

The Financial Attack on Greece: Where Do We Go From Here?

by MICHAEL HUDSON

July 8, 2015

The major financial problem tearing economies apart over the past century has stemmed more from official inter-governmental debt than with private-sector debt. That is why the global economy today faces a similar breakdown to the Depression years of 1929-31, when it became apparent that the volume of official inter-government debts could not be paid. The Versailles Treaty had imposed impossibly high reparations demands on Germany, and the United States imposed equally destructive requirements on the Allies to use their reparations receipts to pay back World War I arms debts to the U.S. Government.[1]

Legal procedures are well established to cope with corporate and personal bankruptcy. Courts write down personal and business debts either under “debtor in control” procedures or foreclosure, and creditors take a loss on loans that go bad. Personal bankruptcy permits individuals to make a fresh start with a Clean Slate.

It is much harder to write down debts owed to or guaranteed by governments. U.S. student loan debt cannot be written off, but remains a lingering burden to prevent graduates from earning enough take-home pay (after debt service and FICA Social Security tax withholding is taken out of their paychecks) to get married, start families and buy homes of their own. Only the banks get bailed out, now that they have become in effect the economy’s central planners.

Most of all, there is no legal framework for writing down debts owed to the IMF, the European Central Bank (ECB), or to European and American creditor governments. Since the 1960s entire nations have been subjected to austerity and economic shrinkage that makes it less and less possible to extricate themselves from debt. Governments are unforgiving, and the IMF and ECB act on behalf of banks and bondholders – and are ideologically captured by anti-labor, anti-government financial warriors.

The result is not the “free market economy” it pretends to be, nor is it the rule of economically rational law. A genuine market economy would recognize financial reality and write down debts in keeping with their ability to be paid. But inter-government debt overrides markets and refuses to acknowledge the need for a Clean Slate. Today’s guiding theory – backed by monetarist junk economics – is that debts of any size can be paid, simply by reducing labor’s wages and living standards, plus by selling off a nation’s public domain – its land, oil and gas reserves, minerals and water distribution, roads and transport systems, power plants and sewage systems, and public infrastructure of all forms.

Imposed by the monopoly of inter-governmental financial institutions – the IMF, ECB, U.S. Treasury, and so forth – creditor financial leverage has become the 21st century’s new mode of warfare. It is as devastating as military war in its effect on population: rising suicide rates, shorter lifespans, and emigration of the age-cohort that always have been the major casualties of war, young adults. Instead of being

drafted into the army to fight foreign foes, they are driven from their homes to find work abroad. What used to be a rural exodus from the land to the cities from the 17th century onward is now a “debtor exodus” from countries whose governments owe unpayably high sums to creditor governments and to the banks and bondholders on whose behalf they impose their policy.

While pushing the world economy into a state of war internationally, high finance also is waging a class war against labor – and ultimately against governments and thus against democracy. The ECB’s policy has been brutal toward Greece this year: “If you do not re-elect a right-wing party or coalition, we will destroy your banking system. If you do not sell off your public domain to buyers we will make life even harder for you.”

No wonder Greece’s former Finance Minister Janis Varoufakis called the Troika’s negotiating position “financial terrorism.” Their idea of “negotiation” is surrender. They are unyielding. Official creditor institutions threaten to isolate, sanction and destroy entire economies, including their industry as well as labor. It transforms the 19th-century class war into a purely destructive meltdown.

That is the great difference between today and 1929-31. Then, the world’s leading governments finally recognized that debts could not be paid and suspended German reparations and Inter-Ally debts. Today’s the unpayability of debts is used as leverage in class war.

The immediate political aim of this financial warfare in Greece is to replace its elected government (supported by a remarkable July 5 referendum vote of 61 to 39) with foreign creditor control by “technocrats,” that is, bank lobbyists, factotums and former Goldman Sachs managers. The long-term aim is to impose a war against labor – in the form of austerity – and against the power of governments to determine their own tax policy, financial policy and public regulatory policy.

Fortunately, there *is* an alternative. Here is what is needed. (I outlined my proposals in a presentation before the Brussels Parliament on July 3,[2] following an earlier advocacy at The Delphi Initiative in Greece, convened by Left Syriza the preceding week.[3])

A declaration reaffirming the rights of sovereign nations

Sovereign nations have a right to put their own growth ahead of foreign creditors. No nation should be obliged to impose chronic depression and unemployment or polarize the distribution of wealth and income in order to pay debts.

Every nation has the right to the basic criteria of nationhood: the right to issue its own money, to levy taxes, and to write its laws, including those governing relations between creditors and debtors, especially the terms of bankruptcy and debt forgiveness.

Economic logic dictates what was recognized by the end of the 1920s: When debts reach the level that they disturb basic economic balance and derange society, they should be annulled. Another way of saying this is that the volume of debt – and its carrying charges – must be brought within the reasonable ability to pay.

Rejecting the “hard money” (really a “hard creditor”) position of anti-German, anti-

labor economists Bertil Ohlin and Jacques Rueff, Keynes argued that creditors had an obligation to explain to Germany just *how* they would enable it to pay its reparations.[4] At that time, Keynes meant specifically that France, Britain and other recipients of reparations should specify just what German exports they would agree to buy. But today, creditors define a nation's ability to pay *not* in terms of how it can *earn* the money to pay down the debt, but rather what public domain assets it can sell off in what is essentially a national bankruptcy proceeding. Debtor countries are compelled to let their public infrastructure be sold off to rent-extractors to create a neofeudal tollbooth economy.

Under international law, no nation is legally obliged to do this. And under the moral definition of nationhood, they should *not* be forced to do so. Their right to resist this form of debt blackmail is what makes them sovereign, after all.

It is true that the principle of the European Union was that individual nations would cede their rights to a larger entity. The union itself was to exercise the rights of nationhood, democratically on the basis of a pan-European constituency.

But this is not what has happened. The EU has no common ability to tax and spend; those powers remain local. The one area where it does govern taxes is dysfunctional: EU ideologues insist on taxing consumers (via the Value Added Tax, VAT) and labor via pension set-asides.

More fatally, the eurozone has no ability – or at least, no willingness – to create money to fund deficit spending. What it calls a “central bank” is only designed to provide money to domestic banks and, even worse, to lobby for the interest of private bankers *against* the principle of public central bank money creation.

The EU does not even have a meaningful legal system empowered to fight fraud and financial crime, prosecute or clean up insider dealing and corrupt oligarchies. In the case of Greece, where the ECB at least insisted on the need to clean up such behavior, it was only to “free” more revenue for foreign investors from public agencies scheduled to be privatized to pay debts to the ECB and its crony institutions for the money they had paid private bondholders and banks in the face of economies shrinking from a combination of debt deflation and fiscal deflation.

Taken together, these defects mean that the Eurozone and EU were malstructured from the start. Control was placed so firmly in the hands of bankers and anti-labor ideologues that it may not be reformable – in which case a new start must be made.

In any event, here are the institutional reforms that are urgently needed. In view of the financial sector's control of the main institutions, these reforms require entirely new institutions not governed by the pro-rentier logic that has deformed the eurozone. The most pressing needs are for the following institutions.

An international forum to adjudicate the ability (or inability) to pay debts

What is needed to put this basic principle into practice is creation of a new international forum to adjudicate how much debt *can* reasonably be paid – and how much should be annulled. In 1929 the Young Plan (which replaced the Dawes Plan to deal more rationally with German reparations) called for creation of such an institution – what became the Bank for International Settlements (BIS) in 1931 to stop

the economic destruction of Germany by bringing its reparations back within the ability to pay.

The BIS no longer can play such a role, because it has become the main meeting place for the world's central banks, and as such has adopted the hardline "all debts must be paid" position that it originally was intended to oppose.

Likewise the IMF no longer can play this position. It is hopelessly politicized. Despite its technical staff ruling in 2010-11 that Greece's foreign debts could not be paid and hence needed to be written off, its heads – first Dominique Strauss-Kahn and then Christine Lagarde – acted in blatant conflict of interest to support the French bankers demands for payment in full, and U.S. demands by President Obama and Wall Street lobbyist Tim Geithner to insist that there be no writedown at all. That was the price for French bank support for Strauss-Kahn's intended bid for the French presidency, and more recently backing for Lagarde's rise to power at IMF. Given the U.S. veto power by Wall Street and the insistence that right-wing anti-labor ideologues (usually French) be appointed head of the IMF, a new organization representing the kind of economic logic outlined by Keynes, Harold Moulton and others in the 1920s is necessary.

Creation of such an institution should be a leading plank of Euro-left politics.

A Law of Fraudulent Conveyance, applicable to governments

The private sector has long had laws that prevent money-lenders from lending a borrower more funds than the debtor can reasonably be expected to pay back in the normal course of business. If a lender advances, say, \$10,000 as a mortgage loan against a house worth more (say, \$100,000), and then insists that the debtor pay or lose his home, the courts may assume that the loan was made with this aim in mind, and annul the debt.

Likewise, if a company is raided by borrowers who load it down with high-interest junk bonds, and then seize its pension funds and sell off assets to pay their debts, the company under attack can sue under fraudulent conveyance rules. They did so in the 1980s.

This lend-to-foreclose ploy is the very game that the Troika have played with Greece. They lent its government money that the IMF economists explained quite clearly in 2010-11 (and reaffirmed this year just before the Greek referendum) could not be paid. But the ECB then swooped in and said: Sell off your infrastructure, sell your ports, your gas rights in the Aegean, and entire islands, to get the money to pay what the IMF and ECB have paid French, German and other bondholders on your behalf (while saving U.S. investment banks and hedge funds from losing their bets that Greek debts would indeed be paid).

Application of this principle requires an international court to rule on the point at which debt service becomes intrusive, and write down debts accordingly.

No such set of institutions exists today.

Creation of Treasuries as national central banks to monetize deficit spending

Central banks today only lend money to banks, for the purpose of loading economies

down with debt. The irrational demand by bankers to prevent a public option from creating credit on its own computer keyboards (the same way that banks create loans and deposits) is designed simply to create a private monopoly to extract economic rent in the form of interest, fees, and finally to foreclose on defaulting creditors – all guaranteed by “taxpayers.”

The European Central Bank is not suited for this duty. First of all, it is based on the ideology that public money creation is inflationary. The reality is that central bank money creation has just financed the greatest inflation of modern history – asset price inflation of the real estate market by junk mortgages, inflation of stock prices by junk bond issues, and central bank Quantitative Easing to create the fastest and largest bond market rally in history. The post-1980 experience with central banks has removed any moral or economic logic in their behavior as lobbyists for commercial banks, defenders of their special privileges, deregulator of financial crime, and extremist right-wing blockers of a public option in banking to bring basic services in line with actual costs. In short, if commercial banking systems in nearly every country have become de-industrialized and perverse, their enablers have been the central banks.

The remedy is to replace these central banks with what preceded them: national Treasuries, whose proper function is to monetize government spending *into* the economy. The basic principle at work should be that any economy’s monetary and credit needs should be met by public spending and monetization, not by commercial banks creating interest-bearing credit to finance the transfer of assets (e.g., real estate mortgages, corporate buyouts and raids, arbitrage and casino-capitalist gambles).

Summary

Every nation has a right to defend itself against attack – financial attack just as overt military attack. That is an essential element in the principle of self-determination.

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. International law needs to be updated to recognize that finance has become the modern-day mode of warfare. Its objectives are the same: acquisition of land, raw materials and monopolies.

A byproduct of this warfare has been to make today’s financial network so dysfunctional that nations need a financial Clean Slate. The most successful one in modern times was Germany’s Economic Miracle – the post-World War II Allied Monetary Reform. 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. The logic prompting both these acts needs to be re-applied today.

With specific regard to Greece, Syriza’s leaders have said that they want to save Europe. First of all, from the eurozone’s destructive economic irrationality in not having a real central bank. This defect was deliberately built into the eurozone, to enforce a monopoly of commercial banks and bondholders powerful enough to gain control of governments, overruling democratic politics and referendums.

Current eurozone rules – the Maastricht and Lisbon treaties – aim to block governments from running budget deficits in a way that spend money into the economy to revive employment. The new goal is only to rescue bondholders and banks from making bad loans and even fraudulent loans, bailing them out at public expense. Economies are obliged to turn to commercial banks for loans to obtain the money that any economy needs to grow. This principle needs to be rejected on grounds that it violates a basic sovereign right of governments and economic democracy.

Once an economy is fiscally crippled by (1) not having a central bank to finance government spending, and (2) by limiting government budget deficits to just 3% of GDP, the economy must shrink. A shrinking economy will mean fewer tax revenues, and hence deeper government budget deficits and rising government debt.

The ultimate killer is for the ECB, IMF and EC to demand that governments pay their debts by privatizing public infrastructure, natural resources, land and other assets in the public domain. To compound this demand, the Troika have blocked Greece from selling to the highest bidder, if that turns out to be Gazprom or another Russian company. Financial politics thus has become militarized as part of NATO's New Cold War politics. Debtor economies are directed to sell to euro-kleptocrats – on terms financed by banks, so that interest charges on the deal absorb all the profits, leaving governments without much income tax.

Notes.

[1] This is the theme of my [*Super Imperialism: The Economic Strategy of American Empire*](#) (1972, new ed., 2002).

[2] The video of the day can be found here: <http://www.guengl.eu/news/article/press-conferences/peripheral-debts-causes-consequences-and-solutions.-2-july> (I'm at about 37 minutes.)

[3] <http://www.counterpunch.org/2015/06/26/the-delphi-declaration/>

[4] I summarize this debate between Keynes and his antagonists in *Trade, Development and Foreign Debt* (new ed. ISLET 2009), chapter 16.

Michael Hudson's book summarizing his economic theories, "[*The Bubble and Beyond*](#)," is now available in a new edition with two bonus chapters on Amazon. His latest book is [*Finance Capitalism and Its Discontents*](#). He is a contributor to [*Hopeless: Barack Obama and the Politics of Illusion*](#), published by AK Press. Hudson's new book, *Killing the Host*, will be published this summer by CounterPunch Books. He can be reached via his website, mh@michael-hudson.com