All Greek Debt Might Not Be Equal As Tsipras Declares Independence

By Mark Melin **January 29, 2015**

The Greek vote of independence is about much more than Greece. If you know what to look for, it is part of a pattern that, as reported in ValueWalk, was logically predicted.

A Letter of Independence, one might call it, from Syriza party and Greek rebel leader Alexis Tsipras has gained traction that speaks a language of economic repression in the Eurozone.

Unfortunately the letter started by addressing tired regional and ethnic slurs not so quietly whispered about southern Europe – "bigotry" and "sterotypes" as the Greek prime minister Tsipras termed it in the letter – apparently used to provide red meat to the vast majority of his base. But past the regional slaps was an economic message, a promise that is likely sending shivers up the spine of the north's well healed banking set.

This is particularly true as the Greek sovereign government default strangely resembles another regional default, that of Argentina. First, there is a citizenry that is hurting to a point beyond acceptable pain. This happened in Argentina, and now Greece. In Argentina, the potential to negotiate with "hold-out Hedge Funds," as observed in ValueWalk on multiple occasions, was never a realistic possibility. Their citizenry simply couldn't handle the pain any longer. Given the choice between pain for its citizens and pain for the international banking and finance crowd, Argentina made what might be considered the simple political choice given limited options. Yes, there is the significant threat of isolation from the international finance crowd or worse, but Argentina apparently thought going the independent route was worth the risk and cost.

Does an international process "make it too easy" for a sovereign government to default?

Tsipras may not know it yet, but his cries of freedom are the same as that of Argentina, and he is demanding a consistent and fair method to deal with sovereign bankruptcy, a topic discussed multiple times in the past but dismissed in some circles as "making it too easy for a country to default." Yes, just like old divorce law, one yet to be published argument against an international process for bankruptcy is it might make too many people want a divorce.

Tsipras was having none of this. There are logical default processes, and he was demanding a fair and equitable bankruptcy process as his letter of independence sounded an energizing cord among his following of the ordinary in Greek society. “Europe adopted the tactics of the least reputable bankers who refuse to acknowledge bad loans, preferring to grant new ones to the insolvent entity so as to pretend that the original loan is performing while extending the bankruptcy into the future,” he wrote in the letter, saying all that needed to be said.

Alexis Tsipras: Greece wants a bankruptcy process, they want debt forgiveness, not more loans

This, when translated, is the Euro bankers worst nightmare. Tsipras wants the same terms in a government default that a bankrupt homeowner might get. In other words, he is saying a loan to solve a debt problem won’t cut it. **We need debt forgiveness, which is actually a religious concept called Debt Jubliee.** If this message gets out, it could reverberate in Spain, Portugal and Italy, the “southern” side of the European region that might be involved in “prejudice.”

And here is the kicker: The big losers in a Greek sovereign debt default would be the large banks in Northern Europe. According to a recent CNNMoney report from Ivana Kottasova, international funds stand the most to lose, by far. They are on the hook for 246 billon euro. But, defenders of the central bank establishment quickly point out, Greek banks stand to lose, too.

European central banker’s nightmare is that Greece says some of its debt is of a better class than other region’s debt, the ultimate slap at “regional bigotry”

And it is here a future headline will form: What if Greece doesn’t treat all debt equally? What if those “international bailout funds” might be required to live up to their “bailout” billing? Greece could decide to continue to pay dividends to its banks and bond holders, while saying to the international investors: “All investing has risk of principal loss. Past performance is not indicative of future results. Greek-national investors are being paid on their bond holdings and no-one else.” Of course its bold, and it is also the best negotiating stand Tsipras can take right now. That’s the nuclear option: ignore all international law.

Divorce and default are in the air

Those who say the Greek situation isn’t economically meaningful don’t recognize the daisy chain effect this may have throughout the world, potentially triggering Swaps derivatives defaults of unknown direction.

“Unfortunately there are too many examples (of potential defaults) right now beyond Greece and Argentina,” Eric LeCompte, executive director of Jubilee USA Network, said in United Nations testimony today. As a few examples on the default list are Grenada, Iceland, El Salvador and “too many to name that need to restructure or default,” he said, echoing a theme he had been pressing all during 2014. “It’s a global problem and can only be solved with a global solution.”

But in reality one thing we won’t see in a Greek default is Paul Singer’s Elliott Management sending in commandos onto the Greek coast to seize assets. But then again, he has been known to dabble in Greek exposure occasionally.