July 31, 2015

The Real Lessons in Greek for Leftists

By Scott Baker

The Greeks are in line for another bailout, or are they? Who is really getting bailed out here? What can Greece do to prevent capital flight? The answers here...

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The problem of capital flight Steven Jonas identifies as happening in Greece and as a cautionary tale for Leftists, is not as hard to deal with as it sounds. There were two part-contemporaries of Karl Marx, cited by Jonas who effectively did it, without that being even their main objective: Henry George (1839-1897) and President Abraham Lincoln.

How?

George came up with a formal and thorough description of a tax that has actually been around to some degree since the Old Testament (economists, like humans, have to re-learn the lessons of the past, over and over). It was called the Land Value Tax. The Land Value Tax is a tax on the site value of the Land, primarily though it is also a tax on resource-wealth and even, in modern form, on pollution. None of these forms of taxation, unlike taxes on income or sales, can be driven offshore -- income taxes drive income offshore, while taxes on sales drive sales offshore. But taxes on Land (the classical economic term meaning ALL of nature's resources and most importantly, location) cannot be avoided. This satisfies one of the cannons of taxation, first laid out by Adam Smith, who also advocated taxing landowners on their unearned income. Here they are (see slide 13):

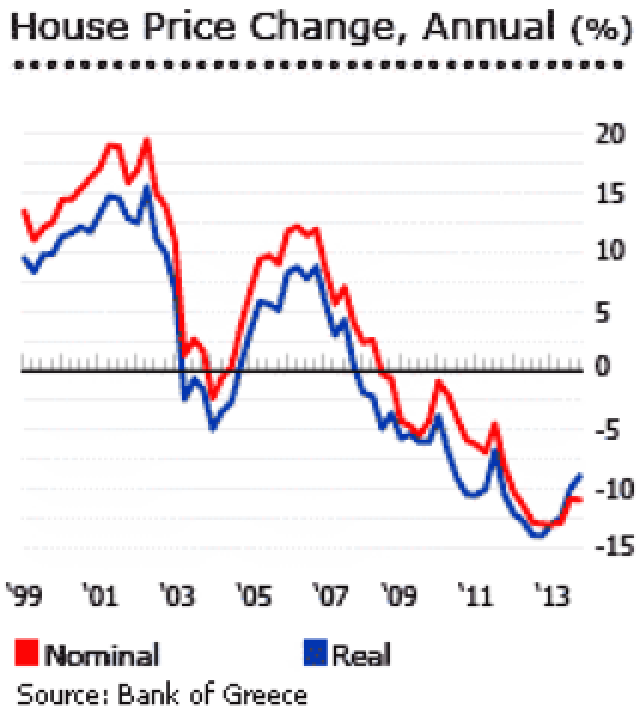
1. Light on production

2. Easy and cheap to collect

3. Certain

4. Fair

The Land Value Tax satisfies all of these, including #1 because it is merely collecting for the public good what the landowner currently collects for his private gain. It is also Fair (#4) because it is the community demand that created the value of the location in the first place. It is Easy and cheap to collect because locational value, apart from improvements like buildings which are untaxed, is something brokers and assessors have been determining for centuries, and it is easier than ever with modern computerized tools. The Land Value Tax, at least in this country, could raise trillions in America, as I document in my new book, "America is Not Broke!" and even in Greece, where the value of housing (read: Land) has declined 50%, there are vast under-taxed estates.



Click graph for more Greek house price data

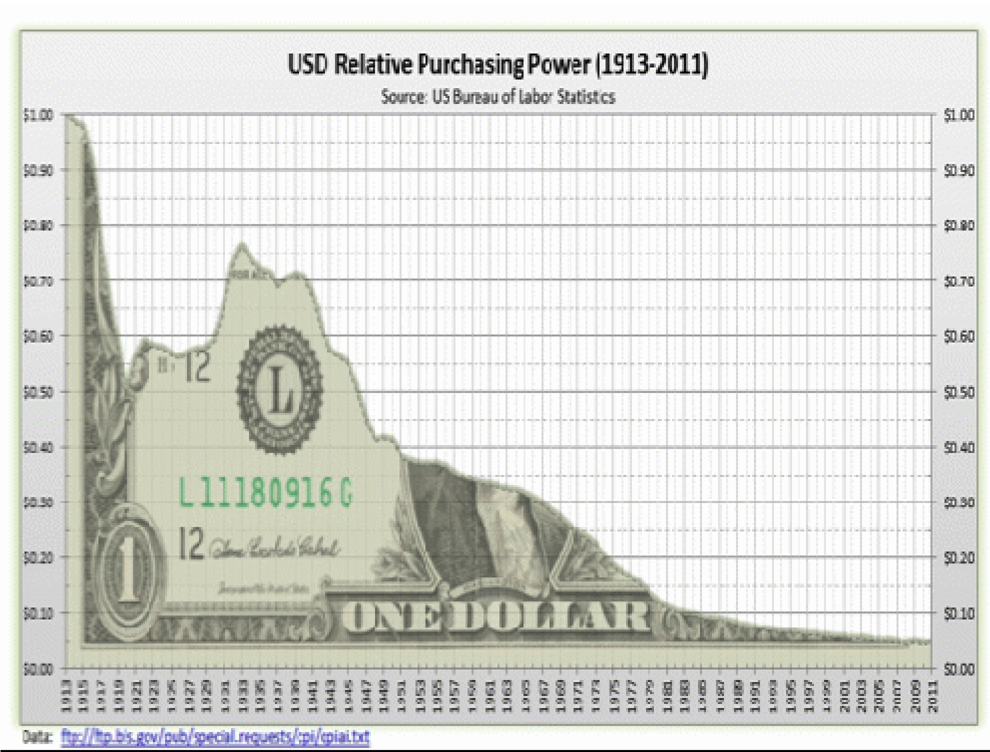
Rather than selling off public lands at fire-sale prices to the outside Troika or other vulture capitalists, Greece should retain these, and then collect full rental value on its private properties, which by definition cannot be moved offshore.

The other solution, which is not unique to Lincoln either, and indeed goes back as far as the Land Value Tax to the mists of time when money first became part of human society, is Sovereign Money, issued by the government not a semi-private central bank, or the network of private banks (either here or in Greece). Money, as both Lincoln and George realized, is too important to be left solely in the control of the money monopolist banks. The banks only care about having their debts repaid, not about the people or countries paying them, and not about the health of the economy. In fact, as former Finance Minister Yanis Varoufakis is finding out now, they will turn viciously on anyone who challenges their money monopoly.

The long knives are out for Varoufakis now: [Supreme Court prosecutor takes action over Varoufakis affair](#).

And consultant and world-renowned economist, James Galbraith Jr. is named in a suit as well: [Varoufakis facing treason charge for hacking accounts](#).

What's next? Will they go after journalists for covering the story (including bloggers like me who advocate for alternate currencies too)? Opednews? This is really getting to be insane, but that's what happens when money is monopolized by a completely unaccountable body dominated by the banks. This monopoly must be busted, and the way to do that goes beyond letting a few megabanks (aka Systemically Important Financial Institutions in the Fed's nomenclature"which raises the question: *important to whom*???) fail. The monopoly on money creation itself must be defeated. And with proper respect to the dangers of inflation, this is the track record of the private Federal Reserve to the value of the Federal Reserve Dollar since inception in 1913:



Has the Federal Reserve managed the value of the Federal Reserve dollar well? Before answering that, consider that another form of dollar, a United States Note, can be bought for more than twice face value on eBay, and it's that expensive precisely because it is so rare. So much for the government over-issuing money when it had the chance. The reality is precisely the opposite.

So, knowing of these two solutions, when president of the Henry George School, Andy Mazzone and I interviewed Yanis Varoufakis a year before he became Finance Minister for Greece, I asked him about issuing Sovereign Money.

I wrote in an earlier article: Will Greece or the EU Blink First, about that exchange:

From the interview in Fall of 2013:

Minute 6:20 Scott: This is why I advocate along with Henry George and other monetary reformers that we break up the monopoly of money creation itself and that that way the politicians are not going to be bribed by money because they have their own supply. Because it seems that politicians are very cheap in the world of finance that these bankers operate in (and) to buy off for congress is a modest investment from their point of view...

Yanis: I agree, Scott...

...and that they'll continue to do it and the there's no reason *not* to, as Andy says why they wouldn't. But the only way to break that - I believe - is to break the monopoly on money as well as the monopoly on land and the land in the expansive sense as meeting all resources.

Yanis: I agree"

Scott: So if we don't take this monopoly power away from the financiers in around two years then what hope is there for the actual productive class to have any sort of parity in the society?

Yanis: Spot on. I agree. I agree entirely. But there's one danger in this narrative, not that I disagree with you, but we have to be very careful how we hone it because today there is, as you well know, there is a tea party/libertarian argument against the monopoly of money, against the Federal Reserve, against fiat currencies and in favor of a Hegekian (?) blueprint of privatizing money and effectively allowing private...banks to issue their own currencies.

Now this libertarian pipe-dream, which of course is never going to come to fruition, is a political bulwark against the agenda that you just outlined. So it's...we must be very clear about this. It is not...the problem is not that we have state fiat money. The problem is that we have a Fed...a Federal Reserve System, in the United States, a European Central Bank in Europe, which is in the pockets of the private financiers.

And the task is not to undo the state's control of money. The point is to strengthen it but to make the state operate...operate...utilize its control of money on behalf of manufacturers, on behalf of creative people, on behalf of all those whose lives are wrecked as we speak by the rent-seeking behavior of the financiers that control through the revolving-door strategy the regulators.

Minute 9:05

It's clear Varoufakis agrees with the majority of economists in that economic demand must be increased.

Later, Mazzone and I discussed the possibilities for Greece a bit more and came up with this broad outline for a plan:

1. Issue drachmas for local consumption and spending. The amount should be enough to meet the 30% Output Gap, but not enough to cause too much inflation; the problem now, of course, is rampant deflation caused by too little money in circulation.

2. Agree to pay off the debt over 100 years, $1/100^{th}$ per year. In reality, this will be the basis for negotiation, but it is a concrete one, something that has not been offered so far.

3. Use the devalued currency to encourage cheap tourism to Greece and exports. Tourism growth estimates vary considerably but 16.7% is a good mid-range calculation in 2014, and tourism remains Greece's main economic engine, supporting 53 job categories.

4. Tax the large landowners with a Land Value Tax.

Now, it's later, and it's now clear that Varoufakis was working on an alternate currency option all along, understandably in secret since the monopolist banks would never allow it if they had known. The banks would have withdrawn liquidity from the Greek banks, as indeed they did, when there was even a hint of rebellion against their illegitimate demands (illegitimate because banks should be subservient to the government, not the other way around).

These options still exist, and it's hard to see how Greece digs itself out of the debt hole -- soon to be 200% of GDP -- without them. The banks, aka the "Institutions" have no intention of writing down the debt, even though they know it cannot be paid. Why continue with such an illogical demand?

Because it is the *banks*, not *Greece*, which are being repeatedly bailed out.

Varoufakis identified this trend too, but now even the NY Times has written about it, Bailout Money goes to Greece, only to flow out again:

The latest financial aid package is following a similar pattern to the previous ones. Only a fraction of the money, should Greece get it, will go toward healing the economy. Nearly 90 percent would go toward debts, interest and supporting Greece's ailing banks.

See the Times' article for an excellent chart showing how the so-called Greek bailouts are really being divided up, mostly for debt servicing of already existing debts, some for so-called financial programs (read: bailouts for holders of Greek bonds, private Greek banks etc.) and virtually nothing for the Greek people themselves. All of these bailouts to others come at a price, of course, and that price is not borne by those who receive the money, but by the Greek people in the form of new debt added to an already impossibly high burden on their economy.

Moral hazard is a term typically applied to people who took out loans they shouldn't have because they think they will be bailed out, or in this case to Greece, but what about the financial institutions that are getting bailed out repeatedly, without even the *appearance* of accruing new debt themselves? Where is the moral hazard for them? Why should they write off debt when they keep getting re-funded? And here's another thing: the financiers -- who, remember, get rich from unearned income -- keep buying Greek bonds. But the curious thing is those Greek bonds are not yielding 15%, 20% or more, because of the high risk of default. No, they are yielding 5.3%, barely a couple of points above Germany, supposedly Europe's most credit-worthy economy. And there is no slowdown in the "market" for these bonds, no reevaluation, certainly no government authority stepping in and saying "Wait a minute. Bondholders ought not to expect further bailouts of their bond purchases!" *Where is the moral hazard?*

This is a sweet deal for the bondholders, a sweet deal for the banks, who get money with debt to someone else (Greece). This is the ultimate form of Exploitative Capitalism, the slow rape of a country without end.

Well, actually there will be an end, because a people an impoverished people will rise up eventually, as they already are. Greek riots are now commonplace, though they are called "protests" in the polite company Western media. This cannot stand. The center cannot hold.