

# Money as gold versus money as water

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## Abstract

The rules of the Eurozone cause the euro to function as the gold standard. The US economy performs better in some respects, partly because of the advantages of fiat money. The treaty on the EMU has to be adapted in order not to become dependent upon current ad hoc measures, with the loss of welfare over the years 2008-2013+. If Eurozone nations create their own national Economic Supreme Courts, then an optimal currency area can still come about without transfer to Brussels of national sovereignty on the budget. When consumers and agents can have deposits at a local branch of the European Central Bank, a system of deposit insurance has been established by itself. Advisable is a split-up between (1) the primary payment system with retail banks that are franchises of the ECB, (2) the secondary savings and loans banks, and (3) the tertiary investment banks. The shadow banking system must be redressed, with every financial transaction having an identified regulation. Conforming to an earlier proposal the ECB can create funds to redress debt. Notably, 400 billion euro can be created and invested in bank capital, and be directly neutralised by the capital requirement of 10.5%. Another 400 billion can be used to clean up the debt of Greece and Italy. Their participation in the Eurozone was a political decision and thus the Eurozone must bear the consequences. To satisfy the no-bailout-condition, Greece and Italy could create economic zones comparable to the lease of Hong Kong, where companies could invest and operate under international law for the next 40 years.

**JEL codes** E00, A10, P16

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## Introduction

The Great Depression 1929-1940 led many economists to conclude that the gold standard is too rigid. John Maynard Keynes spoke about a *barbaric relic*. In 1944 in Bretton Woods the nations still kept a link to gold but in 1971 President Richard Nixon closed the gold window with such force that it ought to be clear by now: what works for a modern economy is fiat money. This kind of money can be printed as desired, or created electronically by a push on a button.

We thus have money like water. Its scarcity is artificial and managed by the system. The economic value of fiat money is based upon the reliability of the Central Bank plus the requirement for agents to pay tax in that denomination. Rules and contracts in terms of legal tender are enforceable by law.

Regulators understand very well that it would be so easy to abuse the printing press, whence they create a rigid system that blocks such abuse, and in some cases they recreate the gold standard. The rules of the Eurozone cause the euro to function as the gold standard indeed. The US does much better, though various economists point out that the US government doesn't apply the instrument of fiat money as intelligently as it could. Some policy makers apparently do not understand that we actually have money as water. Thus we see a

somewhat perverse coalition of “*understanding too well*” and “*not understanding at all*”, which coalition prevents the wise use of the monetary instrument that Keynes was in favour of.

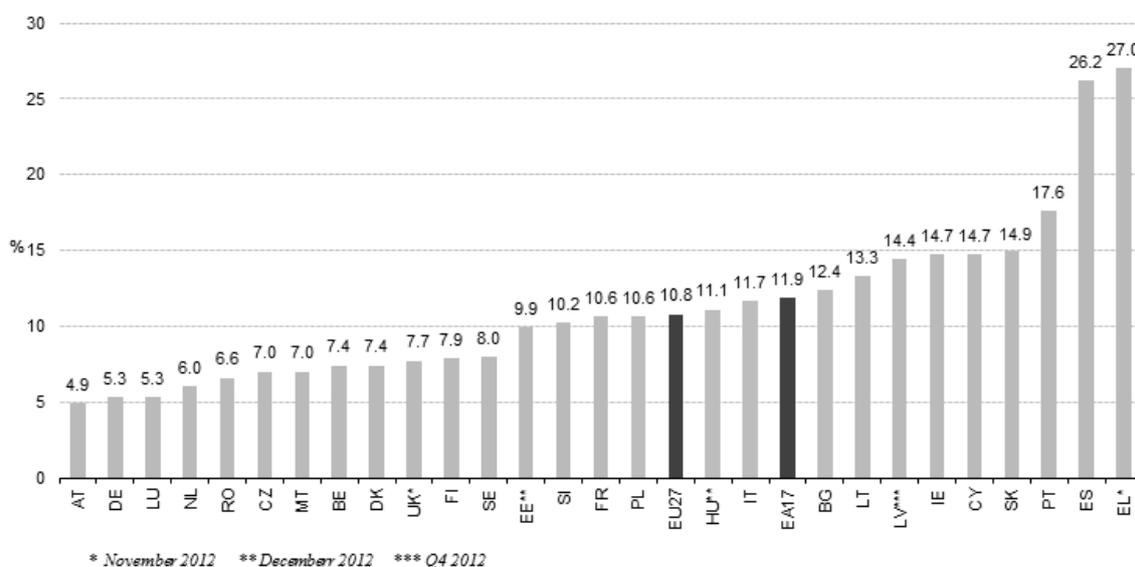
The challenge lies in the middle ground, i.e. both to block the abuse, and to get rid of the mental cage of that *barbaric relic* indeed. The suggestion in this paper isn't to just print money and run the risk of inflation. While the ECB has a target of 2% inflation my position is that 0% would be better. If we have 2% inflation in one year, the target next year should be -2%. But unemployment better lies at 1% friction rather than 25% as is now the case in some countries in the EU.

Below, we will look at the cost of the *de facto* gold standard for Europe. We will consider how Milton Friedman's monetarism is linked to the current misunderstanding, and why monetarism is of limited value. We subsequently look at the core issue of deposit insurance. We close with a review of an *Economic Plan for Europe* (September 2011) and with some points on the economic order itself and the issue of democratic accountability.

### The cost of the Eurozone *de facto* gold standard

The Eurozone has a hybrid monetary system since it has the additional goal that *bailouts* are forbidden. The core example is that Greece used to be able to print drachmas, but cannot do so with euros. It is proper that one country cannot print euros at the cost of others, but the size of the crisis shows that we must rethink some of the logic involved. The blockage against a bailout has been mixed with thinking in terms of a gold standard. When governments are forced to austerity programs that cause a deflationary spiral, then something is amiss. Eurostat (2013) mentions unemployment in most countries above 7%, in Ireland 15%, Portugal 18% and Spain can Greece above 25%, see Figure 9.

**Figure 1. Unemployment rates, seasonally adjusted, January 2013 (Eurostat (2013))**



Is this cost necessary or could it be avoided? A point of reference would be the USA with 7.9% unemployment in January 2013. The USA might have all the advantages of fiat money, though curiously doesn't use all of them. Before we look into this, let us first consider monetarism. Sound money has strong roots in Europe but in the American Century it was the American Milton Friedman who became its champion.

### **The limited value of Milton Friedman's monetarism**

The reader will understand this discussion better by reading Robert Gordon (ed) (1970, 1974), a collection of articles from the *Journal of Political Economy* of the University of Chicago about Milton Friedman's monetary analysis, with critics and his *rejoinder*. Friedman adopts terminology of Keynes and thus contributes to confusion. Friedman stated "We are all Keynesians now" while his theory in fact is non-Keynesian. The collection clearly shows that Friedman worked in a classic world with timeless *tâtonnement* and has little patience for the dynamics in Keynes's analysis. A follower of Friedman has to be taken along a *random walk* before he or she may grasp what fundamental uncertainty is. The monetarist concept of a ("rationally expected") "long term equilibrium" is nice as a theory, but its application to reality is not warranted. At this juncture in time that theory is definitely refuted and counterproductive.

A relevant issue to consider is Paul Volcker's decision in 1979 to fight inflation, in his own words via a Friedman-policy of a fixed stock of money, as if it were gold. Unemployment and the rate of interest rose quickly, and inflation disappeared indeed. Paul Weaver (1994:95-98) explains how the general public was misled by journalistic laziness. Journalists can blame the recession on Volcker or write that he can't be blamed when the stock of money is fixed like with gold. Public relations and the stories that journalists tell are relevant because we are dealing with expectations of the economic agents. Still, it is preferable that the monetary authorities present a sound analysis and do not contribute to confusion and laziness. Volcker actually should have admitted that he raised the rate of interest and caused the recession.

Relevant for the ECB is Issing (2003) on the two pillar strategy and Goodhart (2006) on the mixed results. Below we will see that money velocity is much lower than in the past while consumer price inflation is very stable. Apparently the markets have different portfolio choices, though there are always accounting issues (notably from transactions that cause deposits). With the effect on house prices, we may also doubt the notion of CPI inflation. The main point is that we better consider money from a wider angle than monetarism.

### **Modern Monetary Theory**

The MMT Wiki (2013) gives access to a discussion on "Modern Monetary Theory" (MMT) and D'Souza (2013) is a video that tries to explain some main issues to a general audience. It is fine that there is discussion, which shows only the value of an open society. A downside is that there would not be a "definitive textbook" that explains what it all comes down to. There are textbooks on Newton's theory of gravity and Einstein's theory of relativity, so that students can get a grasp of what is intended, even though physicists still have all kinds of discussions on details. Apparently the economics profession has not succeeded in getting the notion of

fiat money established in such manner, that people can grasp the essentials in clear fashion. (I would protest if that video would be hailed for being this grasp of essentials.)

A key criterion would be that basic theory would also be embraced by the Central Banks of Europe and the US, so that the authorities can explain the issues and the wiki would only need to discuss further details. Perhaps the best thing that Ben Bernanke could do, after saving the world from disaster in 2007-2011, is take a sabbatical and write that textbook, so that the world can finally converge on common wisdom.

A problem in the US is that the US Federal Reserve is owned by the private banking system itself, and only falls under some national regulatory laws by the US Government. This creates conceptual distortions about what money is. A key point is that the US system of accounting suggests that the government borrows money from the banks and is indebted to the banks, while in fact the government has created money itself and while there is no debt but merely an instrument to make the economy run smoothly. In some respects, though, the US is more advanced on the notion of fiat money, compared to the European system of accounting, see Colignatus (2005).

Overall, it would be advisable that the G20 agrees that all countries resort to a system in which the Central Bank is owned by the central government, and in which fiat money is accounted for by the government as an instrument and not as a debt to society.

### **Deposit insurance**

One of the questions concerns the design of a European system of deposit insurance. A modern economy relies on a system of payments, in which one must make sure that the money doesn't disappear because of some bankruptcy. This is a public service. It is logical that this system of payments falls under the governance of the Central Bank. Who deposits money at the CB need not worry about whether it is safe. If a withdrawal is required, the CB can always print money. The CB must have internal separations between management, surveillance and monetary policy.

Clearly, the payment system from Berlin to Malaga is huge, with wage bills and consumer transactions, but the ECB can set up franchises that can compete on customer service. Salaries in this system are like for normal civil servants. Obviously, the system will require a high degree of internal inspection, since fiat money on a computer is fairly easy to cheat with. The latter is no different than from current banks, albeit that a private bank looks after its own money and civil servants look after public money.

The costs of the payment system can be covered by a tiny levy on transactions and by *seigniorage*, the difference between the costs of creating money and its value in use, see Colignatus (2005). Let us consider the equation of exchange by Irving Fisher  $P Y = M V$ , and momentarily assume constant speed  $V$ . The quantity of money  $M$  can rise by 2% when income  $Y$  rises by 2%, when inflation is zero or  $P$  rises by 0%. Thus we have 2% of the stock of money to pay salaries to the civil servants who run the payment system, or pay out a low rate of interest to the deposits. Having the payment system run by the CB also allows to adjust deposits for inflation and deflation – though this is a more complex discussion.

We find some key data in Table 1 below. For  $M$  we take  $M1$  = currency, travellers' cheques, demand deposits, other checkable deposits. Somewhat surprisingly, the velocity of  $M1$  has been reducing much in the last 12 years, from 3.4 in the year 2000 to 1.9 now.

The indices for real GDP ( $Y$ ) and inflation ( $P$ ) can be set at 2012 = 1. We find that the Eurozone real GDP was higher in 2007 and 2008 than last year. The percentage change of real GDP gives production growth ( $dY/Y$ , column 6). Note that  $P$  or the price index of GDP (column 7) differs from the consumer price index (column 10).

The Eurostat national accounts (NACE), financial services division 65, for financial intermediation (excluding insurance and pensions 66 and brokers 67) are curiously incomplete, with e.g. data lacking for Luxemburg. A guesstimate for the Eurozone is an employment of 2.5 million persons.<sup>1</sup> This gives column 11.

**Table 1:  $P.Y = M.V$ , Eurozone (17 countries), billions of euros <sup>2</sup>**

1	2	3	4	5	6	7	8	9	10	11
Year	M1	P.Y	V=PY/M	Y=GDP	dY/Y	P	dP/P	HICP	Pc	dM/2.5
2000	2024.7	6783.6	3.4	0.885		0.808			0.774	
2001	2222.3	6783.6	3.1	0.903	2.0	0.792	-2.0	2.4	0.793	79.0
2002	2442.7	7330.4	3.0	0.911	0.9	0.849	7.1	2.3	0.811	88.2
2003	2681.4	7546.8	2.8	0.917	0.7	0.868	2.2	2.1	0.828	95.5
2004	2905.3	7860.1	2.7	0.937	2.2	0.884	1.9	2.2	0.846	89.6
2005	3422.8	8145.2	2.4	0.953	1.7	0.901	1.9	2.2	0.865	207.0
2006	3697.5	8564.4	2.3	0.984	3.2	0.918	1.9	2.2	0.884	109.9
2007	3839.4	9029.7	2.4	1.013	3.0	0.940	2.4	2.1	0.902	56.8
2008	3990.4	9241.6	2.3	1.017	0.4	0.958	1.9	3.3	0.932	60.4
2009	4500.1	8920.2	2.0	0.973	-4.4	0.967	1.0	0.3	0.935	203.9
2010	4704.6	9176.1	2.0	0.992	2.0	0.975	0.9	1.6	0.950	81.8
2011	4799.5	9421.2	2.0	1.006	1.4	0.987	1.3	2.7	0.976	38.0
2012	5105.4	9483.4	1.9	1.000	-0.6	1.000	1.3	2.5	1.000	122.4

Consider for example the change in  $M1$  from the year 2000 to the year 2001. The change was almost EUR 200 billion, or 200 times  $10^9$ . When we divide this by 2.5 times  $10^6$  then we get  $200,000 / 2.5 = 80,000$  per person. Using the proper value we find that a salary of EUR 79 thousand per person could have been paid to the employees the Eurozone credit system, merely by seiniorage.

<sup>1</sup><http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tin00016&plugin=1>

<sup>2</sup> HICP = harmonized consumer price index change

M1: ecb: <http://www.ecb.europa.eu/stats/money/aggregates/series/html/index.en.html>

GDP nominal prices: bsi\_hist\_sa\_u2\_1.pdf and GDP at market prices, current prices (tec00001)

[http://epp.eurostat.ec.europa.eu/portal/page/portal/national\\_accounts/data/main\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/national_accounts/data/main_tables)

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=tec00118&tableSelection=1&footnotes=yes&labeling=labels&plugin=1>

Real GDP growth rate - volume (tec00115) MIO\_EUR\_CLV2005

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115>

Currently, seiniorage is created within the banking system and used to cover various costs, not specifically employment. The cost of employment is paid for though, and thus from other resources. Thus it would entail a switch indeed, to cover the employment costs of a new ECB payment system by seiniorage. The banking system could cover the various other costs from the various other resources, that apparently are available. Apparently the conceptual switch seems feasible. Over the 12 year period we can find a relatively high average income, even when velocity is about constant around the value of 2. As said, that new ECB payment system will have other costs, and a small transaction fee would tend to be required.

### **The other branches in the financial system**

Institutionally separated from the payment system, there are the secondary savings and loans and the tertiary investment banks. Higher risk comes with higher rates of interest. The shadow banks will have to be redressed. All these banks ought to be relatively small with respect to the market, such that there is more competition, that helps to keep salaries in check.

The redress of the shadow banks (or shadow activities in known banks) means that every financial transaction must have an identified regulation. Credit default swaps must be forbidden since they create the illusion of the same security as money itself, while money is the monopoly of the Central Bank. Many financial products make eminent sense, e.g. a life insurance of a wage earner, such that a mortgage can be paid and the widow or widower doesn't have to sell the house. The key point is to separate sense from nonsense. Since the current system of money and finance is badly designed anyway, even sensical products can produce counterproductive effects. Having a sound system of money and finance will help to separate sense from nonsense.

Essential for growth (i.e. environmentally sustainable, see Hueting (2012)) is that there are countercyclical investment banks. Such banks study potential projects in the boom period and invest in the bust period (and sell such projects again in the boom period). Pollock and Letta (2001) confirm that the causality runs from expenditures to income, and less in the reverse. Keynes's *General Theory* was also intended for entrepreneurs, see Fanning & O Mahony (2000). The current policy in the EU is austerity in the hope of a return of 'confidence', such that markets will start to invest again. This current policy runs counter to what Keynes called the *animal spirits*. Confidence leaves on horseback and returns on foot. In that long run, or rather tip-toeing, we are all dead, Keynes explained as well. Hence we need investment plans, as Tinbergen was also clear in explaining. The required investment banks need not be bureaucratic, of course, since we are speaking about creating a market. One could start studying the issue by considering the pamphlet by Mazzucato (2011).

### **A historical perspective**

The current monetary and financial system has grown from history. Gold is scarce. For a commercial bank it costs money to store gold or even paper money. It seems attractive to lend and hope for the best, since each loan creates its own deposit. As the current system developed, it had various crashes along the way, so there also developed a system of regulation. Ratio's for reserves and liquidity came into being, and because of the Great

Depression also deposit insurance. If deposit insurance is seen as 'insurance' then it is costly indeed.

The current system is like the invention of the automobile but with the imposition of "conservative" regulations. At first the authorities require that each car is drawn by a horse, with the unintended effect that also weak horses can "pull the car". A second innovation is that the horses may also be put in a stable, provided that the car user pays for hay and oat. Curiously, the current system is defended strongly by "conservative thinkers" who insist on the reliability of the gold standard, and who are very much against economic inefficiency, but who do not see how quaint both the gold standard and the current system are.

For a new monetary and financial system we would start from the notion that for a Central Bank it is a senseless notion that money would be scarce, since it can always be created. There is also no cost to deposit insurance since money can always be created.

The creators of the current system over the centuries thus didn't put the security of the customers in first place. They were confronted with a developing banking system, that needed some control, and they had little theory to guide them. They gave priority to the access of banks to commerce and profit, where banks collect the seigniorage, and where banks can shift bankruptcies onto the community. The theory that the academia created, like monetarism, fitted this system while alternatives apparently didn't merit much attention. Keynes's approach seems to have had a period of popularity in 1945-1965, but the professors on money and banking apparently made sure that the gold standard still remained the teaching standard.

We see the same confusion with respect to "system banks". The EU decided last December that there will be a Banking Union in which European system banks will be monitored. The details still are under discussion, see the proposals by the EU Commission (2012). The big banks thus have managed to create more distance from their national governments and the risk of nationalisation and the risk of being split up. The solution however lies in a system with safe deposits at the Central Bank and the splitting up of the second and third tiers.

### **The economic order**

The analysis in this paper assumes a somewhat different economic order than conventionally thought. Conventionally, there is the Trias Politica with the checks and balances of the Executive, Legislative and Judiciary branches. Subordinate to these branches is a Council of Economic Advisors (USA), Sachverständigenrat (Germany), Commissariat du Plan (France), Central Planning Bureau (Holland), Office of Budget Responsibility (UK). We can observe empirically that subordinate planning doesn't work well, which is why Germany insists upon constitutional guarantees of a balanced budget. The latter however is needlessly rigid. It is also illogical.

A balanced budget doesn't solve the key problem that this budget might be based upon wrong information and illusionary thinking.

The proper solution is a Tessera Politica, in which there is an Economic Supreme Court (ESC), at the same level as the other branches of Montesquieu's government. This ESC cares for scientifically checked information. The political branches still determine how the resources are allocated but they lose the opportunity to manipulate the information. The

concept of the ESC was presented originally in 1992, see now a text for a constitutional amendment in Colignatus (2011a), abbreviated as DRGTPE.

An unintended consequence of this development of concept is that it is very likely that Robert Mundell's *optimal currency area* can still function, if each nation has its own national ESC, without the transference of sovereignty to some central authority. As such, this is a conjecture without rigorous proof. Nevertheless, it can be suggested to the Eurozone countries to start working in that manner, as a matter of economic common sense. National economic scientists are in a much better position than bureaucrats (i.e. non-scientists) from (distant) Brussels (and lacking national prestige), to indicate problems in a national budget. Countries will grant veto power more easily to a national ESC than to Brussels, and it will have real meaning, rather than some "financial punishment" (that adds to the problems).

A key example is the export surplus of Holland, later copied by Germany. The policy of Northern Europe is to impose wage restriction and thus generate growth and jobs via exports. This is an excellent way to shoot yourself in the foot. The surplus of the North is the deficit of the South. The North has to loan the surplus to the South, and the South has the option to invest or to consume. When mal-investment in the South causes depressing sights of half-built homes, airstrips and factories, we might perhaps be relieved that much went into consumption. Clearly, Economic Supreme Courts in the North would have vetoed the wrong information and political disinformation that underlies this Northern low wage policy.

Eventually there is scope for a world currency. It would be fortunate if the Eurozone would develop what would be needed in practice to allow the world to adopt a scheme that would sustain world governance and national sovereignty.

### **An economic plan for Europe (September 2011)**

The instrument of money can be used in a targeted manner to eliminate bottlenecks that contribute to stagnation. In this line of thinking, I earlier proposed an *Economic Plan for Europe*, Colignatus (2011b) and a suggestion for reforming the EMU, Colignatus (2011c). These two papers have been included in the book Colignatus (2012), *Common Sense: Boycott Holland*. Elements in that Economic Plan for Europe were:

- (1) EUR 400 billion can be used by governments to increase the capital base of banks, by taking shares. As that capital will be put in the ECB under the 10.5% reserve requirement, it is neutralised on the spot.
- (2) Another 400 billion can be used to clean up the debt of Greece and Italy. This is neutralised as a balance sheet correction too. To satisfy the no-bailout-condition, Greece and Italy could create economic zones comparable to the lease of Hong Kong, where companies could invest and operate under international law for the next 40 years.

Thus the ECB can create 800 billion euro and neutralise it within the system such that there is no effect on inflation. These earlier papers used the property of fiat money, but the present paper gives a better outline about what fiat money is.

An author should hesitate to solve the same problem multiple times in multiple ways, but a certain amount of flexibility helps against the suspicion of dogmatism. I would like to emphasise, perhaps in defence, that there are different elements involved in the various solutions to the same problem. This present paper for example discusses deposit insurance, which element is not central to the earlier papers. We nevertheless have a double solution now. Colignatus (2011b) suggested to create EUR 400 billion from the printing press to raise bank capital, while this might no longer be needed if the banks are split up and the payment system is brought under ECB control. I don't consider this a serious inconsistency, even though some readers might consider EUR 400 billion to be serious money. My suggestion is to consider the logic of the argument. The key point is that fiat money creates a wealth of options to choose from, so that the real argument is to choose wisely.

### **Some details about that plan**

Without explanation, it might sound too simple, to just print EUR 400 billion and resolve the insolvencies of the banks. It is useful to consider some details, to see why the properties of fiat money make it a key economic instrument (which instrument is destroyed when money is regarded as gold or gold is regarded as money).

(ad 1) The current ECB policy towards recovery requires banks to write-off bad loans and to replenish their capital to 10.5%. A consequence is that banks tend to prop up bad loans as if they were good loans, to the detriment of new initiatives in the real economy. The ECB has a policy of cheap money for banks so that they can make profits to prop up their capital requirement, which is a hidden subsidy that might as well be faster and in the open. The current policy doesn't help real companies that need cheap credit. The ECB policy is targetted on the financial system and blind to the real economy. The policy relies again on the idea of restoring 'confidence', but thus is based upon fallacies, and it neglects the counterarguments.

(ad 2) The participation of Italy and Greece in the Eurozone was a political decision and thus the Eurozone must bear the consequences. Commercial banks have continued to loan to Greece even though they should have checked where the money went to. Europe has let this happen. The debt is so large that some annulment is unavoidable. Asking private parties to bear the burden of that annulment would turn Eurozone government debt unreliable. Under the rules of the EMU country debt now starts to require a risk premium, see Colignatus (2011c). Normally, government debt is 100% safe because the Central Bank can always print money. Therefore, we can find the solution there too. The ECB can create EUR 100 billion for Greece and EUR 300 billion for Italy. Would this be a bail-out? The countries have various options. Greece and Italy might consider a capital tax to capital owners, like is common in Northern Europe. The suggested lease is an alternative that many might consider wiser.

### **Democratic accountability**

The earlier papers established that the ECB could technically create that EUR 800 billion. The decision to actually do so would be political, and likely be taken by the Eurozone Council of Heads of State and Government, after preparation by the eurogroup ministers of Finance.

An important point is democratic accountability and control. With more democratic transparency, there might be more public discussion about the use of fiat money to resolve the crisis. Perhaps it is the lack of democratic accountability that causes that policy makers regard the euro as gold. Thus, it may be a bit of a tragedy, that lack of democracy causes policy makers to choose solutions that cause even less democracy.

The EU and the Eurozone countries agree that the current arrangements are not working. Policy makers are developing an ESM, a Banking Union, a European semester, and more ways with tighter supervision. The present paper calls attention to the phenomenon that policy makers still tend to treat the euro as gold, and thus neglect that it is primarily a monetary and financial instrument. A greater awareness of this will help the EU to design better arrangements.

In the new EMU treaty, more attention must be given to the countervailing power to Eurozone policy and the ECB. While the EU already has the European Parliament, the Eurozone would need a separate parliament too, since tighter control on the budgets of the euro countries would require a compensating control by voters. The problem would be simpler if countries had their own Economic Supreme Courts, for it is difficult to try to correct at a higher level what already has gone wrong at a lower level. If each country has its own national Economic Supreme Court, so that the control of the budget remains at the national level, then there would be no real need for a separate Eurozone parliament.

We see the same processes for the whole EU as for the Eurozone. The crisis causes a tendency towards convergence in policy making circles and a tendency towards divergence amongst the voters. The UK historically had difficulty with the German-French combination in the EU, and one may conjecture that the UK only joined so as to influence the EU toward a common trade area rather than "an ever closer union". In itself it would be very wise of the EU to stick to its unique selling point of being a common trade area, since the peoples of Europe are different with their own national histories. To focus on a common trade area that includes Russia and Turkey would be a great idea. That issue is of a political nature, naturally. The point here, however, is that the economic crisis in Europe is partly a monetary artifact, derives from monetary architecture and competence. It would be unwise to let one's political choices about the future of Europe be determined by (such) lack of command of economic theory.

## **Conclusion**

The rules of the Eurozone cause the euro to function as the gold standard. This is an important causal factor for the stagnation in Europe, now with low or negative growth of production and high unemployment, in most countries above 7%, in Ireland 15%, Portugal 18% and Spain and Greece above 25%. The US economy performs better in some respects, partly because of the advantages of fiat money. The Eurozone can get these advantages too when it can release itself from the present *de facto* gold standard. The treaty on the EMU has to be changed in order not to become dependent upon current ad hoc measures, with the loss of welfare over the years 2008-2013+. When consumers and agents can have deposits at a local branch of the European Central Bank, a system of deposit insurance has been established by itself. Advisable is a split-up between (1) the primary payment system with retail banks that are franchises of the ECB, (2) the secondary savings and loans banks, and (3) the tertiary investment banks. The shadow banks must be redressed, with every financial transaction having an identified regulation. Credit default swaps must be forbidden since they

create the illusion of the same security as money itself, while money is the monopoly of the Central Bank. This paper refers to earlier proposals of how the ECB can create 800 billion euro with a push of a button to redress the debts of the banks and of Italy and Greece. Notably, 400 billion euro can be created and invested in bank capital, and be directly neutralised by the capital requirement of 10.5%. The other 400 billion can be used to clean up the debt of Greece and Italy. Their participation in the Eurozone was a political decision and thus the Eurozone must bear the consequences. To satisfy the no-bailout-condition, Greece and Italy could create economic zones comparable to the lease of Hong Kong, where companies could invest and operate under international law for the next 40 years.

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