"Guerrilla Warfare" Against the EU-ECB-IMF Economic Hegemony: The Challenge and Promise of Greece. The Nationalization of the Banking System

By Ellen Brown
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Banks create money when they make loans. Greece could restore the liquidity desperately needed by its banks and its economy by nationalizing the banks and issuing digital loans backed by government guarantees to its ailing businesses. Greece could provide an inspiring model of sustainable prosperity for the world. But it is being strangled by a hegemonic power in a financial war that is being waged against us all.

On July 4, 2015, one day before the national vote on the austerity demands of Greece's creditors, it was rumored in the Financial Times that Greek banks were preparing to "bail in" (or confiscate) depositor funds to replace the liquidity choked off by the European Central Bank.

The response of the Syriza government, to its credit, was "no way." As reported in Zerohedge, the government was prepared to pursue three "nuclear options" to protect the deposits of the Greek people:

- nationalize the banks,
- launch a parallel currency in the form of electronic California-style IOUs, and
- use the Greek central bank's printing press to issue euros.

Ambrose Evans-Pritchard wrote in the UK Telegraph:

> Syriza sources say the Greek ministry of finance is examining options to take direct control of the banking system if need be rather than accept a draconian seizure of depositor savings – reportedly a 'bail-in' above a threshhold of €8,000 – and to prevent any banks being shut down on the orders of the ECB.

Government officials recognize that this would lead to an unprecedented rift with the EU authorities. But Syriza's attitude at this stage is that their only defense against a hegemonic power is to fight guerrilla warfare.

The Hegemonic Power of the ECB

The Greek crisis is a banking crisis, and it was precipitated largely by the Mafia-like tactics of the European Central Bank and the international banks it serves (notably Goldman Sachs). As Jeffrey Sachs observed in the Financial Times in 2012:

> The Greek economy is collapsing not mainly from fiscal austerity or the lack of external competitiveness but from the chronic lack of working capital. Greece's small and medium-sized enterprises can no longer obtain funding. . . . The shutdown of Greece's banking sector brings to mind the dramatic shrinkage of bank lending during 1929-33 in the Great Depression.

Economist James Galbraith explains the critical role of the ECB in this shutdown:

> A central bank is supposed to protect the financial stability of solvent banks. But from early February, the ECB cut off direct financing of Greek banks, instead drip-feeding them expensive liquidity on special "emergency" terms. This promoted a slow run on the banks and paralyzed economic activity. When the negotiations broke down, the ECB capped the assistance, prompting a fast bank run and giving them an excuse to impose capital controls and effectively shut them down.

In December 2014, when the Greek Parliament was threatening to reject the pro-austerity presidential candidate, Goldman Sachs warned in a memo:

In the event of a severe Greek government clash with international lenders, interruption of liquidity provision to Greek banks by the ECB could potentially even lead to a Cyprus-style prolonged "bank holiday".

And that is exactly what happened after the anti-austerity Syriza Party was elected in January. Why would the ECB have to "interrupt liquidity provision" just because of a "clash with international lenders"? As noted by Mark Weisbrot, the move was completely unnecessary.

The crisis to which it has led was described by Evans-Pritchard on July 7th:

> Events are now spinning out of control. The banks remain shut. The ECB has maintained its liquidity freeze, and through its inaction is asphyxiating the banking system.
>
> Factories are shutting down across the country as stocks of raw materials run out and containers full of vitally-needed imports clog up Greek ports. Companies cannot pay their suppliers because external transfers are blocked.

Private scrip currencies are starting to appear as firms retreat to semi-barter outside the banking system.

The Tourniquet of the Central Bank

It is not just Greek banks but all banks that are dependent on central bank liquidity, because they are all technically insolvent. They all lend money they don't have. As the Bank of England recently acknowledged, banks do not actually lend their deposits. Rather, they create deposits when they make loans. They do this simply with accounting entries. There is no real limit to how much money they can create, so long as they can find creditworthy customers willing to borrow it.

The catch is that the bank still has to balance its books at the end of the day. If it comes up short, it can borrow from the banks into which its deposits (whether "real" or newly created) have migrated. Banks can borrow from each other at very low rates (in the US, the Fed funds rate is 0.25%). They keep the difference in rates as their profit.

The central bank, which has the power to print money, is the ultimate backstop in this money-creating scheme. If there is leakage in the system from cash withdrawals or transfers to foreign banks, the central bank supplies the liquidity, again at very low bankers' rates.

That is the way the system should work. But in the Eurozone, the national central banks of member countries have relinquished their critical credit power to the European Central Bank. And the ECB, like the US Federal Reserve, marches to the drums of large international banks. The central bank can flick the credit switch on or off at its whim. Any country that resists going along with the creditors' austerity program may find that its banks have been cut off from this critical liquidity, being branded no longer "good credit risks." That damning judgment becomes a self-fulfilling prophecy, as is now happening in Greece.

Turning the Credit Spigots Back On

The problem now for Greece is how to restore bank liquidity without the help of the ECB. One way would be to leave the Eurozone and return to its own national currency, as many pundits have urged. Its central bank could then issue all the drachmas needed to fund the government and provide cash for the banks.

But that alternative comes with other major downsides, including that the drachma would probably plummet against the euro. Greek leaders have therefore sought to stay in the Eurozone, but that means dealing with the bank runs that are bleeding the banks of euros. It also means bowing to ECB regulation, something the ECB is attempting to impose on all Eurozone banks.

Assuming, however, that Greece stays in the EU, might there be a way that the government could restore the liquidity necessary to keep its banks and the economy afloat, without the help of the ECB and while continuing to use the euro?

Consider again the Bank of England's bombshell 2014 report called "Money Creation in the Modern Economy." According to the BOE, 97% of the money supply is now created by banks when they make loans. British banks create digital pounds. US banks create digital dollars. And *Greek banks create digital euros*.

How it all works is explained by Kumhof and Jakab in an IMF paper called "Banks Are Not Intermediaries of Loanable Funds — And Why This Matters." They note that the chief practical limit to the digital creation of money is simply the willingness of banks to make loans. The central bank can create massive "excess reserves" (as the Fed did with "quantitative easing"), but bank lending to local businesses will not increase if the banks do not see a profit in it. The problem is called "pushing on a string": there is no mechanism for forcing banks to make loans.

That is true in a private commercial system, but in a nationalized system, the government can "pull" on the string. It can manage the lending of its state-owned banks, as China and Japan have done for decades. Loans to local businesses can be guaranteed with government letters of credit in lieu of capital; and if some loans turn out to be "non-performing," they can be written off or just carried on the books, as China has also done for decades. The money was created as accounting entries and can be carried on the books as accounting entries.

The Greek government could follow China's lead and nationalize its private banks, all of which are insolvent. It could then use their digital money machines to pump liquidity back into the economy, by making loans to all those once-viable businesses now starved of funds. Restoring their credit lines would allow them to pay for workers and materials, generating purchasing power and sales, increasing employment and the tax base, and generally reversing the economic death spiral induced by insufficient money in the system to keep the wheels of production turning.

In an All-digital System, the Books Are Always Balanced.

Balancing the books can easily be achieved in a closed, nationalized, digital banking system, so long as liquidity can be kept from leaking out in the form of physical cash withdrawals or transfers to foreign banks. Money transferred digitally within the system can always be found somewhere and borrowed back by the bank from which it was transferred, balancing its books.

The remaining question is, how to deal with leakage in the form of cash withdrawals or transfers to foreign banks? One radical possibility would be to go all digital: cash would no longer be official legal tender after some designated date. President Roosevelt did something similar when he took the dollar off the gold standard and ordered people to cash in their gold for paper dollars in 1933.

That approach, however, is highly controversial. Ideally, it could be avoided by simply paying an attractive digital bonus for depositing physical cash in the banks, and paying an attractive interest rate to keep it there. A sizable fee could also be charged for cash withdrawals or transfers outside Greek banks. This would not actually be a "haircut," since the digital euros would be available for use at full value so long as they were transferred by bankcard or check within the digital banking system. The transfer penalty could be phased out over time as cash deposits were built up. In effect, the money would just be on loan at interest to the banks for several years.

Another alternative would be to run the euro printing press at the Bank of Greece, something that is apparently being done quietly already. As precedent, Ireland's central bank quietly printed €51 billion in 2011.

Another much-discussed alternative would be for Greece to leave the EU and simply issue drachmas. But as of this writing, it looks as if the creditors have strong-armed Greek leaders into accepting their harsh austerity measures in order to stay in the EU.

Greece blazed the trail globally for political democracy, but modeling a sustainable economic democracy may have to wait for another day.

Ellen Brown is an attorney, founder of the Public Banking Institute, and author of twelve books including the best-selling Web of Debt. Her latest book, The Public Bank Solution, explores successful public banking models historically and globally. Her 300+ blog articles are at EllenBrown.com.

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