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February 8, 2015

The Honorable Janet Yellen
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave, NW
Washington, D.C. 20551

Dear Chair Yellen:

As you know, the Greek people are suffering from a severe economic depression. Due to deflationary-inducing austerity policies, the Greek economy is 25% smaller than it was just a few years ago. Unemployment, youth unemployment, homelessness, HIV, suicides, and even cases of malaria have increased. While the humanitarian cost is severe, budget cuts have failed to address Greece's debt problems. The country's debt to GDP ratio is higher than it was when austerity measures were first implemented. This situation threatens to create a Eurozone-wide deflationary spiral, it elevates the risk of financial contagion, and it undermines vital U.S. interests.

Several weeks ago the Greek people voted for a new government. This government canceled the privatization of key public assets, raised the minimum wage, and restored electricity to the needy. This government is seeking to restructure its relationship with the European Union to encourage economic growth in Greece and to escape from a deflationary cycle.

Recently, the European Central Bank (ECB) announced that it will no longer accept Greek official debt as collateral for loans to financial institutions in that country on the grounds that the new government is not following the dictates of the previous, failed policies. This move had an immediate destabilizing effect on the U.S. and world markets, and further moves could provoke a run on the Greek banking system in the days or weeks ahead.

The United States cannot stand idly by while the European Central Bank undermines the new democratically elected government of Greece, induces deflation and risks financial instability. President Barack Obama was right when he recently noted, with regard to Greece: "You cannot keep on squeezing countries that are in the midst of a depression. At some point, there has to be a growth strategy in order for them to pay off their debts to eliminate some of their deficits."

It would be a terrible mistake for the world to forget what happens when a democratically-elected government, as was the case in Germany in the 1920s, is unable to relieve the severe economic suffering of its people. We must remember that waiting in the wings should this recently elected Greek government fail is the neo-Nazi Golden Dawn party. We cannot allow fascism to come to power in a European country due to our unwillingness to reverse harmful austerity policies.

As you know, the Federal Reserve has in the past provided substantial sums of dollars to the European Central Bank through what is known as 'a swap line'. During the financial crisis, the Federal Reserve engaged in 271 transactions with the ECB, with an aggregate amount of dollars extended totaling more than $8 trillion. Currently, the Federal Reserve has a standing credit arrangement with the ECB on which the ECB can draw at any time. These swap lines, as they stand, tend to make the United States implicitly supportive of the policies that have so destabilized and damaged Greece. But they also give us a reason, indeed an obligation, to object when a partner Central Bank departs from its commitment to financial stability.

Therefore, I am writing to ask you to make it clear to the leadership of the European Central Bank that the United States and the Federal Reserve object to actions that affect our national interest and risk U.S. and global financial stability through the unnecessary and counterproductive implementation of deflationary policies. Our staffs are already working to set up a conversation on this vital question, and I look forward to speaking with you soon.

Sincerely,

Bernard Sanders
United States Senator