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An iron will and a poetic touch – Solon knew best

By Gene Rotberg

Solon, the great Greek lawgiver born in about 635BC, faced a problem. Athenians could not pay their debts. According to Aristotle, Solon "made a cancellation of debts, both private and public, which the Athenians call the shaking off of burdens, since by means of it they shook off the weight lying on them". Plutarch, writing 600 years after Solon's death, tells us: "Solon relieved the poor, not by wiping out their debts, but by reducing the interest on them and by ... the rise in the value of money which took place at the same time."

So this business in Greece is not a new one. Now, though we can't claim the wisdom of Solon, we might borrow some of his ideas. Ancient Greeks were very imaginative about calling something palatable when it was really quite painful. Plutarch put it this way: "The Athenians were in the habit of disguising the unpleasant aspects of things, giving them endearing and charitable names ... Thus, they refer to whores as mistresses, taxes as contributions, garrison cities as guards and the common jail as a residence." In this spirit, we could call it "the Great Concordat". It might go like this:

The holders of all bonds and loans outside Greece could exchange their worthless holdings with a consortium of eurozone countries. They would receive, in exchange, new 20-year bonds of the same face value but with the full guarantee of all eurozone countries. The creditors would therefore suffer no loss on their balance sheets or profit and loss statements for they would hold a triple A security. However, the interest rate on these risk-free bonds would be zero. Still, they would suffer "only" an opportunity loss – not shown on their balance sheets or profit and loss statements.

Or they might receive a market-based interest but be obligated to lend to their triple A saviours an equal amount, at 1 or 2 per cent below libor. That's not even an opportunity loss – just a subsidy for the new creditors, now saved from the worse peril of default. And it also mitigates "moral hazard".

Greece, of course, would still be obligated on its debt, now held by governments who would not be shy to insist on tough conditionality.

As for governments, they would be shielding their own banks and financial institutions, not bailing out Greece. Their problem is not how to extract Greece from its difficulties but how to extract financial institutions (whose governments have guaranteed the depositors' funds used to make the loans) from their foolhardy investments as quietly as possible.

Surely policymakers can come up with something that avoids default; saves financial institutions; protects eurozone economies; avoids moral hazard; shares the pain; and, most important, keeps them in office. If Solon could do it, so can they.

After all, a default only occurs when you either don't pay or are "forgiven". Explicit forgiveness must be avoided at all costs. But opportunity losses and hidden subsidies are how governments today and 2,600 years ago solved problems.

Now, what about Greece – beset with inadequate exports, foreign direct investment and governance, an inadequate tax base, corruption and a very large safety net? Solon faced the same problem. It was too much for him to burden the rich (we call it austerity) and support the less fortunate (our safety net). He wrote a poem instead:

"They came for plunder, full of rich hopes / Each of them expecting to find great prosperity, / and expecting me to reveal an iron will behind my velvet speech. / Their talk then was vain; / but now they are angry with me. / And all look askance at me, / as if I were their enemy. / It should not be. What I said, / I have done with the help of the gods. / I did nothing in vain, / nor was it my pleasure / to act through the violence of tyranny, / that the bad should have equal shares / with the good in our country's rich land." Marx would not have been happy with Solon.

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