

From TEXIT to GREXIT? – *Quo vadis hellas?*

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Two weeks of high political drama and entertainment have passed since the election victory of Syriza. By engineering the TEXIT, the not quite voluntary exit of the Troika as overseers of the Greek reform process, they signaled the beginning of a new era, not only for Greece, but for Europe as a whole. This was followed by extravagant demands – a debt reduction to allow Greece to breathe and a new Marshall Plan for the South of Europe, to be called ‘Merkel Plan’. Predictably, given their weak bargaining position, Premier Tsipras and his Finance Minister Varoufakis returned from their road show largely empty handed. The initial euphoria of much of the Greek electorate is turning into disillusionment. It is surprising that the game theorist Varoufakis misjudged his bargaining strength to such a degree.

The intrusion of reality onto phantasy generally produces a shock, but that shock can be healthy if it leads to a smart and realistic response. True, the situation in Greece is quite bad, **but it is already improving**. The primary government budget, which excludes interest payments, has turned positive, as has the current account. Economic growth was also slightly positive in 2014. If Syriza turns out to be even half as good at governing as they have been at entertaining, then the Greek economy will continue to improve. Given this fact, plus their impressive electoral victory, Syriza would have to make some big mistakes to get into serious domestic difficulties soon.

So, what should Syriza do now? Ultimately, they will be judged by their performance in three broad areas: 1. Reforms in all areas of Greek society; 2. Getting the economy out of its depressed state as quickly as possible; 3. Finding a long term solution to the debt problem. The first two areas require immediate attention, the third can only be dealt with after substantial progress has been made with the first two.

- 1. Reforms:** When in a society corruption and clientism have been rampant for decades, or even generations, then a successful reform policy must concentrate on successively picking the lowest hanging fruit, meaning those reforms that are most easily implemented and yield the biggest benefits. Near the top of any such list and in accordance with Syriza’s campaign promises would be the revolutionary idea of collecting taxes also from the rich. This and other important reforms are also among those demanded by the Troika. Syriza is right though in rejecting Troika imposed ‘reforms’ that are based more on ideology than on sound economics. Here, wholesale privatization comes to mind which has nowhere worked as predicted by its advocates. This, Syriza is rightly already stopping. As reforms are successively implemented and their benefits become apparent, attitudes in the population will also change and further reforms will become easier to implement.
- 2. Ending austerity:** This has been the most important campaign promise of Syriza. They wanted to accomplish this by means of generous aid from the creditor nations and Troika, but that aid is not forthcoming. So, what to do? I have recently proposed that Greece should install a second currency, entirely under its own control, with

which it could generate additional demand and thus reflate the economy.¹ I repeat the proposal here, with slight changes, one being that I would now call this currency 'Drahme' rather than 'Geuro' to reflect Greek pride and independence. I also discuss some of the very interesting comments received.

3. A second currency for Greece.

Here is my proposal

The Greek government should create a *second currency* to be named the *Drachma*. The Drachma would be legal tender with the same value as the Euro, *but for domestic payments only*. Any payment, in the private sector, or to the government, for example for taxes or fees, could be made equally in Euros, Drachmas, or any combination of the two.

The government would start to make all payments, for wages, transfers, etc. with a combination of the two currencies. For example, they could set a ratio of 80% Euro, 20% Drachma. Without any further aid from the EU, the Greek government could increase its spending in this example by 20%.

The government should mandate banks to open a Drachma account parallel to every Euro account so that the Drachma could be freely used in payments through the banking system. There would however be no obligation for a bank to exchange Drachmas for Euros. Also, banks would be prohibited from making loans in Drachma, so that there would be no additional instability introduced because of possibly nonperforming Drachma loans. Each Drachma would again be spent by its recipient, creating a multiplier effect until finally returned to the government in the form of taxes or fees.

Under my proposal, the Greek government could quickly and very substantially increase domestic demand, which was its principal campaign promise and it could do so without the need for agreement on the part of some external authority.

I can see further long term benefits from such a system, not only for Greece, but for all countries of the Euro zone. The introduction of the Euro was a mistake, but abandoning it now would be very costly both in real and psychological terms. Under my proposal, the Euro could be maintained, while giving to the individual countries the possibility of a flexible anticyclical fiscal policy, a possibility that they now lack.

Comments received

A very interesting comment came from Avner Offer. I quote: "Britain maintained a dual-note system, with unlimited Treasury notes circulating alongside Bank of England notes between 1914 and 1928. Not quite the same as the proposal, but similar in that the Treasury note issue allowed a large increase of money supply in defiance of existing legislation." Bank of England notes were subject to the gold standard so that their volume could not be determined by the government. When war erupted in the summer of 1914 the government desperately needed funds to prepare for total war. So it issued treasury notes not subject to the gold standard and made them legal tender.

¹ <https://rwer.wordpress.com/2015/01/29/greece-keep-the-euro-add-the-geuro/>

The problem faced by England a century ago and the problem facing Greece today are quite similar, only Greek spending is limited by the less than overwhelming generosity of donor countries rather than the gold standard. My proposal is also quite similar to that adopted by England in 1914: if you can't expand the currency that you have, get an additional one!

Trond Andresen has for some time been advocating a payment system based on mobile phones, similar to ones that have been installed in some African and Latin American countries. All participants would have an account at the central bank and payments would be made from one account to another by sms. Among the advantages of a mobile payment system listed by Andresen is the following; "A black economy in Mobile Dollars is close to impossible. The same with tax evasion. Intelligent software can monitor transactions 24/7, and flag human operators when suspicious patterns emerge. Knowledge of this implies a credible threat, so that agents to a large degree will abstain".² That may be an advantage, but do we wish to give to Big Brother such total control?

A long-term solution for Greek debt

We are living in an age of rising inequality of income and wealth, rising public and private debt and increased financial instability. All of these are related. The relationship between creditors and debtors is asymmetric with power usually concentrated on the side of the creditors. Considering all of these aspects in relation to the Greek debt is way beyond the scope of this article. I will make some more limited remarks.

Is the Greek debt sustainable? Lorenzo Bini Smaghi³ argues, rather convincingly in my view, that it is. But that is not the only issue, there may be both moral and economic arguments for reducing the debt. Syriza wanted an immediate debt reduction, but its bargaining position was too weak to obtain this. However, if Syriza governs well in the coming years, putting reforms in place, generating growth and getting the economy close to the full employment level, its bargaining position will be much improved. It would be further helped if it had the Drachma in place as a second currency that could easily assume the role of a standard currency. Grexit would have become a credible threat. Other leftist parties, like Podemos in Spain, might by then also be in power and the time could be ripe for a general debate about debt in the Euro Zone and what best to do about it.

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² Andresen's argument can be found at:

http://www.itk.ntnu.no/ansatte/Andresen_Trondecon/mobiledollars.pdf and at

http://www.itk.ntnu.no/ansatte/Andresen_Trondecon/articles/sammelpublikation_parallelw%C3%A4hrung.pdf

³ <http://blogs.ft.com/theexchange/2015/01/12/lorenzo-bini-smaghi-is-greeces-debt-really-so-unsustainable/>