Updated[1] proposal for a complementary currency for Greece (with response to critics)

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Introduction

I have been quite heartened by the generally positive response to "A Detailed Proposal for a Complementary Currency for Greece." Up to this point, nobody has, as far as I am aware, identified any substantive errors of fact or logic, so it is reproduced below without edits.

Following I have addressed those criticisms of which I am aware. None of them are convincing, and several simply do not apply. Most have a target that is their author's assumptions, not this proposal. That said, such critiques are apparently receiving wide coverage and attention. Most center on the characterization of the grec as "funny money," basically a sham currency which depends for its value on a gullible population for acceptance and use. I think one would find, if the grec were instituted as described here, more than a few who would be happing to take the grec off your hands, and might even pay a bit with "real" money." The grec is emphatically not "funny money." It has a real, tangible value from day one.

The need

Austerity has delivered obvious suffering to the Greek people and serious burdens to the Greek state, trials that do not need to be enumerated here. The mechanics of austerity drain money and the goods and services it will buy from the economy. Austerity follows from the rule of the primacy of debt, enforced by misguided, coercive and often bizarre policy programs.

The SYRIZA government in Greece is pursuing anti-austerity, pro-recovery policies to the extent it can. There are three primary strictures it faces. The Hellenic Republic cannot (1) use exchange rates to multiply the domestic currency relative to the international currency; (2) employ the fiscal policy demanded by its situation for want of spending power; and (3) use monetary policy, as that is in the hands of the European Central Bank.

Unless the government can unilaterally increase its money supply and its means to increase spending, all roads to macroeconomic recovery are blocked (absent a come-to-Jesus moment by the Troika and a pan-European solution). The fact must be accepted: Monetary expansion is essential, a necessary condition for macro-economic recovery. Without it, fiscal, monetary and exchange rate policies cannot be employed. The question then becomes how to do it within the context of the euro.

A number of strategies is under consideration, including the introduction of a "trade dollar" by a private corporation and the institution of a currency through a new development bank that is "funded" by the NPV of certain tax obligations. A third and very promising option is Robert W. Parenteau and Trond Andresen's TANs (Tax Anticipation Notes), as presented in RWER and elsewhere. Below is a fourth, or perhaps 3(b) to the TAN, referred to here as the GREC (from

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the convenient acronym for Government Reimbursement Exchange Credits). It borrows heavily from the concept of TANs; although was developed separately.

Key considerations:

- What is allowed?
- What can give a currency value?
- What are practical implementation issues?

In the context of Grecs:

- Issuance and use
- Cost to the government
- Size of monetary expansion
- How to encourage exchange
- Scenarios which include a Greek exit from the euro
- Final advantage

What is allowed?

A complementary currency is feasible under the current (or plausibly amended) regulatory regime of the Eurozone insofar as it is "restricted" to certain uses and "voluntary" in acceptance. That is, it cannot be a competitor to or substitute for the euro as unrestricted legal tender, i.e., good for all uses and mandatory in acceptance. The specifics of statutes and treaties are peculiarly set against Greece, often as a result of past debt difficulties, dating back to the 1920s. The specifics of euro circulation within each country are sometimes regulated differently by the particular central bank. In the case of Greece – which, although a member of the association of central banks, is only partly owned by the Greek government – there are some additional hurdles. But TANs are legitimate as bearer bonds. (The grec is differentiated from the TAN – and the euro – also by its being dated, not a perpetual store of value.)

What can give a currency its value?

Here, and some (MMT) would say that in all modern states, a currency gets its value from being accepted for tax payments. (In the case of Grecs, uses would extend to utilities and services.) If an instrument of any kind – note, bond, coin, digital balance – can be submitted for tax payments, since agents and citizens commonly have this obligation, the instrument will come to be exchanged between agents for goods and services. (How fast and how broad this exchange will be a matter of experience.)

Practical matters

- The technical infrastructure present in Greece and the technological sophistication of its citizens will determine the optimal form of the instrument, e.g., digital or physical.
- The scale of issuance must keep in mind the need for trust by the population. There can be no glitches or bugs. It must be immediately useful and reputable and solid.
- An early issuance is obviously much better than a delayed program. The problems exist now. If Greece exits the euro before issuance, the question is moot. But an early issuance could diminish the need to leave.
- The new instrument should be compatible with scenarios that include staying in or leaving the euro.

Government Reimbursement Exchange Credits (grecs)

Issuance and use

In the context of austerity and with the promises of improvement in the lives of citizens implicit in the SYRIZA platform, grecs are conceived as a cousin of TAN, and are used to augment pensions and wages and to replace social welfare subsidies and forbearance. They would be issued in a physical form, i.e., paper. They would be accepted for tax payments for a single year (e.g., 2016), for utility bills and for some government-sponsored services, such as transportation. Initial physical instruments could evolve to forms such as deposits to special accounts at the post office, which are legally allowed by the current regulatory framework and from which cheques could be issues. Then, or even before, grecs could find form in the digital platforms envisioned by the other proposals.

Should the grec expire, i.e., not be used for taxes in the year prescribed, they could be exchanged at a discount at government offices. The discount would depend on the Finance Ministry's targets for the supply. The object is to put exchange value into circulation, and receiving it back in the form of taxes ends the circuit unless they are reissued. The expiration of the grec should encourage turnover, but it ought not to be a drop-dead date. It is likely that old grecs would continue to circulate at a value based on the discount. If new grecs came into circulation, there would be an effective difference in denomination.

Theoretically, as Andresen and Parenteau have pointed out with the TAN, domestic use of the grec should happen at parity with the euro, since the tax payment should by arbitrage bid the values to par. Whether this happens in practice has yet to be seen. To the extent that taxes would not be paid in euros, but might be in grecs, they may trade lower. (That is, "I'm not going to pay taxes unless I can do it at a lower price.") This is not necessarily a bad thing. One can speculate on an advantage, as it would replicate a variable exchange rate.

Advantages of low-tech issuance

- A paper complementary currency can be described on its face in terms that are amenable to regulatory restrictions, as a bond, with the restrictions on use that differentiate it from the euro (voluntary, restricted).
- Paper can be readily understood by its recipients, being similar to other notes, and its official use is clear.
- The physical instrument can carry images that enforce a particular patriotic message.
- The exchange of physical instruments is a matter of hand-to-hand. This would be easier for those technically unsophisticated and would facilitate exchanges that might not otherwise occur.
- The potential for software or technological bugs and glitches is very much reduced.

On the other hand:

- Low tech might be viewed as low impact, desperate, or backward.
- The logistics of physical instruments may be more complicated to the issuer, however familiar to the recipient.

Cost to the government of monetary expansion through grecs

Obviously, the maximum cost would be the euro-denominated tax revenues foregone. That is, the cost in could be no more than the quantity of grecs (or TAN) issued. A number of factors would reduce this "outside cost" exposure:

- If the grec were substituted for other social welfare subsidies and forbearance, those would be cost savings. (Why grecs should be accepted for utilities and government sponsored services is explored below under "encouraging use and exchange.")
- If new taxes or fees payable in grecs were levied on businesses (say the newly privatized), it would encourage their use and be a reduction in net costs.
- To the extent that the government can substitute grecs for euros, the cost would be reduced. It is envisioned the grec issuance would not be in lieu of, but in addition to, current pensions and wages paid in euros. That is, the proposal is not to replace euro payments with grec payments to beneficiaries and employees. If in the course of operations there comes to be a general acceptance of grecs, some government spending could be converted from euros, this would reduce the cost.
- To the extent that economic activity increases, taxes payable will increase, thus reducing the cost.
- The tax liability eligible for payment in grecs, at least initially, might be restricted to a single tax (e.g., property tax) to avoid potential problems for fraud and forgery, as well as to offer a limited sphere for assessment and adjustment.

Size of the monetary expansion

Although the potential cost to the government in forgone euros is precisely limited to the size of issuance, the increase in the effective money supply is not limited. It would be a multiple, depending on the number of times the currency was exchanged prior to payment of taxes. (Thus it is very much predicated on the society's willingness to use them for exchange.) The effective supply can be reduced, however, by taking grecs out of circulation when received as revenue, or increased by recirculating them. The multiplier will be larger the more the issuance is targeted to low- and moderate-income people.

Encouraging use and exchange

The strategy of issuing grecs to low- and moderate-income people has many advantages in terms of stimulating wide use of grecs for exchange. The best case is for them to find it immediately viable in their lives.

- The low- and moderate-income people targeted for issuance are those most motivated to find a use for a new currency.
- Use for public services and utilities would encourage use.
- If usable for utility payments, the grec could replace welfare programs involving subsidy and forbearance. Grecs would give people a means to make payments and reduce bureaucratic costs of determining who is eligible and how the benefit is delivered. But it would also give people without appropriate tax obligations a clear use, and hence a tangible value.
- Likewise, if usable for government-sponsored services, citizens without tax or utility bills can convert grecs into tangible value (e.g., monthly bus or ferry passes or other services). These public services may not be strictly public enterprises, and may be run by private or local entities, but a mix of new taxes and or other arrangements might be amenable to all.

- A tax liability that is due annually (property tax) would put grecs in people's pockets for an extended period, during which experiment and exchange might take place.
- A concerted program of public information and indoctrination displaying the opportunity for exchange prior to tax time would be useful. To the extent that people use them only for the tax purpose, the monetary expansion is limited.
- Open markets such as are common in Greece might be a venue for experimentation. If vendors and merchants could pay local levies or property taxes in grecs, they would be likely to accept them in trade for produce and other commodities.

Scenarios which include leaving the Eurozone

If Greece should leave the euro, the grec system could remain in place as a means of replacing social welfare payments. The system might serve as a benchmark for the value of a new drachma, or could even be expanded to become the new money by allowing all taxes to be paid in that form.

The final advantage of the grec

The proposal is within the bounds of what is legally plausible and is clearly not a threat to the euro in terms of exchange or trade. No euro-denominated obligations would be converted or reset to grecs. The final advantage is that in this way the government can deliver on at least some of its promised amelioration of cuts in wages, pensions and social services.

Summary of Proposals

- **Tax Anticipation Notes (TAN).** The proposal is well described in the pieces by Trond Andresen and Robert Parenteau. These would be zero coupon, perpetual, bearer bonds, and digital instruments, though physical form is not excluded in theory. The electronic platform has been successfully applied elsewhere. TANs would be clearly and simply useful for taxes. The authors believe that citizens would quickly realize the value was at parity, since one TAN would be worth one euro at tax time, and it would be arbitraged to par. The authors have concentrated on the theoretical legitimacy of the plan, and have not addressed the practical matters to any great degree, other than the mechanics of issuance and acceptance.

This seems to be a completely coherent way of expanding the money supply, although the digital platform which has been successful in Africa and elsewhere, but not in the context of settled practices and habits.

- **The Greek Dollar ($G) (working name).** A private company would issue a digital currency, creating a new basis of exchange. Eurozone restrictions exempt private companies. The initial operations involve a substantial advance from the Greek government. The initial phase would involve the purchase of $G at a particular rate. $G would be issued to all citizens in a kind of helicopter money program.

At present the use for taxes and payment of government employees is discussed in general terms. The company would encourage partial ownership by government and would finance operations via very modest charge on each transaction using $G.

This is problematic in some senses. A private company is excluded from rules on complementary currencies, but there is a clear connection and interrelation with the government in the proposal through (1) the underwriting, (2) the discussion of taxes and payments to government employees, and (3) by way of the proposed partial stake in the company by the government. The proposal seems to be confident in the technology, and confident that it can be issued quickly, with little preparation of the population for its use. It seems to be assumed that the initial exchange of $G for euros will set a rate of exchange that the market will accept, or that promises that some future taxes will be payable in $G will have gravity.

- **A "funded" currency.** In this proposal, in its current form, as I understand it, the net present value of some tax liabilities would seed a complementary currency via a new Greek Development Bank. The currency would be used to finance business investment and thus economic expansion.

The originator is well versed in the institutional frameworks, and this alternative should receive serious consideration.

Response to critics

The grec is a way to pay pensions and wages without using euros.

The grec is not for paying wages and pensions, it is – as clearly described – for paying taxes, utilities and government sponsored services. It is ***distributed*** through the pension and wage system in this design for the reasons and purposes described. As clearly stated, these payments are "in addition to," not "in lieu of" payments in euros.

Taking a moment to think about it, even the euro payments for wages and pensions are not "payments in euros," unless you hoard them for security or eat them for breakfast. They are payments in a medium that can be translated to food, shelter, clothing, etc., and ultimately for paying taxes.

This proposal does include a phrase referencing a contingent down-the-road possibility that grecs could be substituted for euros. It may have been better to have left this hypothetical out if it is the cause of the confusion.

The distribution through wages and pensions is designed (1) to target those most likely to find its exchange value, (2) to ameliorate want, as grecs are substituted for euros and spending power is freed up, and (3) to maximize the impact, as the multiplier is higher, because turnover is greater when lower incomes receive a distribution.

The grec is "funny money" and has no value other than that assigned by a gullible population.

This critique is absurd on its face. One can imagine monopoly money being distributed (and this is basically the trade dollar proposal), but one cannot imagine government accepting it for taxes, the electric company taking it for payment, or buying a bus or ferry pass with it.

The grec will cause inflation.

In a rampant deflation with a high level of idle capacity, inflation is not Greece's problem. At the level of issuance contemplated here, there is no practical prospect for inflation. Any fear of hyperinflation is certainly a fantasy worthy of the Germans. As a dated currency, there will be incentive to use it in the short term, perhaps, increasing "velocity," and this is to be welcomed, since it increases the effective multiplier, increases effective demand, and stimulates business.

The government cannot afford the revenues lost to payments in grecs.

In theory, the government can raise taxes – perhaps on the wealthy – in the amount of grec issuance that are payable in grecs and net zero. A detailed assessment should be undertaken. The credits are due at the end of the tax year, so no contemporaneous loss occurs.

The important thing is the trust of the population.

Trust, or its absence, is certainly the most important obstacle to widespread use in exchange, and trust should be encouraged by all available means. That said, the basis of trust is that the grec works as advertised: you submit it for taxes, utilities, etc., and it is accepted. These narrow uses are guaranteed. On this foundation, it is only a matter of time. But time is crucial.

The grec does nothing to address the urgent need for investment capital.

This is correct to a point. The grec does nothing directly to ameliorate Depression levels of investment. One can imagine other distributions, directly to start-ups and so on, but that is not this proposal. The effect of a successful program on tangible private investment is far greater than zero, however, and comes through the demand side. As the prospect for profit increases, capitalists will find reasons to invest. (The public sector is sadly absent in its responsibilities to invest, by reason of the Neoliberal chokehold on the European transnational institutions.)

The grec is awkward as a currency. How would you make change?

This is very true, and a good reason to evolve to a digital platform at an early date. In its physical form, one can imagine denominations of 100 and 20, but not much further. Change would have to be made in euros if physical grecs were proffered. Cheques drawn on postal accounts are, however, not subject to this problem, and could be quantified precisely to the purchase.

The Syriza government is not competent enough to institute such a program.

The Syriza government is competent enough to identify the austerity train wreck, which seems to put it near the top of the scale in the Eurozone. They have a high level of public support. I personally find little evidence of incompetence, particularly when compared to the previous government. The incompetence and myopia lie with their European partners. Or, one suspects, it is not incompetence, but a conscious and concerted effort to force failure on the upstart leftists at the risk of shooting a hole in the bottom of the boat.

Running a printing press and distributing benefits is being done every day in Greece. If the grec is instituted and accepted for tax payments, the government will have done everything required administratively. It is not complex. (The low-tech version here is proposed partly to avoid technological bugs and the appearance of breakdown.) The option of accounts at the post office will be a new phenomenon, but one that is basically familiar, and difficulties there can only tangentially be ascribed to the ministerial level.

Businesses won't accept it.

Neither the authors of this criticism nor anybody else knows how quickly the grec would make it into widespread exchange. One suspects that if a business owner has taxes to pay, he or she will happily accept the grec, perhaps initially at a discount, but likely less of a discount over time.

It would be a sign of desperation.

Staying in the euro requires something to directly address the strictures imposed by that currency. Absent a release of the monetary stranglehold, particularly as tightened by the ECB with its liquidity squeeze, there is no prospect for recovery. Fiscal, monetary, exchange rate, and trade policies are not in the government's toolbox under the current regime. The American New Deal was run by pragmatic people who experimented, and it should be a model for Greece. Standing by so as appear not to be desperate (and to whom?) is truly incompetent.

Conclusion

There are many nuances and technical details of a grec program not included in this paper. None of these have caught the eye of critics and all have satisfactory resolution. The issue of a complementary currency ought to be gaining a wider audience as the internal contradictions of the euro become ever more evident.

One hopes that all proposals will receive a fair hearing. The most crucial question is: How does the currency establish its value? Once that is answered, a next question is, "How is it distributed?" After these two, it is all in the details.

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