Greek Government Is Right: The 'Debt' Is a Swindle

by Paul Gallagher

Feb. 21—The core of the fight over Greece and "its debt," is that the new Greek government, with huge public backing, has been asking the European Union to shut down a tremendous Wall Street-London bank swindle and make economic growth possible again in Europe.

If that doesn't happen, the worsening bankruptcy of the whole trans-Atlantic banking system will continue to generate desperate confrontations with major powers Russia and China, with the threat of world war.

The rest of Europe, so far, has refused to shut down that Wall Street swindle, and on Feb. 18, Obama's Treasury Secretary Jack Lew backed up that refusal, including by a threatening phone call to the Greek finance minister.

The refusal to write down unpayable debt, by Europe's bankrupt giant banks and governments, is the fundamental reason the economies of the whole European Union have been dead in the water for seven years. Since the 2008 financial crash, these banks have sat with €2 trillion of toxic real estate debt on their books, tangled in tens of trillions in derivatives contracts—unable and unwilling to lend into the European economies, through year after year of economic recession and depression. Anything suggesting bank reorganization to deal with these dead debt securities under Glass-Steagall principles, has been refused, and Europe's bankrupt megabanks lie, like undead monsters, blocking the road to productive credit, investment, and recovery.

Now, the battle over whether Greece can adopt an economic recovery strategy has exposed the fact that large amounts of *government debt*, accumulated by governments bailing out their big banks, is also unpayable and must be written down.

Fraudulent, Unpayable Debt

In the case of Greece, much of that debt was fraudulently piled on the country in the course of huge bank bailouts, in 2010 and 2012, totalling about €245 billion. These rocketed the country's debt, as a ratio of its GDP, from 126% at the end of 2009 to 175% at the end of 2014. The impacts on other national debts was equally dramatic: Ireland's, for example, rose from 25% of GDP before it bailed out London's banks headquartered in its territory in 2009, to 125% afterwards.

The debt piled on Greece in the past 12 years (since it joined the euro currency) is significantly illegitimate in regard to its causes and relationship to the real economy of the country. It cannot be paid in the next half-century, and it cannot be paid by continued cuts in employment, pensions, wages, health-care services, and selling off national income and infrastructure.

And since the huge bank bailouts, "Greek debt" exists only on the basis of the Wall Street practice for unpayable debt, known as "extend and pretend." Its interest and repayment terms have been so dramatically changed by the creditors—in a backhanded admission that it cannot be paid—that in debt-market terms, it is nearly worthless. In fact, one of the leading speculators in Greek debt, Paul Kazarian, presents accounting proof to all who will listen, that Greece's actual current debt is not €320 billion, but just €32 billion!

Yet the IMF, the European Central Bank, and the European Commission are demanding that Greece make debt payments of €20 billion *this year*, an amount equal to 11% of Greece's entire national product.

How? What President Obama, Chancellor Merkel, et al. are demanding Greece do, instead of shutting down this Europe-wide swindle by the banks, is to run a "primary budget surplus" of 4.5% of its national product, or about €7 billion, exclusively to pay the "Greek debt." In U.S. terms? That would mean *the United States running a government tax surplus of $700 billion a year, in order to pay down debt.* You won't hear Obama or Jack Lew volunteering to try it; it is impossible. All of the other European countries combined, except for Greece, have a *negative* primary budget balance.

Debt Suicide

When Europe bailed out its biggest, bankrupt banks, it gave the bill to Greece and other super-indebted countries, to be paid with mass unemployment and deadly austerity programs.

The "Greek debt" swindle is the same one as the TARP [Troubled Asset Relief Program] bailout in the United States, and the Federal Reserve's printing of $4 trillion in new money to cover Wall Street's debts. Its political perpetrators are the same huge banks, and the European Central Bank working with the Federal Reserve.

In the United States, the big banks took millions of subprime, unrepayable mortgages sold by their captive mortgage companies, and made them into toxic securities and derivatives bets which blew up the financial system and the whole economy in 2008. The government bailed them out, while our living standards plunged.

In Europe, the banks bought these toxic mortgage securities and derivatives from the U.S. banks in very large quantities. At the same time they made millions of unrepayable subprime loans of their own—not only to homeowners and commercial real estate owners, but also to governments without the means to repay those debts, like those of Greece, Ireland, Portugal, and Hungary. Big Wall Street banks were involved, particularly Goldman Sachs, which created "magic" derivatives in 2001: Take a bank loan to Greece, make it look like a mere "currency swap" rather than a debt—but turn it into a much bigger debt ten years later.

All this European subprime debt blew up on the big banks in 2009, a year after the U.S. subprime debt blew up on them. Then the European governments *all* super-indebted themselves, in order to create and guarantee a €750 billion ($1 trillion) "European TARP," called by the initials EFSF. They bailed out the megabanks, with the IMF pitching in. They used about €485 billion ($600 billion) to bail out the unpayable "subprime government debt" portion of it. Some €245 billion ($290 billion) of this bailed out "Greek debt."

This immense bank bailout got *passed through* the Greek, Irish, and other governments, which passed the money immediately on to the banks that had been their "subprime lenders."

Illegitimate Debt

The "Greek debt" swindle is classic.

First, the subprime lending. When Greece joined the Eurozone in 2002, with the help of Goldman Sachs' "magic derivatives," it began using the euro, a currency greatly overvalued relative to its economy, which in effect made Greek products much more expensive than those of the countries it was trading with. The Greek trade deficits which immediately resulted, averaged €30 billion/year from 2002 to 2008, reaching €43 billion in 2008. Much of this deficit was with the United States and Germany, notably U.S. and German military equipment. One particularly unnecessary deal was in 2006 for six German submarines, valued at €12 billion, of which only one has ever been delivered! Of this roughly €200 billion trade deficit over 2002-08, military purchases alone were €80-90 billion, according to the rough data of the Stockholm International Peace Research Institute.

Such trade deficits produce national debts; they are largely financed by, ultimately, government borrowing. From 2002-08, while Greece's trade deficits totalled €200 billion, its nominal debt grew from €160 billion to €260 billion, and its central bank became indebted to the European Central Bank by €50 billion.

Greece has paid about €60 billion in interest to international creditors since it joined the Eurozone (though the interest rate has now been drastically reduced under the policy of "extending" the debt and "pretending" Greece can pay it some day).

Second, came the global financial crash, culminating in late 2008, which imposed large costs on the Greek government, like all others; every trans-Atlantic nation's government went into deep budget deficits. For Greece, the national debt leapT again from €260 billion in 2008, to €330 billion in 2010.

Third, were the big 2010 and 2012 bailouts—part of *Europe-wide* massive bailouts of bad debts held by the big Wall Street and London-centered banks.

In 2009, Greece's debt was €260 billion. It then "got" two huge bailouts in 2010 and 2012, totalling about €245 billion ($295 billion) between them, mainly from the EFSF, but also from the IMF and European Central Bank.

Less than 10% of that €245 billion stayed in Greece and was spent by the Greek government; more than 90% went directly and immediately to Deutschebank, HSBC, JPMorgan Chase, and their fellow sharks, with small amounts crumbling to the hedge funds swimming alongside. Former Greek Economics Minister Louka Katseli has provided documentation that the Greek government actually spent or invested *just 3%* of that €245 billion in Greece.

Fourth came the "bail-in." As part of the 2012 bailout, large Greek banks—and Greek banks only—had to write off a big chunk of their "Greek debt," while the Wall Street- and London-centered banks got their toxic debt "assets" guaranteed 100% by this European bailout swindle. Several Greek banks swooned as a result, and the Greek government now had to recapitalize them, putting in €19 billion and then €17 billion in 2012-13. That €35 billion had to be borrowed by the government, and was added to the fraud of what is called the "Greek debt." *Thus a bail-in action against the Greek banks, supposedly to reduce the outstanding Greek government debt, actually increased it.*

Then, between 2010 and today, Greece, Ireland, Portugal, etc. were ordered to pay the bill for this huge new Europe-wide bank bailout debt. They imposed a slashing domestic austerity until their people emigrated, death rates rose and birth rates fell, and clouds of wood smoke rose over modern cities whose inhabitants could no longer afford modern heat (see article, below).

After five years of this punishment, Greece's unemployment rate is 25%—close to 60% among youth—its GDP has shrunk by a terrible 20%. And its €260 billion debt of 2009 has become €320 billion—after €245 billion was passed through to the banks!

Of course now, after the whole swindle, two-thirds of the "Greek debt" is owed to the EFSF, the IMF, and the European Central Bank. The big private banks of Europe and Wall Street "have gotten out" completely—were bailed out, that is, and it is this bailout for which Greece has been left with the bill.

But should Greece be forced to default on that bill, all the Eurozone countries will "owe" it; they all guaranteed the EFSF and IMF bailout loans, and their central banks have guaranteed the ECB loans. The Wall Street and London banks have put them all over a barrel, unless they put that debt—and those banks—into bankruptcy reorganization.

End the Swindle; Write Down the Debt

This is why the new Greek government, backed overwhelmingly by its people, has demanded that Europe shut down this global bank swindle. To demand that Greece attempt, by austerity "reforms," to make the €20 billion payments in 2015 is a violation of natural law; it will cause many more needless deaths and further depopulate the country.

The unpayable debt must be written off. Invest in reviving economic productivity by building new economic infrastructure. Put the megabanks through a Glass-Steagall reorganization and break them up.

In Greek Finance Minister Yanis Veroufakis's Feb. 18 letter to the "European Institutions," he proposed to stop extending and pretending:

"Investment should be revived, in Greece and in the whole Europe. We want to revive infrastructure projects with public and private investors and the support of the euro. . . .

"The [Greek] government will create a development bank which will incorporate state assets, enhance their equity value through reforming property rights, and use them as collateral for the purposes of providing, in association with European investment institutions such as the European Investment Banks, funding to the Greek private sector."

When debt must be written down, it is best exchanged for long-term bonds invested in new infrastructure and tied to specific forms of economic growth which will pay them off.

The Greek government has made clear that it knows China will be a partner in this process, and that it intends to invest in the economic infrastructure of Greece, the Balkans, and eastern and central Europe. The Greek foreign minister told Chinese representatives that Greece was ready to be "China's gateway to Europe."

This process is best done, when bankrupt debt has to be collapsed, by creating what *EIR* Founding Editor Lyndon LaRouche calls a "buffer of credit" for the real economy—a credit institution on Alexander Hamilton's principles. Such a new development bank in Greece will be linked, as Veroufakis said, to the European Investment Bank—and to China and the BRICS-allied nations.

LaRouche, in a Feb. 18 statement calling for full international backing for the Greek government's position, stated, "Looting does not constitute legitimate debt. The debt is illegal, it is unpayable, and it is the fruit of a London-led criminal enterprise that must be shut down altogether, if the world is to survive the coming months without an eruption of general war in the center of Europe. This [issue] has to be put loud and clear on every doorstep in the United States. If you want to avoid World War III, that's what you'll do."

Eurogroup and Greece Sign Ceasefire Agreement

Feb. 22—The tentative agreement hammered out by the Eurogroup of finance ministers and the Greek government is little more than a ceasefire, buying time for Athens while allowing the Eurozone to kick the can down the road.

The Greek government did not get the only means to actually solve this crisis: a European conference that deals with not just the Greek debt. but that of all the EU countries. including Ireland, Portugal, and Cyprus; and a New Deal for Europe that would fund a recovery. Such a conference would have to implement a Glass-Steagall-style reform of the hopelessly bankrupt trans-Atlantic financial system. The Eurogroup kept these solutions off the agenda altogether.

Athens won the demand that the Memorandum of austerity conditionalities designed by the Troika of the European Central Bank, the European Commission, and the International Monetary Fund will be replaced by one drafted by the Greek government that addresses the humanitarian catastrophe created by the Troika. This plan has to be approved by the EU before the agreement is finalized.

The Eurogroup refused the request of the Greek government to use the remaining €11 billion in the Hellenic Financial Stability Fund, the bank bailout fund, to clean up the non-performing loans of the Greek banks. This was rejected with a statement reiterating that the funds can only be used for recapitalization and resolution. The latter refers to bank bail-in by their depositors, with the "resolution" funds going, in effect, to the creditors identified by the ECB.

While the Greeks did not get the six-month loan extension that they had sought, they did get a four-month extension of the program. Since Athens does not want to accept any more bailout funds, which would only add on to the debt pile, in reality, all this means is that the ECB will not cut off the Greek banking system from liquidity under the Emergency Liquidity Assistance program, the suspension of which would force the Greeks to immediately institute capital controls and emergency measures which would see Greece leaving the Eurozone.

If the agreement means anything, it means that within the next four months, either Europe and the United States put the current system into bankruptcy, or face collapse, which could take place almost at any minute. For the Greeks, it gives them time to either convince the other Europeans of the righteousness of their cause, or prepare to implement Plan B, joining the BRICS for a new development paradigm.

—Dean Andromidas