The Greek Coup: Liquidity as a Weapon of Coercion

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My father made him an offer he couldn't refuse. Luca Brasi held a gun to his head and my father assured him that either his brains, or his signature, would be on the contract." — The Godfather (1972)

In the modern global banking system, all banks need a credit line with the central bank in order to be part of the payments system. Choking off that credit line was a form of blackmail the Greek government couldn't refuse. Former Greek finance minister Yanis Varoufakis is now being charged with treason for exploring the possibility of an alternative payment system in the event of a Greek exit from the euro. The irony of it all was underscored by Raúl Ilargi Meijer, who opined in a July 27th blog:

> The fact that these things were taken into consideration doesn't mean Syriza was planning a coup . . . . If you want a coup, look instead at the Troika having wrestled control over Greek domestic finances. That's a coup if you ever saw one. Let's have an independent commission look into how on earth it is possible that a cabal of unelected movers and shakers gets full control over the entire financial structure of a democratically elected eurozone member government. By all means, let's see the legal arguments for this.

So how *was* that coup pulled off? The answer seems to be through extortion. The European Central Bank threatened to turn off the liquidity that all banks – even solvent ones – need to maintain their day-to-day accounting balances. That threat was made good in the run-up to the Greek referendum, when the ECB did turn off the liquidity tap and Greek banks had to close their doors. Businesses were left without supplies and pensioners without food. How was that apparently criminal act justified? Here is the rather tortured reasoning of ECB President Mario Draghi at a press conference on July 16:

> There is an article in the [Maastricht] Treaty that says that basically the ECB has the responsibility to promote the smooth functioning of the payment system. But this has to do with . . . the distribution of notes, coins. So not with the provision of liquidity, which actually is regulated by a different provision, in Article 18.1 in the ECB Statute: "In order to achieve the objectives of the ESCB [European System of Central Banks], the ECB and the national central banks may conduct credit operations with credit institutions and other market participants, with lending based on adequate collateral." This is the Treaty provision. But our operations were not monetary policy operations, but ELA [Emergency Liquidity Assistance] operations, and so they are regulated by a separate agreement, which makes explicit reference to the necessity to have sufficient collateral. So, all in all, liquidity provision has never been unconditional and unlimited. [Emphasis added.]

In a July 23rd post on *Naked Capitalism*, Nathan Tankus calls this "a truly shocking statement." Why? Because all banks rely on their central banks to settle payments with other banks. "If the smooth functioning of the payments system is defined as the ability of depository institutions to clear payments," says Tankus, "the central bank must ensure that settlement balances are available *at some price*."

How the Payments System Works

The role of the central bank in the payments system is explained by the Bank for International Settlements like this:

> One of the principal functions of central banks is to be the guardian of public confidence in money, and this confidence depends crucially on the ability of economic agents to transmit money and financial instruments smoothly and securely through payment and settlement systems. . . . [C]entral banks provide a safe settlement asset and in most cases they operate systems which allow for the transfer of that settlement asset.

Internationally before 1971, this "settlement asset" was gold. Later, it became electronic "settlement balances" or "reserves" maintained at the central bank. Today, when money travels by check from Bank A to Bank B, the central bank settles the transfer simply by adjusting the banks' respective reserve balances, subtracting from one and adding to the other. Checks continue to fly back and forth all day. If a bank's reserve account comes up short at the end of the day, the central bank treats it as an automatic overdraft in the bank's reserve account, effectively lending the bank the money in the form of electronic "liquidity" until the overdraft can be cleared. The bank can cure the deficit by attracting new deposits or by borrowing from another bank with excess reserves; and if the whole system is short of reserves, the central bank creates more to maintain the liquidity of the system. The most dramatic exercise of this liquidity function was seen after the banking crisis of 2008, when credit was frozen and banks had largely stopped lending to each other. The US Federal Reserve then stepped in and advanced over $16 trillion to financial institutions through the TAF (Term Asset Facility), the TALF (Term Asset-backed Securities Loan Facility), and similar facilities, at near-zero interest. Toxic unmarketable assets were converted into "good collateral" so the banks could remain solvent and keep their doors open.

Liquidity as a Tool of Coercion

That is how the Fed sees its role, but the ECB evidently has other ideas about this liquidity tool. Whether a country's banks are allowed to "access monetary policy operations" is seen by the ECB not as mandatory but as discretionary with the central bank. And as a condition of that access, if a country's bonds are "below investment grade," *the country must be under an IMF program* — meaning it must subject itself to forced austerity measures. According to ECB Vice President Constâncio at the same press conference:

> [W]hen a country has a rating which is below the investment grade which is the minimum, then to access monetary policy operations, it has to have a waiver. And the waiver is granted if there are two conditions. The first condition is that the country must be under a programme with the EU and IMF; and second, we have to assess that there is credible compliance with such a programme. [Emphasis added]

Liquidity is provided only on "adequate collateral" — usually government bonds. But whether the bonds are "adequate" is not determined by their market price. Rather, political concessions are demanded. The government must sell off public assets, slash public services, lay off public workers, and subject its fiscal policies to oversight by unelected bureaucrats who can dictate every line item in the national budget. Tankus observes:

> Europe now has a system where liquidity and insolvency problems can occur and can be deliberately generated (at least in part) by the central bank. Then the Troika can force that country into an "IMF program" if it wants to continue having a functioning banking system. Alternatively, the central bank can choose to simply "suspend convertibility" to the unit of account [i.e. cut off the supply of Euros] and force the write down of deposits [haircuts and bail-ins] until the banks are solvent again.

Pushed to the Cliff by the Financial Mafia

Were liquidity and insolvency problems intentionally generated in Greece's case, as Tankus suggests? Let's review. First there was the derivatives scheme sold to Greece by Goldman Sachs in 2001, which nearly doubled the nation's debt by 2005. Then there was the bank-induced credit crisis of 2008, when the ECB coerced Greeceto bail out its insolvent private banks, throwing the country itself into bankruptcy. This was followed in late 2009 by the intentional overstatement of Greece's debt by a Eurostat agent who was later tried criminally for it, triggering the first bailout and accompanying austerity measures. The Greek prime minister was later replaced with an unelected technocrat, former governor of the Bank of Greece and later vice president of the ECB, who refused a debt restructuring and instead oversaw a second massive bailout and further austerity measures. An estimated 90% of the bailout money went right back into the coffers of the banks. In December 2014, Goldman Sachs warned the Greek Parliament that central bank liquidity could be cut off if the Syriza Party were elected. When it was elected in January, the ECB made good on the threat, cutting bank liquidity to a trickle. When Prime Minister Tsipras called a public referendum in July at which the voters rejected the brutal austerity being imposed on them, the ECB shuttered the banks. The Greek government was thus broken Mafia-style at the knees, until it was forced to abandon its national sovereignty and watch its public treasures sold off piece by piece. Suspicious minds might infer that this was a calculated plot designed from the beginning to throw Greece's prized assets onto the auction block, a hostile takeover and asset stripping for the benefit of those well-heeled entities in a position to purchase them, including the very banks, hedge funds and speculators instrumental in driving up Greek debt and destroying the economy.

No Sovereignty Without Control Over Currency and Credit

In the taped conference call for which Yanis Varoufakis is currently facing treason charges, he exposed the trap that eurozone countries are now in. It seems there is virtually no legal way to break free of the euro and the domination of the troika. The government has no access to the critical data files of its own banks, which are controlled by the ECB. Varoufakis said this should alarm every EU government. As Canadian Prime Minister William Lyon Mackenzie King warned in 1935:

> Once a nation parts with the control of its currency and credit, it matters not who makes the nation's laws. Usury, once in control, will wreck any nation.

For a nation to regain control of its currency and credit, it needs a central bank with a mandate to serve the interests of the nation. Banking should be a public utility, serving the economy and the people.

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. Listen to "It's Our Money with Ellen Brown" on PRN.FM.

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