What if the Greeks, Portuguese, Irish, Baltics, Spaniards, and Italians did this: high-tech parallel monetary systems for the underdogs?

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Abstract: Advances in information technology now make it possible for non-government entities, or governments themselves, to establish and run a national parallel paperless monetary system at very low cost and launch it on very short notice. The workings of such a system is described and discussed. Such systems may ameliorate the dire state of affairs in the hardest hit eurozone countries, and increase the political pressure on EU and national elites for debt forgiveness, full employment and reduction of cutbacks. It may also be applied in near-bankrupt U.S. States.

"Worldly wisdom teaches that it is better for the reputation to fail conventionally than to succeed unconventionally" - John Maynard Keynes

1. Introduction

This is a comprehensively revised[2] and expanded version of a paper from two earlier occasions (Andresen, 2010). At the time of writing, 22 February 2012, the situation especially for Greece is much graver than when two earlier versions were written in 2010. New solutions are acutely needed. This is an attempt to think outside the box, because any sorts of thinking inside the box on Greece, Portugal and other countries in similar situations has not led to anything and will not either. (But if the reader knows about some unconventional proposal that I may have overlooked, please point me to it!)

To service its euro-denominated debt, a Eurozone government has the choice between borrowing more money, or to extract euros out of the non-government sector by taxing more than it spends. It does not have the option of creating ("printing") money, since the country has disposed with its former domestic currency.

An euro-indebted private sector has the same choice: service debt out of current income or borrow more to pay. A supposedly sustainable way to counter these "bloodletting" flows from a country's economy is to achieve a persistent export surplus and increase this to so much that the associated income can support the aggregate outgoing debt service flows. This does not happen however, especially after debt (service) burdens have increased steeply due to risk-caused increases in interest levels on new loans, and also since a depressed economy impacts exports and government income negatively.

So debt should be partly written off, but since the creditors resist this (knowing they have the upper hand because the country urgently and repeatedly craves more euro loans simply to avoid collapse), the domestic economy will be increasingly starved for money.

Furthermore, those domestic households and firms that possess money will hold back in spending and investment, worsening the situation. This contributes to an even more

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2. I am grateful for comments from an anonymous referee. They have helped me improve the paper.

pessimistic mood and more and more holding back – we get a downward spiral. This dynamic is also worsened by banks holding back in their lending.

Thus, the case for an emergency *parallel medium of exchange.* It will be argued that such a measure may significantly and quickly ameliorate the crisis and possibly turn things around after a while. It will reduce unemployment and enable people and firms to exchange goods and services. It will revive the country's firms and export capabilities. It will also stimulate import substitution, thus increasing net exports. Furthermore it will enhance the country's bargaining position towards the creditors.

This is the topic of this paper.

A question needs to be answered before proceeding: to what degree can one assume the support for such a program from the government in the crisis-hit country?

One may take the position that a crisis government will probably welcome a parallel currency ("PC") proposal with open arms, even while knowing that the EU and ECB will possibly declare such a measure illegal under EU rules and regulations. Section 3 in this paper describes the parallel currency in a setting where there is government support.

But this author's opinion (which of course may be too pessimistic) is that elites in a typical crisis country (Greece among them) are so wedded to the EU system that they will not consider implementing a parallel currency, even when things are desperate. So the main thrust of this paper, section 2, is to present and discuss an alternative that may be established and run by organisations and groups *outside* the government and national central bank, even in a situation with hostility from the domestic authorities.

There is a risk that that not only the EU, but also the crisis government, will try to quash such a system. With this in mind, it becomes relevant to discuss tactics, timing and legal maneuvering, possibly enabling the system to become so popular so quickly that it is politically very difficult to stop, or – the best alternative ─ that the government caves in and chooses to establish an official PC system as described in section 3.

2. A non-government "monetary" system

The proposal

An alliance of large grass roots organisations (typically: unions) sets up a cooperative bank-like operation ("BLO"). Probably it should be an association requiring membership to participate (more on this below). This BLO issues "value points" (an arbitrarily chosen term, from now on abbreviated "VP's" it could be called "units", "work units", "credits", "coupons", whatever ─ but should for tactical reasons not be called "money"). Technically, the BLO is just a national office with computer capacity and a few employees. There are no branches. A member gets a VP "account" with the BLO. To use the account the member needs a mobile phone subscription. When opening an account, (s)he is automatically offered credit up to a standard amount of VP's from the BLO. Such a "basic loan" has the purpose of enabling the person to begin transacting with others. It is primarily meant as a medium of exchange, and not as a store of value. It is interest-free, but there is a very small membership fee per account, which is only to cover the expenses of the BLO office and computer/network costs.

This fee must be paid in euros/regular money. The VP loan has limited duration, a few months. When the loan expires, the borrower has the right to an automatically renewed loan, but the maximum amount allowed may have been adjusted somewhat up or down in relation to the last loan received. More on this below.

Technological progress makes this possible

What is to be proposed here is a countrywide and extremely efficient version of a Local Exchange Trading System (LETS) or a local currency system[3]. Such systems are initiated to enable exchange of goods and services in a community without having to resort to barter, by introducing a local medium of exchange: Members gain points by supplying goods or services to other members. Such points gained are in the next round used to buy goods or services from other participants. The advantage is that this enables economic activities locally which would otherwise not have taken place due to lack of money. A LETS system has traditionally been managed by some trusted person(s) keeping tally of everyone's points account, in modern times on a computer. This is done when reports of exchanges are received. Such a system depends on activists and idealism, and is only manageable when it is confined to some local community. Another factor limiting the geographical and population scope of such schemes is that participants need to know which other agents (persons, firms) are also in the scheme, and what sort of services or goods they offer.

A local currency system does a similar job as a LETS scheme. In that case one has circulating paper currency resembling regular money, something that eliminates the need for account updates with each transaction, but which may be legally difficult to uphold due to the state's monopoly on money issuance.

A LETS-like scheme must do the following:

- account for transactions (or run a local monetary system)
- give participants an easy and fast way to find other participants in the system and what they offer (or demand).

Today, with most people having mobile phones, and also access to the Internet (whether at home, work or elsewhere), both challenges may be elegantly and cheaply met, and "the local community" may be expanded to encompass a country (or state, like in the U.S.). Transactions are executed via mobile phone/SMS and automatically accounted for on a server. And a web site data base (possibly on the same server), updated by participants and having a Google-like search system, will enable participants to advertise themselves or to easily find sellers and buyers anywhere of the relevant goods or services.

Gradual increase in transactions

Mobile phone transactions with other BLO members may be implemented through one of the technically proven and successful schemes already in operation in some developing countries (Hughes & Lonie, 2007). There are no physical/paper VP's in circulation. People and firms

3. Many LETS systems have been, or are, successful. The reader is referred to http://en.wikipedia.org/wiki/LETS which gives an introduction. One of most successful cases of the LETS-similar scheme of circulating a local currency, was the one in Wörgl in Austria, mentioned later in this paper. A reason for the scheme's success was that it implemented Silvio Gesell's (http://en.wikipedia.org/wiki/Silvio_Gesell) proposal of levying a fee on money held (i.e. a negative interest on liquids). This led to a very high speed of circulation. For more on this, see (Fisher, 1933) and http://en.wikipedia.org/wiki/Local_currency , which also mentions the quite different, long-lived and still existing Swiss WIR, described here: http://en.wikipedia.org/wiki/WIR.

offering goods and services will gradually ─ as the scheme gets more popular ─ decide to accept a certain share of VP's as payment, while the rest must still be in euros. Such a share is decided freely and individually by the seller, and may also be adjusted at any time with circumstances. The same holds for wages: employers and employees may, as the scheme gets widely accepted, agree on a certain share of wages being paid in VP's, a share that may be re-negotiated as things develop.

Pure faith-based money

The VP's are pure faith-based money. They do not have any property giving it an intrinsic value like (fiat) money issued by a government/central bank, which has indisputable value by being the sole currency that may be used to pay taxes ─ as per the "MMT = Modern Money Theory " or "Chartalist" view (Wray, 2006). People or firms will therefore accept VP's in payment *only if they believe that a sufficient amount of other people/firms will accept them*. This outcome is probable however, since today's only alternative for the Greeks (and other nations in a similar situation) of increasing hardship, unemployment and too low and further shrinking income in euros over many years, is much worse.

Building confidence

This scheme has dynamics which may be unstable in two ways: confidence building more confidence, or decreasing confidence leading to steep VP inflation and collapse. One should ensure a basic and initial level of confidence by the BLO being launched and run by (a) large, national and well established organisation(s). Furthermore, by controlling the amount of VP's in circulation ─ based on observing the average acceptance of VP's as a share of payment together with euros, it should be possible to uphold the needed amount of confidence in the system. The amount in circulation may be limited by renewing loans with a lower amount when the earlier automatically given loans expire. Then the borrower will have to accept a reduction of the amount in his/hers account. To avoid runaway inflation in VP's, one should probably start the process by issuing a restricted amount (see below), and then letting the aggregate amount grow (or in between, possibly shrink) based on the observed impact. Note that the existence of VP's only as electronic entities on a computer (no physical "currency"), combined with the fact that *the initial issued loan has not in any way been "earned" by the account holder*, allows the scheme to freely regulate the amount of VP's in circulation upwards or even downwards, by adjusting all accounts with the same amount. This means that at any time, participants enjoy the basic freely received VP loan, which may be slightly adjusted equally for all now and then, based on developments. By this we get a new and potent macroeconomic control instrument that is not available in a regular monetary system.
The issuer of VP's has no obligation to "redeem" participants in the system, except to not remove surplus VP's that some holders may have accumulated above the basic loan. For those there is a certain risk if for some reason the system is terminated. But all participants must first accept the conditions and risks associated with the system, to be allowed to join. It is emphasised that this is an *emergency* system, primarily meant for *exchange*, not for savings.

Will the scheme be quashed by the state?

As already mentioned, the BLO should be organised as an association or "exchange club", requiring membership. Then the VP's are not a state-controlled medium of exchange i.e. money, but a device only for club members to exchange goods and labour between them.

Hopefully this will make it a bit more difficult for the state to ban such a system, like the Austrian state did in 1933 against the very successful local currency in the town of Wörgl. Organising the scheme as an association with transactions only being available to members, and no money-like paper VP's in circulation, may prevent or at least postpone such an outcome. The state may also try the milder countermeasure of levying income tax in euros on such activities, portraying them as "tax evasive" and constituting "a black economy". Such attempts must then be fought against politically and legally, in parallel with the ongoing other popular anti-crisis resistance activities. Again: This is a measure in an emergency situation, and must be considered on that basis.

One may expect that such a scheme will not only be opposed by the state; it will probably also be derided by the economic establishment, including most financial pages pundits. But criticism in itself is not a fundamental obstacle. The danger is as mentioned whether the scheme may simply be banned, or quashed via euro taxation. But there are grounds for optimism: a crucial advantage of organising the VP scheme via the mobile phone network, is that it is cheap, can be up and running very fast, and gain widespread popularity in such a short timespan that it will be politically very difficult for the authorities to shut it down, or tax it to kill it.

Membership should be required

There is a second argument for membership requirement: One should avoid giving the well-to-do a free lunch in the form of an automatic BLO loan, on top of the ample buying power they possess in euros. They should as a rule only be allowed to open an account, but not have access to the VP basic loan. The BLO should be targeted towards the less well-off in society. This may be achieved by having two grades of membership. Level 1 is open to all (including firms): you get an account but no basic loan. Level 2 (call it "core" membership) additionally qualifies for the loan. Core membership should only be given to people already belonging to one or more of the organisations behind the BLO (unions and similar popular organisations, for instance farmers'), to pensioners and to the unemployed. And it should be automatically given, to give the scheme a flying start.

It is probably wise to start the process carefully by only giving automatic loans to core members, and later relax the rules in a controlled manner, based on how things develop. Account holders that default on their loans above some defined level of transgression may be excluded as members of the system, and their accounts discontinued.

Credit above the automatic amount?

In an initial period, the system should be simple and only have the purpose of enabling transactions between agents that lack a medium of exchange (as mentioned earlier this is the main problem, not the lack of money as a store of value). If the scheme exhibits strong growth and widening acceptance, the possibility of extending regular and large VP loans to applicants could be considered. But this would demand a dramatic increase in the staff and organisation complexity of the BLO, because loan applicants have to be vetted and collateral has to be posted. This would possibly also make it easier for the state or the central EU apparatus to achieve a ban against the system.

A profitable business proposal?

Assume the existence in one or more Eurozone countries of a mobile phone company led by people with a certain amount of creativity and open-mindedness. They could decide to be the center of a BLO-type project. They could start an exchange club and offer a bundle with a phone, a subscription, and BLO membership. This would have the largest impact if it was done in cooperation with one or more national popular organisations, as mentioned above. Realistically, such an initiative would attract a lot of new subscribers and generate much traffic for the company. Additionally, the company would benefit from extensive media coverage and be seen by a large share of the population as socially responsible and different from the usual run-of-the-mill corporation.

Net exports?

As discussed, the public holds stocks of both VP's and euros, using these for exchanges, and output then consists of two components, mediated using each currency. A very important point is that economic activity using VP's will impact positively on the country's *euro* position: By enabling activation of idle labour and production capacity, exports increase. Furthermore, the increased utilisation of domestic labour and capacity via VP's will also stimulate import substitution, also since VP's cannot be used to pay for imports. So, even if this extra activity is mediated with a parallel currency, this enhances the ability of the country to service its debt burden in euros.

Political resistance from within?

Resistance from the state and mainstream media pundits have already been mentioned. Another and perhaps more surprising source of resistance against this scheme may be the leadership in some of the mass organisations whose members would benefit from it. Many such leaders are anchored in a marxist/communist/left socialist tradition. The proposal may easily be seen by some of these as a "petty bourgeois" invention of the "fringe" or "alternative" type, only "giving the masses illusions" and "leading them astray in the struggle against capitalism and for socialism".

3. A (parallel) government monetary system

The above scheme has the advantage of increasing the political pressure on the establishment. If they consider it economically harmful they can make it superfluous by reverting to a regular national currency combined with negotiating for partial euro debt forgiveness, as already argued by many voices. Reverting to an official national currency would put the debtor nations on a much more powerful footing versus the euro creditors, and would be the best solution in the long run. But it seems to be politically totally out of the question for those in power.

An intermediate solution

A government could however implement a less drastic measure: use a variant of the VP system described above, as an "official emergency currency" ("OEC"). This is more comprehensively discussed in (Andresen, 2012). A government-issued OEC is fiat money. It has intrinsic value as opposed to the VP since it may be used for tax payments. An OEC will therefore more easily be accepted as a means of payment by firms and individuals.

As already argued in the VP case, an advantage of implementing a parallel currency system using the mobile phone network instead of bills and coins, is that it may be up and running very quickly after a government have decided to do it, so that its positive effects may have been demonstrated before the EU system is able to marshal forces to stop it. With an OEC as opposed to the VP system, the "grass roots" include the national government,. Now the adversaries are mostly outside the country; in Brussels, Frankfurt and among the big banks.

A technical advantage of an electronic OEC is that tax avoidance is impossible, since any transaction occurs via accounts in the Central Bank, and is logged there.

This scheme could also be useful for non-EU-countries, or such national regions that have authority to collect region-based taxes, like the near-bankrupt U.S. state of California. There OEC's could be implemented by the state government, with immediate positive results.

4. Conclusion: better than the bleak alternatives

Enabling unemployed or underemployed people to work for each other and (increasingly) to exchange goods and services with the rest of society, will — with immediate effects — ameliorate the dramatic and persistent decrease in living standards for most people, which is the bleak and only future (lasting many years) that the powers that be and most commentators are able to come up with. By the proposed scheme it should be possible to activate a large underused potential that the hard-hit Eurozone countries have, unemployed or underemployed people, and to give many a better life. It will primarily stimulate domestic production, since VP/OEC's may not be used (much) to pay for imports.

It will also give euro-indebted countries a dramatically better position in their bargaining for partial debt relief or less heavy euro debt service burdens.

And if governments refuse to do this regardless of how bad the alternatives are, the option is there for non-government entities as described, for the first time in history, thanks to technological advances.

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