Institut Veblen pour les réformes économiques

The Euro-Drachma, a Monetary Lifeline for Greece

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Traducción en castellano

The agreement signed by the Eurogroup on February 28th, 2015 gave the Greek government some time to put forward its political agenda. But only in few months from now, Greece will face a very tough repayment schedule, while the monetary noose tightens on Athens as the European Central Bank (ECB) has banned Greek banks from buying Greek State bonds. The State now has no other choice then to appeal to external capital markets to meet its debts, which can only increase the pressure on it to continue down the path of devastating austerity policies. Under these conditions, the "choice" now faced by the Greek Government seems to be a one between continuing current policies or on exit, voluntary or involuntary, from the Eurozone – which would result in the introduction of a new devalued Greek currency. **However, there is a third way that could give Greece some breathing room and allow the country to bypass both the yoke of Brussels and the abandoning of the Euro: the establishment of a new monetary instrument on the national level, the "Euro-Drachma". The “Euro-Drachma” would function as a parallel currency linked to the Euro and dedicated to supplement it, rather than replacing it.** This solution, which is not contrary to the European Treaties, is inspired by the tax anticipation scrips that were successfully issued in the USA by certain major cities in the 1930s or by the IOUs that are still used by some states, such as California. The objective is not to issue a legal tender currency but a simple "tax credit instrument", limited in time but renewable, that could be used as a means of payment. In other words, the Euro-Drachma would be a currency based on the direct involvement of the public without any banking intermediation. It would not be imposed but simply offered as an option for Greek citizens. In a stifled economy, it would have all its chances of becoming an accepted means of payment if its nominal value was pegged to its “fiscal value” – that is to say, if every citizen and every business could use it to pay their taxes. The fundamental idea is to restore the monetary circuit of the Public Treasury in order to compensate for the collapse of the public service mission of the private banking system. But also to place the monetary system back at the service of the productive economy, in a similar way to how the Treasury notes where used in post-war France in order to finance reconstruction. Other historical examples are provided by the Argentine provincial currencies that (re)emerged in the northwest of the country following the democratic transition in 1983. These currencies spread to most of the other provinces at the turn of the 2000s in the wake of the Argentine Peso crisis. These experiences are very poorly known if not despised by the defenders of monetary orthodoxy. Yet, recent research on the *Patacon* issued by the province of Buenos Aires in 2001, and the *Bocade*, which circulated continuously from 1985 to 2003 in the province of Tucuman, show on the contrary that these were very positive monetary experiences and are of great interest when thinking of an alternative solution for countries hit by the Euro crisis. Before being banned by the International Monetary Fund (IMF) in 2003, emissions of these public means of payment – when they were well-governed – significantly mitigated the social effects of a deep and prolonged recession, and they contributed to reviving the economy and reducing public debt. These experiments show that in the context of a federal Union of States governed by the principle of subsidiarity, a common federal currency can actually coexist with complementary, national-level or regional-level currencies. Indeed, without destabilizing the federal monetary system, such coexistence gives more room for maneuver to members disadvantaged by the common monetary rules, allowing them to correct the regional imbalances by local monetary policies. The Euro-Drachma should be put into circulation through public sector spending channels such as the partial payment of wages and pensions of civil servants, minimum income benefits and public procurement orders. Its flow back to the public Treasury would be ensured by citizens and businesses using it to pay taxes. Its circulation would, in principle, be limited to Greek territory and to trading goods covering the population's basic needs (food, health, education, public services, housing). The Euro-Drachma would be convertible at par to the Euro but the convertibility would be only partial, reserved to companies that would accept the Euro-Drachma for a large proportion of their sales turnover but that would still need to pay imports in Euros. To the extent that Greece has full control over its fiscal revenues, the problem of to Euro conversion would only arise marginally, as long as the volumes of the Euro-Drachma issued would remain moderate in comparison to the global public revenues. However, maintaining the parity value of the Euro-Drachma to the Euro is crucial, and it suggests that its issue must go hand-in-hand with the necessary tax reforms to accelerate its velocity (for example, monthly payment of income taxes) and with reducing tax evasion. While not a panacea for all the ills of the Greek economy and public finances, the Euro-Drachma could take on several short-term challenges: boosting the local economy, financing basic public services and reducing the costs of the “floating debt” - *i.e.* continuously refinanced short-term debt for ongoing operations - by bypassing financial intermediaries. What’s more, by fostering the relocation of some activities, it would contribute to a long-term transformation of the economy towards a more sustainable model, one more resilient to external shocks. By encouraging a reduction in imports, the introduction of the Euro-Drachma would further improve the Greek external trade balance without side effects such as a fall in local production, as is currently the case. One could retort that the Euro-Drachma does not solve the fundamental problem of Greece, namely the unsustainable burden of public debt. On the contrary, we believe that it would make the perspective of a Eurozone exit seem less catastrophic for Greece, and thus strengthening the Greek position in negotiating partial restructuring of the country’s debt and/or debt conversions. There is nothing automatic about this solution, however. Its success will depend on the capacity of the Greek government to build and maintain trust in the value of the new monetary instrument. In other words, to make the Euro-Drachma widely accepted throughout the country and to maintain its parity with the Euro by avoiding speculation on its market value. Past experiences show that its introduction must be negotiated both with the private business sector and the public sector. They also show that such a plan requires the support from an important fraction of local social and political forces, united around values of national dignity and social justice. The electoral victory of Syriza and the strong domestic popular support enjoyed by the current Greek Government suggest that the conditions might be ripe for such support to be gathered.

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Translated from French by Wojtek Kalinowski

Further Reading: "The Euro as Common Money, not a Single Currency. A Plea for a European Monetary Federalism", by Bruno Théret & Wojtek Kalinowski, Veblen Institute Note, September 2012].

The Euro as Common Money, not a Single Currency. A Plea for a European Monetary Federalism

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http://www.veblen-institute.org/The-Euro-Drachma-a-Monetary