Seminar – of Liberal Regulatory Policy*

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A regulatory policy in three steps

A regulated insolvency, monetary innovation and structural reforms save Greece to leave the Euro-currency zone and at the same time prevents the Euro zone to establish an over-regulated super-state

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Greece must save money. It must pay off at least such portion of their debts in order to proof to the capital market to become a reliable partner again. The necessary Efforts will be dictated to Greece by the Troika of IWF, EU and the EZB in a never ending process - as prerequisite for the financial help, without it the country cannot pay back its debts. This procedure comes close to a never declared but factual non-regulated Insolvency of the state. Along with this Insolvency-Procedure goes automatically an incapacitation of the debtor which will last for at least 10 years. How little this situation is understood can be seen by the lately very often stated demand to send an EU-Savings-Commissioner to Greece – but this job is already occupied by the Troika which is permanent present in the Country. Greece is forced onto a path which endangers its Democracy as well as its economic future. The proposed three steps can lead out of this vicious circle.

The three necessary steps are:

First Greece needs a **regulated Insolvency** – also some other states which cannot carry their burden of debts, will need this. We need therefore in Europe a procedure for a regulated Insolvency of States[1] and substantially for two reasons:

- The regulated insolvency is necessary for a freely constructed new beginning. Instead of a time wise unforeseeable and dragging incapacitation of the democratic elected organs of the indebted State which is imposed by the EU the Insolvency would reduce this period of not having sovereignty only as long as the insolvency procedure takes. Concurrent this would eliminate the tendency of creating an administrative Monster or Super State, in which the indebted States would be treated like depending Provinces.
- The regulated insolvency is necessary for the financial survival of the of the indebted States. Corporations can be eliminated in case of an insolvency that means they will cease to exist if the financial restructuring is unsuccessful. But a State which claims Insolvency must – as in private Insolvency have the right to further live on the basis of a clearly defined margin of subsistence. To put more burdens on the State and its citizen cannot be expected, to put fewer burdens on them cannot be expected by the creditor and it will not restore the trust of the financial markets.

Second Greece needs a **parallel currency,** maybe under the terminus Drachme. This currency must be additional lawful money issued by the Greek National bank. This will save Greece to exit the European Currency Zone and therefore avoid a currency reform. The capital, which has precautionary left the country could return.

Running government payments will be converted 1:1. A very fine regulated inflation of the parallel currency around 5 % it would stabilize the domestic demand and the supply of goods and services can grow accordingly.

*Translation by Peter Döllel and Jobst v. Heynitz

1 In addition to the already possible procedure of the „Londoner Clubs“, Ernst Moritz Lipp, Zeit zum Strategiewechsel (Time to change the strategy), FAZ 16.2.2012, page 19; for a long-term solution refer to a letter to the editor by Eckard Behrens, FAZ 12.11.2011, page 19.

The population will learn fast and their behavior will consider that inflation will restrict the hoarding function of money[2] and as a consequence they will handle the new Drachme different than the Euro.

To stabilize and enforce the domestic demand must have utmost priority as of now. Because the necessary savings of the State implicate a substantial loss of the public demand and investment – which is the opposite of a traditional public economic stimulus package. Therefore the country fell already in a recession and the downward spiral will advance. Greece will need now – as a balance - for the diminishing public demand a growth in private demand! As the state is doomed to decrease spending this can only be done with monetary policy in this case it is easiest to induce a slight but noticeable Inflation to the Drachme under but close to 5 %. All incomes turn immediately into a demand of goods and services and as savings – by an arranged steep yield curve for Drachme Investments – of short and long term financial and material assets (refer to note 2). – Through an – frequently required – Euro-exit of Greece it is hoped to increase exports by currency devaluations. Using the Drachme as parallel money an economic pick-up can be achieved without leaving the Euro-currency zone.

If someone should be afraid to go this path of parallel-currency with the obvious disadvantages such as the efforts of double prizing and advertising as well the free floating exchange courses to the Euro can go for the alternative solution to introduce the Drachme as parallel or secondary money. In this case the exchange course to the Euro would be 1 : 1 with normal prizing. The secondary money would also be legal money issued by the National-bank of Greece. All contracts, taxes and other liabilities to pay, also new liabilities, are to be paid in Euro, but could be paid, if they are domestic, with secondary money which will be brought into circulation by the government which will pay all state employees; all receivers of old age pension and all other public expenditure with Drachme. To secure its further circulation and with it the domestic demand cannot be achieved through the dosed Inflation because of the 1:1 link to the Euro.

Something else has to be used instead which is called “Aging” of money (devaluating the single note) which was used during the great depression in many countries and is used nowadays i.e. in Germany called regional money like the Chiemgauer. [3] The exchange of the Drachme into Euro should not be disabled but economically a bit hindered. To avoid the escape into the Euro the exchange fee should be close to the amount which the money note loses or is devaluated (ages) during a year. [4]

Third Greece needs far-reaching **structural reforms,** enabling rule of law and a rational political system as well as a productive economy which will substantially increase the ability to carry their debts and pay them off in due time. This means for many Greek citizens a painful loss of privileges and possessions, income and securities. Even though many of the existing structures on which those special benefits are based on are unjust, the abolition of those will be for the people concerned a grave cut and therefore a fundamental reason for uncertainty so that the reforms in a democratic process will probably not succeed. Also imposing pressure from abroad to install a European "savings-commissioner" will lead to even more unrest.

Only after stabilizing the demand side of the economy (as defined in step 2) will slowly improve the employment situation. Those two are the prerequisites for structural reforms, which will reinstate a functional political system as well as improving the supply side of the economy, in a democratic acceptable way because the individual citizen must be assured that after losing his privileges he is not falling into an economic abyss and he can see and believe other adequate chances will come up. This confidence will slowly materialize in the minds of the individuals and the opposition to the grievous cuts will disappear. Only then a planning and implementation of the structural reforms can be handled in a democratic way by the Greek people themselves. Then the

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2 Eckhard Behrens, Wieviel Inflation? (How much Inflation?), Publication „Fragen der Freiheit“ No. 265, page 3-19, Die Finanzkrise (The Financial Crisis) Fragen der Freiheit No 281, page 30-41; www.sffo.de/Aufsätze.

3 There are other methods than to paste fee-stamps on the money note. The magnetic stripe could be used to devaluate the money note, which is readable on the cash register, refer to Marvin Goodfriend, Overcoming the Zero Bound on Interest Rate Policy, Working Paper 2000-03 of the Federal Reserve Bank of Richmond http://www.richmondfed.org/publications/research/working_papers/2000/wp_00-3.cfm. A better way is a barcode on all Drachme-banknotes which explains that this banknote will be valid to the last day of the third month ahead and after this date for every 3 month a demurrage of 2% will be charged by central bank when the banknote returns to central bank. This barcode all cash registers are able to read and its explanation everybody is able to understand.

4 Detail Explanation by Eckhard Behrens, Euro- or debt crisis, and: Greece needs Regio-Money, in Fragen der Freiheit No 282 page 77-96, www.sffo.de/Aufsätze.

European “Saving-Commissioner” is not needed anymore and freedom is secured and centralistic tendencies within the EU can be avoided.

Those three steps **put together form** a sound, logical **master plan.** This plan offers the Greek people an economic and democratic realistic and desirable perspective. It will calm the nationalistic-emotional agitation between some EU-counties and at the same time avoid creating an EU-super-state. Today there is a common agreement that only liberal structural reforms are needed. But almost nobody trusts in the ability of Greece to manage those reforms in a democratic way, considering the very high unemployment and the fact that the country resides in a deep recession for many years. Therefore it seems that a savings-commissioner coming from Brussels is unavoidable, for a long time of democratic unendurable years. But an innovative monetary policy makes this unpopular position redundant, because this innovation – which is wider known than most people believe – induces an economic pick-up which builds up momentum under the control of the Greeks themselves which makes the reforms much easier. And there is no risk to it because in case of a political fall back all issued Drachmen can be withdrawn and revoked by simply re-exchanging them into EURO.

Why should we not try this option it bears fewer risks as the presently attempted solutions?

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