greeks ran to the ATM machines to convert their checking and savings deposits into euro notes, expecting that the end game would involve a likely 30% depreciation of the drachma – and that indeed, the ECB would stop lending to support Greek banks (the only role the ECB wanted to play).

Syriza had no love for the banks. They were the vehicles through which the oligarchs controlled the Greek economy, after all. For a month, they had been discussing how to separate the banks into "good bank" and "bad bank," either nationalizing them (wiping out stockholders) or creating a Public Option alternative.

Most important, once out of the eurozone, Greece could create its own Treasury to monetize its spending. The Institutions called this "scrip," but the Greeks could establish it as their national currency. They would escape from euro-austerity – except, of course, to the extent that the ECB waged economic war on Greece by imposing its own capital controls.

By going through the sham negotiations with The Institutions, Syriza gave Greeks enough time to protect what savings and cash they had – by converting these bank deposits into euro notes, automobiles and “hard assets” (even boats).

Businesses borrowed from local banks where they could, and moved their money into eurozone banks or even better, into dollar and sterling assets. Their intention is to pay back the banks in depreciated drachma, pocketing a 30% capital gain.

What commentators miss is that Syriza (at least its left) wants to be transformative. It wants to free Greece from the post-military oligarchy that evades taxes and monopolizes the economy. And it wants to transform Europe, away from ECB austerity to create a real central bank. In the process, it demands a clean slate of past bad debts. It wants to reject the IMF’s austerity philosophy and refusal to take responsibility for its bad 2010-12 bailout.

This larger, transformative picture is at the center of Syriza-left plans.

I’m in Germany now (on my way to Brussels), and have heard from Germans that the Greeks are lazy and don’t pay taxes. There is little recognition that what they call “the Greeks” are really the oligarchs. They have gained control of the old coalition Pasok/New Democracy parties, avoided paying taxes, avoided being prosecuted (New Democracy refused to act on the “Lagarde List” of tax evaders with nearly 50 billion euros in Swiss bank accounts), orchestrated insider dealings to privatize infrastructure at corrupt prices, and used their banks as vehicles for capital flight and insider lending.

This has turned the banks into vehicles for the oligarchy. They are not public institutions serving the economy, but have starved Greek business for credit.

So one casualty apart from the credibility of the eurozone, the ECB and the IMF will be these banks. Syriza is positioning itself to provide a public option – public banks that will promote the economy, and a national Treasury that will spend government money INTO the economy, not drain it to pay the Troika for having bailed out French and other banks back in 2010-1.

The European popular press is as bad as the U.S. press in describing matters. It warns of “hyperinflation” if a central bank monetizes as much as one euro of government spending in the way that the U.S. Fed does, or the bank of England or any other real central bank. The reality is that nearly all hyperinflations stem from a collapse of foreign exchange as a result of having to pay debt service. That was what caused Germany’s hyperinflation in the 1920s, not domestic German spending. It is what caused the Argentinean and other Latin American hyperinflations in the 1980s, and Chile’s hyperinflation earlier.

But once Greece frees itself from the odious debts forced upon it at financial gunpoint in 2010-12, its balance of payments will be roughly in balance (subject to some depreciation of the drachma; 30% is a number I heard bandied about in Athens last week).

To mimic Margaret Thatcher, “There is No Alternative” to withdrawing from the eurozone. The terms dictated for remaining in it was to sell off all of what remained in Greece’s public sector to European and U.S. buyers, at insider prices – but not to Russian buyers, even for the gas pipeline that was to have been sold.

Evidently the eurozone financial strategists thought that Tsipras and Varoufakis would simply surrender, and be promptly voted out of power, thereby crushing their socialist policy agenda. They miscalculated – and are now hoping to create as much anarchy as possible to punish the Greek people. The punishment is for not continuing to support their client oligarchy, which has moved most of its assets out of reach of the government.

But instead of Syriza losing credibility, it is the ECB – which refuses to create money to finance economic recovery, but only to pay the oligarchs’ banks so that they can continue to control the government. This control is now being weakened precisely because their banks are being weakened.

Greece’s Parliament last week released its Debt Truth Commission report explaining why Greece’s debts to the IMF and ECB are odious, and were taken on without a popular referendum approving these loans. Indeed, Mrs. Merkel and Mr. Sarkozy obeyed Mr. Obama and Geithner when the latter insisted at a G8 meeting that the ECB ignore the IMF economists’ analysis that Greece could not pay its debts, and bail out the banks. Geithner and Obama explained that U.S. banks had placed big financial bets that Greece would pay its private bondholders, so the ECB and IMF had to lend the government the funds to pay – but had to overthrow the country’s Prime Minister Papandreou who had urged a referendum on whether Greek people really wanted to commit economic and political suicide.

Financial technocrats were put in place to serve the domestic oligarchy and foreign bondholders. Greece was under financial attack just as deadly as a military attack. Finance is war. That is this week’s lesson.

And for the first time, debtor countries are realizing that they are in a state of war.

This is why markets are crashing on Monday, June 29.

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Eurozone financial strategists made it clear that they wanted to make an example of Syriza as a warning to Spain’s Podemos party, and anti-euro parties in Italy and France. The message was supposed to have been, “Avoid our austerity and we will cause chaos. Look at Greece.”

But the rest of Europe is interpreting the message in just the opposite way: “Remain in the eurozone and we will only create money to strengthen the financial oligarchy, the 1%. We will insist on budget surpluses (or at least, no deficits) so as to starve the economy of money and credit, forcing it to rely on commercial banks at interest.”

Greece has indeed become an example. But it is an example of the horror that the eurozone’s monetarists seek to impose on one economy after another, using debt as a lever to force privatization selloffs at distress prices.

In short, finance has shown itself to be the new mode of warfare. Resisting debt leverage and financial conquest is as legal as is resisting military invasion.

The Delphi Initiative - Speech by Michael Hudson 13:44 min

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