Why the U.S. Need Not Fear a Sovereign Debt Crisis: Unlike Greece, It Is Actually Sovereign

By Ellen Brown

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Last week, a Chinese rating agency downgraded U.S. debt from triple A and number one globally, to "double A with a negative outlook" and only thirteenth worldwide. The downgrade renewed fears that the sovereign debt crisis that began in Greece will soon reach America. That is the concern, but the U.S. is distinguished from Greece in that its debt is denominated in its own currency, over which it has sovereign control. The government can simply print the money it needs, or borrow it from a central bank that prints it. We should not let deficit hawks and short sellers dissuade the government from pursuing that obvious expedient.

We did not hear much about "sovereign debt" until early this year, when Greece hit the skids. Investment adviser Martin Weiss wrote in a February 24 newsletter:

"On October 8, Greece's benchmark 10-year bond was stable and rising. Then, suddenly and without warning, global investors dumped their Greek bonds with unprecedented fury, driving its market value into a death spiral.

"Likewise, Portugal's 10-year government bond reached a peak on December 1, 2009, less than three months ago. It has also started to plunge virtually nonstop.

"The reason: A new contagion of fear about sovereign debt! Indeed, both governments are so deep in debt, investors worry that default is not only possible — it is now *likely*!"

So said the media, but note that Greece and Portugal were doing remarkably well only 3 months earlier. Then, "suddenly and without warning," global investors furiously dumped their bonds. Why? Weiss and other commentators blamed a sudden "contagion of fear about sovereign debt." But as Bill Murphy, another prolific newsletter writer, reiterates, "Price action makes market commentary." The pundits look at what just happened in the market and then dream up some plausible theory to explain it. What President Franklin Roosevelt said of politics, however, may also be true of markets: "Nothing happens by accident. If it happens, you can bet it was planned that way."

That the collapse of Greece's sovereign debt may actually have been planned was suggested in a Wall Street Journal article in February, in which Susan Pullian and co-authors reported:

"Some heavyweight hedge funds have launched large bearish bets against the euro in moves that are reminiscent of the trading action at the height of the U.S. financial crisis.

"The big bets are emerging amid gatherings such as an exclusive 'idea dinner' earlier this month that included hedge-fund titans SAC Capital Advisors LP and Soros Fund Management LLC. . . .

"It is impossible to calculate the precise effect of the elite traders' bearish bets, but they have added to the selling pressure on the currency—and thus to the pressure on the European Union to stem the Greek debt crisis.

"There is nothing improper about hedge funds jumping on the same trade unless it is deemed by regulators to be collusion. Regulators haven't suggested that any trading has been improper."

Regulators hadn't suggested it yet; but on the same day that the story was published, the antitrust division of the U.S. Justice Department sent letters to a number of hedge funds attending the dinner, warning them not to destroy any trading records involving market bets on the euro.

Represented at the dinner was the hedge fund of George Soros, who was instrumental in collapsing the British pound in 1992 by heavy short-selling. Soros was quoted as warning that if the European Union did not fix its finances, "the euro may fall apart." Was it really a warning? Or was it the sort of rumor designed to *make* the euro fall apart? A concerted attack on the euro, beginning with its weakest link, the Greek bond, could bring down that currency just as short selling had brought down the pound.

These sorts of rumors have not been confined to the Greek bond and the euro. In *The Financial Times*, Niall Ferguson wrote an article titled "A Greek Crisis Is Coming to America," in which he warned:

"It began in Athens. It is spreading to Lisbon and Madrid. But it would be a grave mistake to assume that the sovereign debt crisis that is unfolding will remain confined to the weaker eurozone economies."

America, he maintained, would suffer a sovereign debt crisis as well, and this would happen sooner than expected.

"The International Monetary Fund recently published estimates of the fiscal adjustments developed economies would need to make to restore fiscal stability over the decade ahead. Worst were Japan and the UK (a fiscal tightening of 13 per cent of GDP). Then came Ireland, Spain and Greece (9 per cent). And in sixth place? Step forward America, which would need to tighten fiscal policy by 8.8 per cent of GDP to satisfy the IMF."

The catch is that the U.S. does not *need* to satisfy the IMF . . . .

"Sovereign Debt" Is an Oxymoron

America cannot actually suffer from a sovereign debt crisis. Why? Because *it has no sovereign debt*. As Wikipedia explains:

"A **sovereign bond** is a bond issued by a national government. *The term usually refers to bonds issued in foreign currencies, while bonds issued by national governments in the* *country's own currency are referred to as **government bonds***. The total amount owed to the holders of the sovereign bonds is called **sovereign debt**."

Damon Vrabel, of the Council on Renewal in Seattle, concludes:

"[T]he sovereign debt crisis . . . is a fabrication of the Ivy League, Wall Street, and erudite periodicals like the Financial Times of London. . . . It seems ridiculous to point this out, but sovereign debt implies sovereignty. Right? Well, if countries are sovereign, then how could they be required to be in debt to private banking institutions? How could they be so easily attacked by the likes of George Soros, JP Morgan Chase, and Goldman Sachs? Why would they be subjugated to the whims of auctions and traders? A true sovereign is in debt to nobody . . . ."

Unlike Greece and other EU members, which are forbidden to issue their own currencies or borrow from their own central banks, the U.S. government can solve its debt crisis by the simple expedient of either printing the money it needs directly, or borrowing it from its own central bank, which prints the money. The current term of art for this maneuver is "quantitative easing," and Ferguson says it is what has so far "stood between the US and larger bond yields" – that, and China's massive purchases of U.S. Treasuries. Both are winding down now, he warns, renewing the hazard of a sovereign debt crisis.

"Explosions of public debt hurt economies … ," Ferguson contends, "by raising fears of default and/or currency depreciation ahead of actual inflation, [pushing] up real interest rates."

Market jitters may be a hazard, but if the U.S. finds itself with government bonds and no buyers, it will no doubt resort to quantitative easing again, just as it has in the past – not necessarily overtly, but by buying bonds through offshore entities, swapping government debt for agency debt, and other sleights of hand. The mechanics may vary, but so long as "Helicopter Ben" is at the helm, dollars are liable to appear as needed.

Hyperinflation: A Bogus Threat Today

Proposals to solve government budget crises by simply issuing the necessary funds, whether as currency or as bonds, invariably meet with dire warnings that the result will be hyperinflation. But before an economy can be threatened with hyperinflation, it has to pass through simple inflation; and today the world is struggling with *deflation*. The U.S. money supply has been shrinking at an unprecedented rate. In a May 26 article in *The Financial Times* titled "US Money Supply Plunges at 1930s Pace as Obama Eyes Fresh Stimulus," **Ambrose Evans-Pritchard** observed:

"The stock of money fell from $14.2 trillion to $13.9 trillion in the three months to April, amounting to an annual rate of contraction of 9.6pc. The assets of institutional money market funds fell at a 37pc rate, the sharpest drop ever."

So long as workers are out of work and resources are sitting idle, as they are today, money can be added to the money supply without driving prices up. Price inflation results when "demand" (money) increases faster than "supply" (goods and services). If the new money is used to create new goods and services, prices will remain stable. That is where "quantitative easing" has gone astray today: the money has not been directed into creating goods, services and jobs but has been steered into the coffers of the banks, cleaning up their balance sheets and providing them with cheap credit that they have not deigned to pass on to the productive economy.

Our forefathers described the government they were creating as a "Common Wealth," ensuring life, liberty and the pursuit of happiness for its people. Implied in that vision was an opportunity for employment for anyone wanting to work, as well as essential social services for the population.   All of that can be provided by a government that claims sovereignty over its money supply.

A true sovereign need not indebt itself to private banks but can simply issue the money it needs. That is what the American colonists did, in the innovative paper money system that allowed them to flourish for a century before King George forbade them to issue their own scrip, prompting the American Revolution. It is also what Abraham Lincoln did, foiling the Wall Street bankers who would have trapped the North in debt slavery through the exigencies of war. And it is what China itself did successfully for decades, before it succumbed to globalization. China got the idea from Abraham Lincoln, through his admirer Sun Yat-sen; and Lincoln took his cue from the American colonists, our forebears. We need to reclaim our sovereign right as a nation to fund the Common Wealth they envisioned without begging from foreign creditors or entangling the government in debt.

Ellen Brown *developed her research skills as an attorney practicing civil litigation in Los Angeles. In Web of Debt, her latest of eleven books, she turns those skills to an analysis of the Federal Reserve and "the money trust." She shows how this private cartel has usurped the power to create money from the people themselves, and how we the people can get it back. Her websites are* ***www.webofdebt.com****,* ***www.ellenbrown.com****, and****www.public-banking.com***

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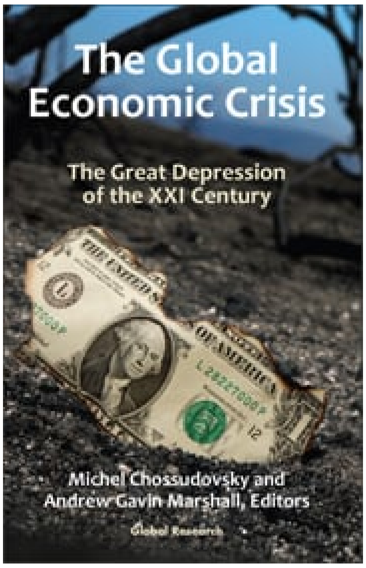

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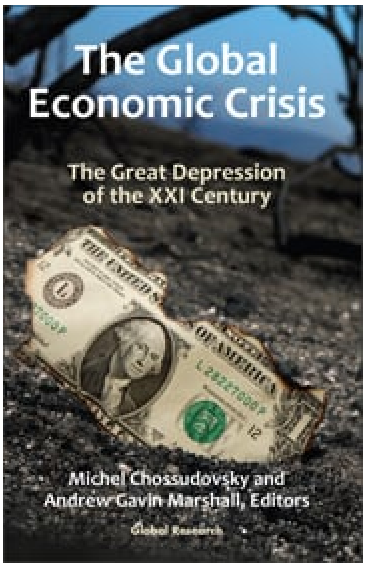

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Michel Chossudovsky is an award-winning author, Professor of Economics (Emeritus) at the University of Ottawa and Director of the Centre for Research on Globalization (CRG), Montreal. He is the author of *The Globalization of Poverty and The New World Order* (2003) and *America's "War on Terrorism"* (2005). He is also a contributor to the Encyclopaedia Britannica. His writings have been published in more than twenty languages.

Andrew Gavin Marshall is an independent writer both on the contemporary structures of capitalism as well as on the history of the global political economy. He is a Research Associate with the Centre for Research on Globalization (CRG).

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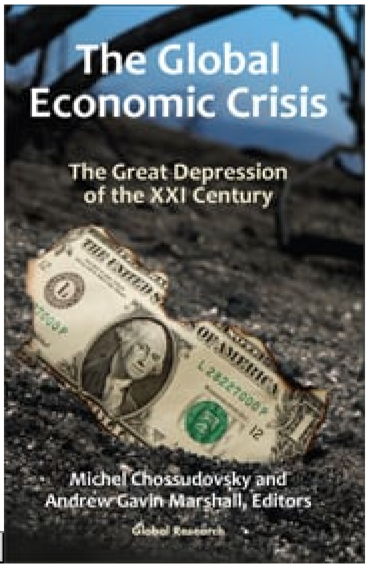

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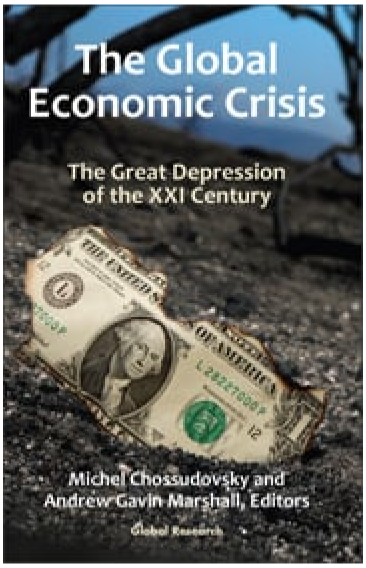

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