

## The Truth About the Greek Loan Default

Dustin Mineau: July 1, 2015

The events surrounding Greece's default is the culmination of everything wrong with the world order today: An incorrect view of how modern currency works; a cultish adherence to debt repayment, a political order that puts the interests of international creditors ahead of ordinary workers, and a complete inability for the international power elite to admit they are wrong.

Of all the things that are wrong, I think the most perverse is the cultish attitude towards debt repayment. Greece has no ability to pay back its debt. For the last 5 years, it has agreed to almost every cut in government spending the E.U. and IMF have insisted on. It has raised its retirement age by over a decade to 67. It has continually increased taxes. And yet, when none of these worked, the elite demanded more, more, and more. Never considering that its time to declare bankruptcy and start over.

Despite 5 years of making things worse, The IMF, E.U. and World Bank continue to hold to their same old prescriptions: Cut government services to the poor, cut health care spending, raise taxes on labor, and cut taxes on capital. That's right, you read that last part correctly. As they insist on raising sales taxes - they call it VAT or Value-added-tax(the most regressive tax in modern democracies), they have insisted on Greece cutting corporate taxes. The elite adhere to the idea of neoliberalism. That if the country quits taxing capital and investment and moves taxes to a sales tax, at the same time they cut welfare then the country will prosper, tax revenues will go up, and the budget will be balanced.

Of course that idea has almost never worked. (I can't think of a single instance where it did, but I'll say "almost" just in case there was one). Despite this low success rate, the global elite keep trying to impose these policies on in-debt nations through the IMF, World Bank, and now... the European Central Bank. Greece is only the latest causality. It is shocking because its the first time the global elite have done this to an industrially advanced and well-developed country. Their usual targets are 3rd world nations in Africa and Latin America. Despite these neoliberal ideas hardly ever working, and not working in Greece for the last 5 years, they keep trying. It is like a religion to them and they can't accept that it is failing.

Many people over simplify the problem by suggesting that Greece has "lived beyond its means" - I've seen that attitude in non-partisan business reports on the issue. Thus trying to frame the whole thing as a morality play and those lazy-ass Greeks are getting what's coming to them. This is a complete misunderstanding of currency and a reduction of a complex issue into willful ignorance. They think that well if Greece is in debt, they just need to do what everyone else does: increase revenue and cut spending.

The problem is, if I do that, it affects very few people. If a national government does that it affects a lot of people, raise unemployment, and put the entire country's economy into a tailspin... which results in lower, not higher revenue. Also, if a person accumulates too much debt that they can't pay it, they can default. A country cannot default without causing an entire economic shit-storm. In addition, the E.U., IMF, and World Bank make it as hard as possible on countries that consider default by trying to cut all future financial ties.

Rather than default, the proper way for a nation to deal with a debt problem is to devalue its currency. What this means is that their currency is worth less vs other currencies (like U.S. dollars vs Mexican Peso) Either "naturally" by letting the currency exchanges happen naturally (this is what most countries do) or they do it explicitly if they have a "fixed exchange". (Few countries have a "fixed exchange" where they declare something like they'll trade 7 lira for 1 American dollar or .01 oz of gold, but if they do and they have a debt deficit issue, they can just decrease the exchange)

Unfortunately, Greece cannot do that. Greece doesn't control their own currency the way other nations do. They use the Euro. Therefore, bankruptcy or accepting the terms of their new lender masters (IMF, World Bank, and E.U.) are their only options. And since 5 years of being at their mercy hasn't resolved the issue, you can now understand why they chose default. With 25% unemployment, a welfare state that has been gutted in 5 years, and taxes higher than ever, what choice did they have?

Well, that isn't completely true. They have another choice. They can dump the Euro and go back to the Drachma. All this strife never would've happened if they still used the Drachma. Sure, they still may have suffered some economic consequences, but not to the degree that we have seen. Even if one were to concede that Greek budget deficits were too high, the only consequence would've been the Drachma was worth less in the world. That would've meant that all Greek's were poorer, sure (in other words... ALL citizens would've shared a small dip in wealth instead of just the poor not being able to find a job). However it wouldn't have caused 25% unemployment for the next 5 years. It also would've meant that Greece suddenly became an attractive place for a business to make goods for export. If that had happened, instead of hearing lies about lazy-ass Greeks living beyond their means, we might instead be hearing about the Greek miracle of how Greece came out of the 2009 recession to become an industrial power house of Europe.

This could be the ultimate way out for Greece. In fact, some insiders have noted that if the Greece government started giving out IOUs for its debts, and accepted them back for payment, the IOUs could become a defacto new currency.

For the sake of the people of Greece I sure hope they choose a route that does something like dumping the Euro. Unfortunately, many people in Greece and its government don't realize the Euro is causing their trouble and want to keep it. For those who may be inclined to agree, I have to ask, is 5 years.

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