Parallel Currencies for the EMU

A short comparison of design options and proposals

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“Addressing the Eurozone Crisis: are Parallel/Dual Currencies a Solution?”
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www.geld-und-nachhaltigkeit.de

Wissenschaftliche Arbeitsgruppe nachhaltiges Geld

Wir über uns

Die Wissenschaftliche Arbeitsgruppe nachhaltiges Geld wurde zur Begleitung und Erarbeitung der "Einzelheiten Kommission, Nachhaltigen Wirtschaftswachstum – Frage zu nachhaltigem Wirtschaften und gesellschaftlichem Fortschritt in der Sozialen Marktwirtschaft" des Deutschen Bundesministeriums für Bildung und Forschung (BMBF) gegründet. Die Mitglieder der Arbeitsgruppe helfen sich zum Ziel gesetzt, folgende Fragen beziehungsweise zu analysieren:

- Ist das Geld etabliert, wie es das Wirtschaftswachstum in den letzten Jahren verpasst?
- Ist der Konsum der Finanzierungsstabilität, nicht der Güterproduktion, im Wachstum der Weltwirtschaft gesteckt?
- Tatsächlich ist die Geldmacht auf Wachstum abgezo gen, um ihre eigene Stabilität nicht zu gefährden?
- Eröfnet sich der Politik hier neue, bisher übersehen Gestaltungsauswege, um das Wachstumspotenzial zu erschaffen?


www.monneta.org

YES to a Parallel Currency approach for Greece!

Temenos welcome the proposal of a parallel currency regime as a viable way towards fiscal union and eurozone. We acknowledge the idea of parallel currencies as a stepping stone for a fundamental restructuring of the European financial architecture. We welcome the initiative and are pleased to find the long prevailing assumption of a lack of alternatives on this serious matter to be overcome.

Now, the future to which such proposals contribute to the stability of Europe, both politically and economically, depends on these concrete implementations. Their primary focus should be the stabilisation benefits of Greece, the Eurozone and the European Union.

www.regiogeld.de

www.iq-consult.com
WITH A COMPLEMENTARY CURRENCY, GREECE CAN DEVALUE – AND REMAIN IN THE EURO AREA

The European project is at risk. The current PIGS (Portugal, Ireland, Italy, Greece, Spain) dilemma shows that Europe’s monetary union was built with a structural flaw. When introducing the Euro, the jointing nations threw important economic adjustment screws overboard – the possibility to adjust their currencies’ exchange rates and monetary tools to support underperforming nations – without any necessary substitutes.

The standard recipes and their negative effects

As a result, all underperforming nations have become dependent on compensations, loans, debt restructuring, bailouts and other exogenous goodwill that await “kindly” offered to them by their stronger neighbors. Alternatively, they are forced to undertake extensive fiscal cuts at great social and political costs, although it is not at all evident that these cuts contribute to long-term recovery. Indeed, quite the opposite is likely to occur.

The most disliked recipes: Greece exits the euro

The prevailing view is that draconian cuts are preferable to Greece or other PIGS exiting the Euro and getting back to issuing national currencies. Against this view, some argue that, for all the shortcomings, this would at least enable countries to adjust their currencies’ exchange rates against the Euro and enter the path to recovery. But exiting the Euro is not an option. How can a nation like Greece recover at all?

The “Bismarckian recipe”:

Karl Friedrich August Bismarck von Münchhausen, a 19th century German gentleman, soldier and statesman, was a tailor of tall tales, though to have extricated himself from a swamp by pulling on his own hair. With the right monetary tools at hand, Greece could pull itself out of the economic swamp just the same way. Endogenously it could re-establish its monetary adjustment facilities by exiting the Euro, and with the help of an official complementary currency.
Euro-crisis countries shall reintroduce their old currencies in parallel, recover gradually and then return to the Eurozone. About a quarter ... of the 2000 respondents considers this solution statement ... reasonable.

The highest approval comes from the young generation, who experienced the D-Mark for the shortest time. 28% of the aged 18-29 in Lower Saxonia and even 36% of this peer group in Bavaria appreciate the FREIE WÄHLER proposal.”

FORSAS survey in Bavaria and Lower Saxony, 1 – 23 Nov 2012, by order of FREIE WÄHLER Bundesvereinigung
How Parallel Currencies tackle the fundamental structural problems of the EMU

“interest rate reductions do not get through to the real economy”

Jörg Asmussen, ECB chief economist, Die WELT, 04 Sept 2012
Situation today (e.g. Greece):

• Self enhancing trade imbalances and debt spiral
• Austerity programs and high interest level prevent economic recovery
• Greece in year 6 of recession,
• GDP still declining
• unemployment now up to 25%
• German exports into deficit countries decreased massively.
Some obvious structural flaws of the Euro:

• At EU level, necessary treaties and institutions for an integrated policy are missing
• Monetary policy cannot distinguish between financial markets and the real economy and is not able to stop self-enhancing dynamics
The EMU’s most fundamental structural flaw:

• The Euro is blind for regional and structural differences between and within member states.

• One unitary monetary policy for a huge and heterogeneous economic area like the Eurozone cannot work equally well for all.
Imagine a group of people who are all properly equipped with diaphragms and lungs, but share only one single brainstem breathing centre. [...] Suppose some of these people were sleeping, while others were playing tennis. [...] In such an arrangement, feedback control would be working perfectly on its own terms, but the results would be devastating.

... Nations are flawed in this way, because they are not discrete economic units. [...] Nations include [...] differing city economies that need different corrections at given times, and yet all share a currency that gives all of them the same information at a given time...”

Parallel Currencies are more than a bugfix. They...

... are evolutionary, not reactionary, leading to a differentiation of the EMU rather than its breakup

... help resolve the structural deficits of the EMU rather than curing the symptoms

... allow underperforming areas to adjust locally while remaining in the currency union

... could be implemented immediately and even without consent of EU member states.
Parallel Currencies are instruments that can be designed very differently

“Who creates what kind of money, how and for what purpose?”
Some design elements of Parallel Currencies

- Inconvertible
  - convertible
- Conversion of existing money (stocks & flows)
  - New money creation in P.C.
- Parity
  - Non-parity

- Fixed exchange rates
  - Controlled / adjusted exchange rates
  - Market adjusted exchange rates
- Issued conventionally by banks in the banking system
  - Issued by central bank/Government
  - Issued by private / non-government Institution
- Endogenous (credit) money creation
  - Exogenous (helicopter) money creation
- Conventional (cash & current accounts)
  - Digital money / current accounts only
- Increase of money supply (M1) in P.C.
  - Increase of P.C.’s money velocity
## Design elements: comparison and trade-offs

<table>
<thead>
<tr>
<th>Parity (nominal value)</th>
<th>Non-parity</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ balance sheets, existing loans &amp; contracts nominal consumer prices etc. remain unchanged <em>(depending on concept)</em></td>
<td>Allows for easy self-regulating adjustments throughout a whole nation’s economy, without steady interference or lobbying <em>(dependent on concept)</em></td>
</tr>
<tr>
<td>- requires steady interference by central banks, dependent on political climate</td>
<td>Dual price regime</td>
</tr>
<tr>
<td>may result in higher national debts <em>(depending on concept of issuer/issue and allocation)</em></td>
<td>balance sheets, existing loans &amp; contracts etc. need thorough regulation to prevent debt defaults and overly import burdens</td>
</tr>
</tbody>
</table>
### Design elements: comparison and trade-offs

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<tr>
<th>Parity (nominal value)</th>
<th>Non-parity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Higher velocity of money (liquidity tax)</strong></td>
<td><strong>managed exchange rate regime</strong> (currency board, crawling band)</td>
</tr>
<tr>
<td>Additional money supply (easing / state IOU)</td>
<td>flexible, market adjusted exchange rates</td>
</tr>
<tr>
<td><strong>Effective monetary policy esp. in debt-deflation scenarios, to overcome lower zero bound,</strong> non-inflationary, easily adaptable for current accounts</td>
<td>Allows for incremental adjustments, lower risk of capital flight, bank runs, systemic defaults and overly devaluation of existing assets</td>
</tr>
<tr>
<td></td>
<td>Automatic and steady adjustment of the “right” exchange rates according to markets, no interference through central banks required, least political influence</td>
</tr>
<tr>
<td>Requires legal constraints (obligation to accept and/or pay taxes in P.C.), not easy to implement with coins and paper money, enhances risk of capital flight</td>
<td>Latent risk of (hyper)inflation or devaluation of overly issued P.C. and respective market reactions (e.g. national ratings?) <em>(depending on concept)</em></td>
</tr>
<tr>
<td></td>
<td>Higher risk of capital flight, bank runs and recession if introduced overnight may not cure structural deficits like competitiveness or trade deficits, but have only temporary effects</td>
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## Comparison of concepts

<table>
<thead>
<tr>
<th>Issuer</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Conventional 2-level banking system (banks &amp; central bank)</td>
<td>17</td>
</tr>
<tr>
<td>State (government, central bank)</td>
<td>16</td>
</tr>
<tr>
<td>Private / non-government institution</td>
<td>3</td>
</tr>
</tbody>
</table>
## Comparison of concepts

### Issue and allocation

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional interest bearing bank loans</td>
<td>6</td>
</tr>
<tr>
<td>Non-bank loans / mutual credit</td>
<td>1</td>
</tr>
<tr>
<td>State IOU’s / bearer bonds</td>
<td>10</td>
</tr>
<tr>
<td>Once-off conversion of given money flows and/or stocks</td>
<td>7</td>
</tr>
</tbody>
</table>
## Comparison of concepts

**Other policy elements**

<table>
<thead>
<tr>
<th>Concept</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substitution of given flows &amp; stocks (no increase of money supply)</td>
<td>15</td>
</tr>
<tr>
<td>Increase of money supply (in Parallel Currency, not in Euro)</td>
<td>12</td>
</tr>
<tr>
<td>Increase of the money velocity in Parallel Currency</td>
<td>5</td>
</tr>
<tr>
<td>Only current accounts / digital money, no cash</td>
<td>12</td>
</tr>
</tbody>
</table>
Comparison of concepts

<table>
<thead>
<tr>
<th>Convertibility / parity / exchange rate</th>
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</thead>
<tbody>
<tr>
<td>Flexible, market adjusted exchange rate</td>
</tr>
<tr>
<td>Managed exchange rate</td>
</tr>
<tr>
<td>Parity (1:1)</td>
</tr>
<tr>
<td>inconvertible</td>
</tr>
</tbody>
</table>
Summary and conclusions

• Diverging motives and design, but
• general consent about the potential of Parallel Currencies...
  → ... as a means of economic self-help and development
  → ... as a tool to strengthen the economies of all EU member countries
  → ... as a prerequisite for a solid Euro and EMU
Thank you for active listening!

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