



16:10-17:10 (Dynasty A) |WKF Day 2| Reporter: Jordan Chmiel Twardowski

Speaker: Dr. Laurence Kotlikoff-Boston University, Professor of Economics

Moderator: Kwanho Shin- Korea University, Professor

### Saving Greece and Robot Revolution

“Greece is stuck in economic hell,” said Dr. Laurence Kotlikoff, Boston University Professor of Economics, as he painted a picture of the heavily indebted country facing 25 percent unemployment, tremendous fiscal uncertainty limiting investments, and an ongoing banking crisis. In his presentation titled “Saving Greece and Robot Revolution” at the 2015 World Knowledge Forum held on October 21, he offered strong support for Greece to default on their existing loans and to impose a revolutionary new financial banking system in its place.

While many critics around the world are placing their blame on Greece, Dr. Kotlikoff believes the real culprit is the current institution of “highly fragile” leverage banking.

“It is a banking system that is built to fail,” he noted, “and that’s really what we are seeing in Greece.”

He argues there are two problems with leverage banking: opacity and leverage. Bankers are able to lend large amounts of money and make risky bets. If the risky transaction pays back, then they win. However, if they do not, the government is forced to bail out the banks with public money, which results in major financial crises.

In addition to the problem of leverage banking, the media and politicians are playing a role as well by over-exaggerating the severity of the financial crisis. For instance, they keep using the Book Value of the GDP to Debt ratio of 170 percent instead of the market value which is only 70 percent.

“Beauracrats have no real interest in stopping this because they get to meet every six months, at least, in very fancy resorts and they get to ‘save the day’ ...So it works for the politicians, but it’s not working for the people of Greece or the future of the Euro,” he said.

Thus, Dr. Kotlikoff offered a simple and swift solution for the financially starved country: “Greece should default on their loans and they should do it very soon.”

By making this tough decision, Dr. Kotlikoff described the many advantages that would result, including changing internal and external perceptions, eliminating fiscal uncertainty, saving the Euro, attracting foreign investment, and eventually jumpstarting economic activity.

He then proposed a brand new banking system known as “Limited Purpose Banking” which addresses the problems of opacity and leverage with the leverage banking system.

“[This would] restructure banks as mutual holding companies that do one thing only, they market 100 percent equity-financed mutual funds, and focus on the liability side, not the asset side of [the] bank balance sheet.”

Banks would not simply borrow money, as they currently do, but act as mutual funds by selling shares to raise capital. With this capital, they could then go about the lending process such as offering mortgages and car loans. In addition to this, the government would act as regulator on the financial transactions to ensure transparency.

Dr. Kotlikoff advised that not only should Greece adopt this new banking system, but also all countries in the world, including Korea, should as well.

He envisions Korea becoming a model for the rest of the world. "If Korea were to adopt this limited purpose banking, you will never have another Asian banking crisis."