Neo-drachma or The False Greek Dilemma

Bernard Lietaer, *Truthout*, 14 July 2015

Faye Cox: *You say that if you had the ear of Tsipras, you would tell him there is another avenue besides IN or OUT of the Eurozone, that there is a way to say Yes to Greece and Yes to the Eurozone, a win-win that supports economic recovery and repayment of debt. It sounds too good to be true. What does this other avenue look like?*

Bernard Lietaer: Well, one example of a dual currency has been in front of us since the emergence of the Euro in the late 90's, and that is in the UK where businesses have had a choice between the Euro and Pound Sterling for keeping their books and paying their taxes. At the end of each quarter, the Bank of England publishes the official rate of exchange between the two currencies, thus allowing UK businesses that prefer that option to be part of the Eurozone for all practical purposes.

Why couldn't Greece follow this successful example of the UK with its national currency operating in parallel with the Euro? It has worked well for over two decades, with each currency serving different purposes. Plus, the technology now exists to launch and support parallel currencies as electronic currencies, with transparent and instantaneous transactions to rebuild trust.

Faye Cox: *Two currencies operating in parallel, that sounds like adding a great deal of confusion to an already tangled situation. How would it work?*

Bernard Lietaer: In this scenario, the Greek economy could continue to operate in Euros for shipping and tourism, its two largest economic sectors, and a 'Neo-drachma' could serve the economy of services and products made and used in Greece, from haircuts to food to most of what people need for their daily lives. To buy a German car or Italian pair of shoes, Euros are used. To buy a pound of olives or bottle of Retsina, Neo-drachma are used. Again, the digital technology developed in the past few years opens possibilities that did not exist until now, including the objective and transparent functioning of parallel currencies in real time.

Faye Cox: *You called the possible Greek currency a Neo-drachma. Given the tension and mis-trust in all directions, how do you envision the launch of a new or Neo-drachma?*

Bernard Lietaer: A Neo-drachma currency could be issued by the government as a non-interest bearing electronic currency which would quickly help to solve two enormous problems facing Greece right now: the payment of pensions (at least partially in neo-drachma), and putting the 60% of youth who are unemployed to work. Every Greek family has at least one mobile phone that can be used to make electronic payments. And once the first payment is made, say to pay your bill at the local grocer, that grocer immediately sees the deposit in the business account and can right away pay the employee who otherwise was soon going to be out of a job. You can see how this

introduces immediate trustworthy liquidity into the local economy for the necessities of life and defuses the increasingly dangerous conditions that may lead to violent unrest.

Faye Cox: *You described the process as the Greek government issuing the Neo-drachma. This is a departure from the usual private bank creation of money. How would the troika look at that innovation?*

Bernard Lietaer: First of all, the Maestricht Treaty, the treaty responsible for the creation of the European Union in 1992, technically defines the Euro as a paper money issued by central banks. Therefore a purely electronic medium of exchange such as the Neo-drachma could be defined as a token or a receipt, something other than money, which might technically get past the ECB scrutiny. More fundamentally, it is the IMF Research Department that released a report in 2012 called *The Chicago Plan Revisited*. This plan was proposed by leading economists during the financial collapse of the 1930's in which the government rather than private banks would issue currency, and do this without interest. The IMF report concluded that the advantages would be a balanced economy without booms and busts, the elimination of bank runs, a drastic reduction of public and private debt, and low inflation. Of course the IMF is only one of the three wheels of the troika, but it is very significant that this is being seriously considered at such levels. And since the IMF leaked a report last Friday on the need to re-structure the Greek debt, I think we can say there is no longer a troika.

It's also worth noting that this solution would work for other heavily indebted countries, and could strengthen individual economies while still maintaining a competitive and unifying single European currency.

Faye Cox: *What would happen in the relation of the Neo-drachma to the Euro? Isn't there a real danger of serious devaluation?*

Bernard Lietaer: Yes, you're right, there would be an initial devaluation of the Neo-drachma to the Euro, even as much as 50%. But it would still serve to get people and the economy working in the right direction, something clearly not possible with the proposed increase of the VAT-tax from 12% to 23%, plus further pension cuts. Wouldn't it be better to encourage what is still working, rather than placing more of a stranglehold on those aspects of the economy that could benefit Greece with economic recovery and the EU with debt repayment?

Remember that in Iceland the Krona collapsed nearly 60% during the 2008 financial crisis, and that made the country more competitive and allowed the economy to rebound more easily than in the Euro zone. And by the way, Iceland also is currently considering the implementation of the Chicago Plan with a government interest-free issuance of currency. This will be fascinating to watch, and should be much more in the news.

Faye Cox: *You are talking about two innovations here, or maybe three: dual parallel currencies, government issuance of currency, and electronic currency. This is a lot of innovation.*

Bernard Lietaer: If ever there was a time for innovation, this is it, and everyone knows it. And as I've said, a parallel currency has been functioning successfully in the UK for decades. The IMF has studied the Chicago Plan thoroughly and concluded it has big advantages. So the biggest innovation might be the electronic currency, but consider the advantages that brings. The technology now exists to launch and support the Euros and Neo-drachmas as electronic currencies in a very short amount of time. Payments on mobile phones using electronic currencies have become the dominant mode in places like Kenya and Indonesia. If it can be done so successfully in Kenya, don't you think it would also work in Greece?

Electronic payments also makes instantaneous and automatic collection of VAT taxes possible, bringing immediate relief and benefit: in Euros for that stream of the economy (to the extent of mobile payments in Euros), and in Neo-drachmas for the second stream. If I buy a computer or other imported good, that tax is paid at the time of purchase, in Euros. If I buy a kilo of olives, that VAT is also paid instantaneously in Neo-drachmas. Both streams would inject liquidities into the economy, alleviating the pain in Greece and expediting payments in Euros as well .

Electronic currency support systems such as Pay Services and other digital infrastructure systems can securely manage, transact, communicate, and control all online transactions with other community members, employees, clients, suppliers, banks, associates, third parties, government and business partners. Besides solving the Greek governments' problems swiftly, the dual electronic currency solution would give all businesses the choice of which currency works to their greater benefit, and ultimately the benefit of all concerned, including the creditors. Yes to Greece and Yes to Europe.

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