

Give Greece a chance – with a parallel currency that stays

In 2011, Christian Gelleri and Thomas Mayer proposed a second currency for Greece. Since then the Greek problems have not been solved and have instead become worse. The country is still enduring severe economic problems and national bankruptcy remains dangerously close. A parallel currency »NEURO« could help to avoid the worst and act as a leverage for the better.

The crisis in Greece is now entering its eighth year. Per capita Gross Domestic Product (GDP) in 2008, the first year of recession, was about 23,200 euros. Taking into account taxes and duties, a Greek earned an average of 1,000 euros per month. In the wake of the economic crisis, GDP fell to just 16,500 Euro in 2014 and disposable income to about 700 euros per month. If the price of goods had fallen at the same rate, that would not be worth mentioning. However, a look at the cost of living index in Greece for the same period shows an increase in prices. By comparison, the average German income for 2008 was about 1,500 euros and is currently at about 1,600 euros per month.

Economic Crisis Past And Present

What would happen in Germany if the average income dropped (at constant prices) to 1000 euros? We have to look back a long way before we find something comparable in Germany: the economic crisis of 1929 to 1933. During this period, per capita GDP also fell by a third. Most Germans lost patience after four years and chose Nazism, which both economically and morally completely

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wrecked the state within twelve years. In Greece, however, people have now trusted the established political parties for eight years but the rapid drop in income has left a deep mark on the people of Greece. Parents who cannot feed their children and have to send them to SOS Children's Villages, sick people who are not treated anymore and many other

examples show that a decrease in income levels of 30 percent has caused a number of human tragedies. At the end of 2014 the

in contrast to the US, which has responded very expansively since 2008. While the US Federal Reserve printed dollars to buy large



Greeks brought the left-wing Syriza party to power and set high hopes on the new government. Premier minister Tsipras appointed economist Yanis Varoufakis as finance minister of the new government. This is remarkable for in February 2014 Varoufakis posted a proposal for a parallel currency for Greece at his blog (<http://yanisvaroufakis.eu>). What was this proposal?

Proposal By Varoufakis

For Varoufakis the starting point is the downward trend of the Greek economy and deflationary tendencies in the Euro area since 2013. In his view, the monetary expansion of the European Central Bank was too small

quantities of US government bonds, the European Central Bank only reacted slowly to economic weakness and falling prices. The south of Europe was particularly affected. Varoufakis draws an interesting comparison to the crypto-currency Bitcoin. The amount of Bitcoins is absolutely limited to 21 million. There is no possibility of achieving growth momentum by increasing the money supply. Similarly, the money supply is fixed in the southern countries of Europe. The strength of the northern economic regions draws money out of the southern regions, which is lacking there more and more. Varoufakis did not consider in his analysis that the European Central Bank has also greatly increased the quantity

of money, similar to the US Federal Reserve. None of this increase has arrived in Italy, Spain and Portugal yet. On the contrary, money has even flowed away from there. The most massive drain, however, happened in Greece. Thus an even greater influx of Euros would not have reached the Greeks either. Despite his incomplete analysis, Varoufakis came to a correct conclusion, namely that the introduction of a parallel currency could help to stabilize cash flows.

Inspired by the debate about the crypto-currency Bitcoin, Varoufakis developed the concept of »FT-Coins«. FT stands for Future Taxes. Money is created in expectation of future tax revenues. Varoufakis was aware that paying taxes is not particularly popular in Greece, so he tried a stimulus: »You pay, say, 1,000 Euros for 1 FT-Coin issued by the Spanish, Greek, Italian or Irish Treasury etc. This process is connected with the following agreement: The FT-Coin can be redeemed at any time in 1,000 euros or, after two years, it induces a tax credit of 1,500 Euro. Each FT-Coin carries a time stamp, which ensures that the additional taxation value will take effect no earlier than two years later. After redemption of the FT-Coins new FT-Coins can be issued. This ensures that the total amount of FT-Coins is no higher than, say, 10% of Greek GDP. »

The concept reveals much about Varoufakis's thinking. The guarantee to redeem FT-Coins without deduction in Euros at all times depends on a high level of trust. If this trust were tested in practice and many participants exchanged the FT-Coins for Euros, one would probably discover that not so much liquidity is available. The second assumption is that the 50% bonus increases the willingness to pay taxes. The danger is that those who still

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pay taxes take the reduction of one-third and that those, who pay no tax today will not do so in future either. This would therefore potentially reduce the state budget further. The third issue is the appeal of hoarding money for those who have to pay taxes in the near future.

Varoufakis's suggested parallel currency thus has strong disadvantages:

1. In an atmosphere of impaired trust the newly created parallel currency would be changed back in no time.
2. The bonus indeed benefits honest taxpayers but if the overall willingness to pay taxes does not significantly increase then a poor state will get even poorer through the FT-Coin. This increases the probability of bankruptcy and the preference to change the FT-Coin into Euro immediately.
3. The FT-Coin tends to slow velocity of circulation because it is more likely to be hoarded due to the tax credit.

Through this proposal we can well see that a parallel currency is not automatically an improvement. It depends very much on the specific design. A bad design can not only fail to achieve its intended effects but even cause the whole thing to backfire. In technical terms it is called a negative money multiplier when the new money set into circulation causes a reduction in economic performance. In this case, Goethe's »force which always wants evil and yet creates the good«, would be exact-

5,600 Euros per capita. Even more of this increase remained in Germany, namely 6,700 Euros per capita. In Greece there was nothing left of this increase. On the contrary a serious outflow of funds at the rate of 2,900 Euros per capita was measured. The »free movement« of the Euro had a positive effect for Germany. For Greece, however, the Euro is a disaster. From the German perspective, the current situation in the Euro area can easily be handled. The German economy continues to benefit from the cash inflows and the received loan guarantees for the southern European countries currently do not (yet) lead to payment obligations for the German government.

Parallel Currency For Greece

The limitation of cash outflows should have the highest priority for Greece. A possible parallel currency must therefore be designed to prevent leakage. In the first proposal for a NEURO (see Gelleri / Mayer, 2011 »Express money for Greece« and Gelleri 2012 »NEURO for Greece« under www.save-the-euro.org) an exchange fee of 10 per cent for the exchange of a parallel currency into Eu-

	Eurozone	Germany	Greece
M1 end of 2009 per capita	12.100,00 €	14.800,00 €	11.300,00 €
M1 end of 2014 per capita	17.700,00 €	21.500,00 €	8.400,00 €
Difference	+ 5.600 €	+ 6.700 €	- 2.900,00 €

Table 1

ly reversed. But can we not perhaps also want the good and then create the good?

Panicked Greeks Drain Cash

Back to the diagnosis of the patient: It is obvious that the Greek patient is terminally ill. Economic output has fallen by one-third. Factories are shut, workers sit at home and young people have the choice between unemployment in their own country or uprooting by emigration. Does the problem maybe lie in wages or the economic structure? In 2013, Greece was the no. 1 in terms of reforms and reduction of labour costs (study by the Lisbon Council). Nevertheless, the economy did not recover. In the media it was said that the reforms must continue and that the cuts were not deep enough. But if unit labour costs compared to the Euro area have fallen by 15% over two years (2011 to 2013), then the problems in Greece do not have much to do with the allegedly high labour costs, but with a profound crisis of confidence. This can be seen very well from the currency measures:

Between 2009 and 2014, the money supply per capita was increased in the Euro area to

ros was advocated. This proposal is useful for crisis-hit countries such as Italy, Spain and Portugal, who can still hold plenty of Euro reserves. This was also the case in Greece in the years 2011 and 2012. Meanwhile, the economic and political situation has become so acute that the original proposal has had to be modified until the situation stabilizes. It should also be noted that the impression is that the child has already fallen into the fountain. But let's imagine that the Greek central bank, the Greek government, the European Central Bank and the Euro partners agree on the following schedule:

1. The Greek central bank is given permission to emit a parallel currency to the amount of twelve percent of Greek GDP. This corresponds to a value of about 22 billion Euros.
2. The parallel currency is named NEURO, the new Euro for Greece.
3. The parallel currency is published purely electronically and is not convertible into Euro. There is no cash.
4. The Greek State guarantees the acceptance of NEURO for the payment of taxes, duties and benefits 1 to 1 against the Euro. The official value of 1 NEURO is 1 Euro.



Back to Drachma or forward to Neuro? Money can be improved and become a solution. The Greeks could be pioneers of a new economy.

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5. Trading of NEURO is allowed. The exchange rate develops according to supply and demand. For each trade transaction a tax of 3% is payable.
6. The NEURO is provided to the Greek government interest-free for three years. After two years, the results are evaluated. The rules are optimized and a new optimal money supply is determined for a following period.
7. In parallel to the existing Euro accounts, commercial banks keep NEURO accounts with a circulation incentive (storage fee) of initially 3% per year. This "storage fee" stimulates the circulation of the currency because the earlier the money leaves the liquidity account for payment or lending, the less costs arise. Transactions to Euro accounts should at first be made technically impossible. One third of the circula-

tion incentive rate flows to the commercial banks for the operation of the accounting system. There are 200 million NEUROs available to cover costs of an estimate of four million accounts, each with a cashless payment card. The commercial banks are not allowed to charge any additional fees for account management and the issuing of debit cards. One third of the income from the circulation incentive rate flows to the Greek central bank for the development of infrastructure for the parallel currency. If a drop in the velocity of NEURO money occurs, the central bank can increase the circulation incentive rate.

8. By law, all (domestic) creditors of the Greek state will be obliged to accept NEURO at a fixed ratio. The initial rate for the first six months is 10%. As soon as the money circulation has accelerated in Greece, the rate is gradually increased. Members of Parliament and government officials get paid from the start 75% of their net salary in NEURO.
9. Much of the NEURO is used for investment and social programs. An example would be the reactivation of night allowances for police officers. Another example would be interest-free loans for small and medium businesses. Even social programs to alleviate the worst misery could be subsidised in NEURO.

Positive Effects

The NEURO strengthens the community in Greece. With such a parallel currency, the money supply is increased per capita up to 2,000 NEURO. The expected high velocity of NEURO could stop the economic decline in the short term. The NEURO would primarily strengthen the revival of the domestic economy. Farmers, crafts, transport operators, retailers and domestic service providers and

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producers would benefit most. Through electronic payments all transactions are accurately recorded. To avoid the circulation incentive fee, NEURO would preferably be used for tax payments. The NEURO would not be suitable for hoarding, but only for paying, investing and giving. It would create an »easy« money, which would be spent willingly and quickly. Once the tax bill arrives, NEURO are immediately transferred. The Euro would

remain strong in tourist regions and in export-oriented companies. But in the area of domestic economy the NEURO could become a popular means of payment because it would be available for the majority of the population and not scarce like the Euro.

The Problem With Paper Money

A major issue are the Euro banknotes and coins, which have become very popular in Greece since the Euro was introduced. In 2007 about 1,000 Euros per person were in circulation, in 2014 it was more than 2,000 Euros. However, average Greeks do not have 2,000 Euros in their wallets, but less than 100 Euros. So where is all the cash? A small proportion circulates in the black economy, a large proportion is hoarded in vaults. This is reflected in the high number of 500-Euro notes, which are rarely used by the normal population for day to day payments. The Greek government has proposed to limit payments in Euro banknotes and coins to a maximum of 70 Euros per transaction. Payments beyond that would be punishable by law when

Model calculation	EURO	NEURO
Government expenditure per month	8 Mrd. €	2 Mrd. NEURO
Average money supply	90 Mrd. €	22 Mrd. NEURO
Money supply multiplier	2 x	4 x
GDP currently	180 Mrd. €	
GDP after the introduction of the NEURO	160 Mrd. €	88 Mrd. NEURO
Tax revenues	+ 22 Mrd. NEURO	
Cost of negative interest	0,6 Mrd. NEURO	

Table 2

sely monitored. As the largest economic player, the Greek State can significantly contribute to the promotion of cashless payments. All expenditures in NEURO and Euro could be made without cash. On the revenue side, the state may charge a transaction tax for cash payments. Thus, paying taxes with Euro cash would become more expensive than with NEURO and NEURO salaries would be a bit higher than the Euro salaries, which would

Germany could contribute to a positive mood by restructuring the claims against Greece as follows: Germany waives interest and offers postponement of debt repayments until 2020. From 2021, Greece would be obliged to pay 5% redemption per annum, payable in NEURO. This conscious step would prevent a disorganized bankruptcy and would ensure that the Germans receive repayment for their years and decades long export services to approximately the same degree from Greece. For this purpose, however, it is first of all necessary to consolidate the structures in Greece and rebuild the domestic economy. This type of restoration from the inside with the outside only assisting could serve as a model for other countries in crisis.

In conclusion, a small model calculation shows which value added effects a parallel currency might have. The effects would be built up gradually. After two to three years, GDP could again reach the level of 2008.

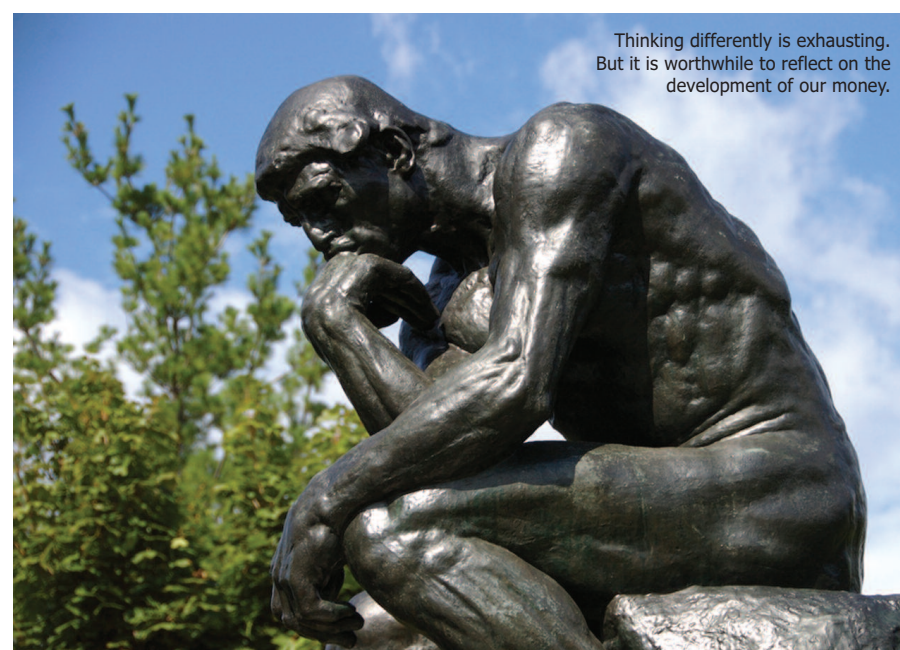
A parallel currency would cost the individual citizen an average of about 50 Euro per year, but on the other hand, a value of 6,000 Euro-equivalent is generated. This is such an impressive ratio between expenditure and revenue, that the question arises why such a measure has not already been implemented a long time ago. ■

www.save-the-euro.org

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Christian Gelleri, born 1973, is a trained graduate teacher of trade and Master of Business Administration. He is the initiator of the Chiemgauer, the most successful regiogeld (local currency) in Germany. As a founding board member of the Regiogeld Association Germany he has significantly shaped the dissemination of local currencies in Germany and has a broad knowledge of the status and prospects of new currencies.



using cash. Whether such a ban can be implemented and monitored, however, is very doubtful.

The Harvard professor Kenneth Rogoff calls for the abolition of cash, because thereby the black money economy and crime could be reduced and secondly, the introduction of circulation incentive rates would be facilitated. In 2009, he was still ridiculed for this proposal. Meanwhile, he receives prizes and awards, most recently in December 2014 as a »Distinguished Fellow« in Munich. Greece alone can not solve the Euro banknotes and coins issue. Therefore, the development of the Euro banknotes and coins must be clo-

mean further incentives for the use of the parallel currency. Another aspect is effective taxation. Which taxes are bypassed and which are effective for all? Maintaining social balance is the task of a more just political system.

Create A Positive Atmosphere

Most important, however, is the creation of a positive mood and awareness in the population that only by rapidly spending the means of exchange will there again be revenue for entrepreneurs, citizens and the state at the end of the day. If eleven million people in Greece were to accept the NEURO, they would take their fate into their own hands again.