Monetary solutions for a Europe in crisis

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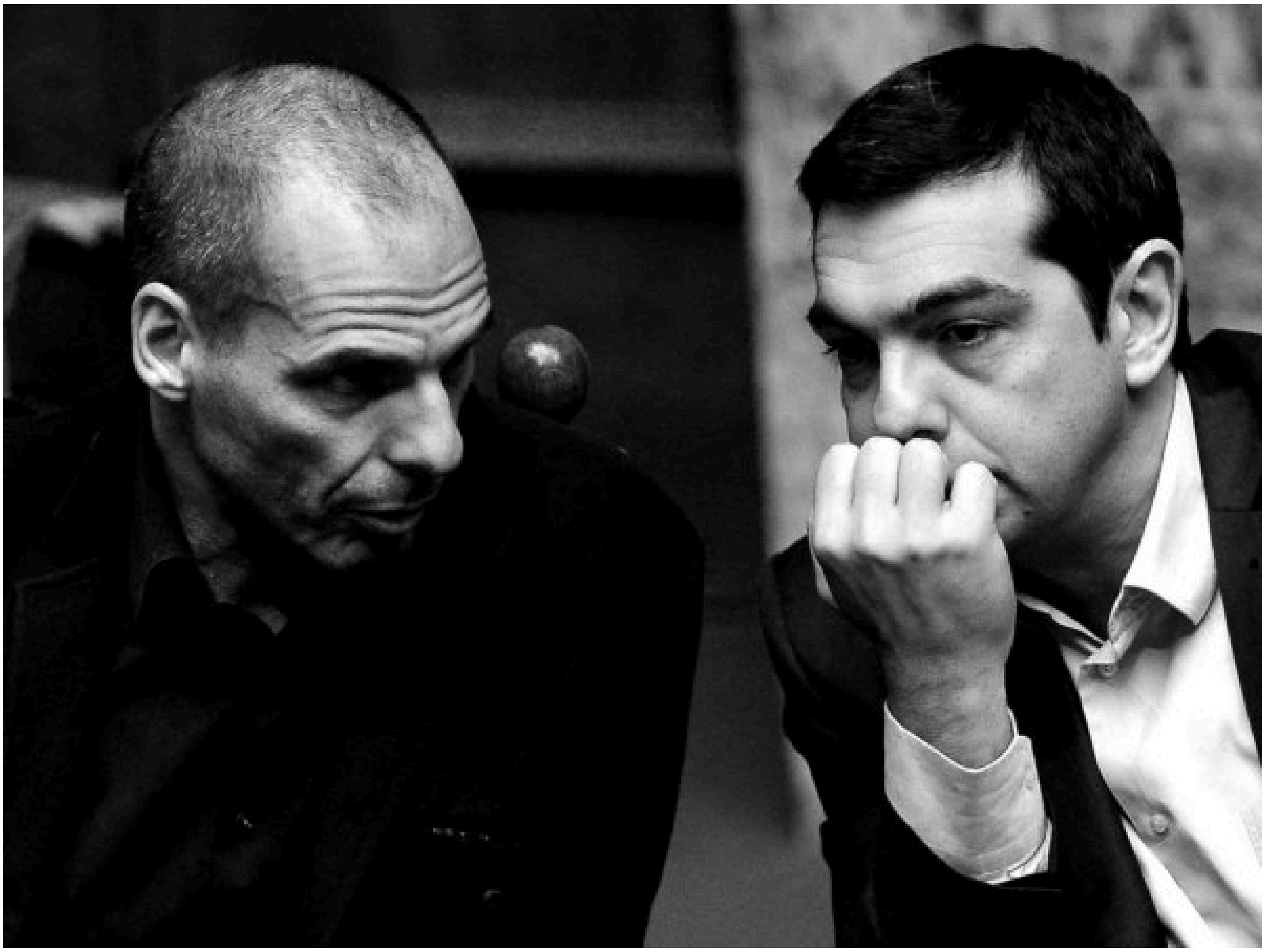

Michel Laloux [1]

On the night of July 12 to 13, 2015, the "Shock Doctrine"[2] struck again, and this time at the level of Europe. A strong message was firmly delivered to the people of Europe. This message has been endlessly repeated since the time of Margaret Thatcher, and even since Bretton Woods: “There Is No Alternative” (TINA)[3]. The Greek negotiators thought they could shift the lines. They thought that a strong popular impulse and tactical skill would suffice. It took six months of negotiations to reach the knockout victory, by the only method that the world of finance knows. Now the people of Europe know : “There Is No Alternative". “Have you finally understood?", this is the message that resonates after the long night, which saw Greek leaders capitulate on all important points, just when they had just got a clear popular mandate to refuse any of these points. The paradox is so huge, that it further underscores the power of the financial domain. It shows that finance is above peoples and parliaments. It affirms unambiguously that there is no salvation outside of it.

It was pitiful to see Alexis Tsipras declare,"I take responsibility for signing a document that I do not believe in, and that I have to implement". Is this not another way of saying TINA?

Most economists have since expressed that this is a bad deal, that it will not resolve the problems, that it will probably exacerbate them, and in the end, Europe as a whole will pay the price of it, not only economically but also in terms of social cohesion. In addition, old cliches about German imperialism soon resurface. As always, we look for a scapegoat. But whether the TINA discourse is expressed more strongly through the mouth of a German, or a Finnish or any other people, is of secondary importance. In any event, it will be expressed. And for sure, all the Eurozone Heads of State congratulated themselves for having reached an agreement. They all wanted it, even Alexis Tsipras. For all had come to the same conclusion: There Is No Alternative.

The worst is that they are right. As long as we stay within the framework imposed by the financial system, there are no other possibilities. Those who claim the contrary, those who think that we could take certain measures, that we could temper the requirements of finance, they are all dreamers, like the Syriza members of Parliament, when they came to power. For this political power will always be that of the powerless, who will ultimately debase their claims.

So, should we, as French President François Hollande calls for, rush headlong into a government of the Euro area? In listening to him (and he is not the only one), the root problem arises from a lack of democracy and democratic governance. Is this not surrealistic? Here is a president who himself has capitulated to the logic of finance, and now he claims that we would do better if we tried the same on the floor above! If the foundations of a building are not properly anchored to the ground, and a seismic shock occurs, can we expect a better refuge on the upper floors? Or will we only have a higher place to fall from?

Let us face the reality: the problem will never be solved by the democratic game, unless we simultaneously resolve the problem of finance. The Greek government just gave the example of this. They had all the democratic cards in hand, and yet they lost the game.

But what is the problem of finance? It is surprisingly simple. It is not necessary to express it in terms of complex equations or sophisticated curves. The financial sphere is problematic because we need it. We do not know how to make do without it. If we try to go against it, to take measures which thwart it, it says, "Okay, go ahead! But capital will flee. You will not get any more capital. And when you will ask for some capital, it will return, but at a higher rate, and with conditions that are more difficult to meet". This unchanging discourse is always sufficient to rein in any head of government.

The question that arises therefore is this: isn’t there another way to finance economic activity? Will we always be dependent on accumulated capital? To answer this question, it should be noted that this type of capital results from past actions, whether they come from savings or speculation.

When such capital is invested in a new project, it does not provide any guarantee as to the success of the project. It can just as easily be swallowed up if the company goes bankrupt. In this sense, it offers nothing more than the funds that would come from a monetary creation, such as from a bank loan. If there is such a bank loan, and if the business grows, the loan will be repaid at some time, and the borrower's dependence vis-à-vis the lender terminates by itself – which is not the case with corporate capital, which remains the property of the investors. In essence, capital resulting from an accumulation brings nothing that the bank loan cannot do. However, accumulated financial capital possess a coercive power, against which all other powers prove impotent.

Taking this fact into consideration, leads us to a whole new approach to the banking system and money. Capital provided from savings and speculation creates a dependency to the past. We should look towards what I call a future-oriented money, for everything related to financing the economy, whether it is financing enterprises or the State. This implies a redefinition of the bank's functions.

First of all, there should be a separation between deposits and transfers, on the one hand; and financing, on the other. The deposits and transfers correspond to the current monetary circulation, that we might call Consumption Money, which would be managed by a Bank of Consumption Money. Financing represents the allocation of Financing Money, issued through what we might call Institutes of Financing, which would be the institutions for managing this second circuit. The rules that determine the functioning of these two types of institutions would arise from the very nature of each of these distinct monetary circulations.

This approach goes much further than the famous Glass-Steagall Act of 1933[4], which was exhumed during the subprime crisis, but which we rushed to bury again. So the problem of finance remains, and the Greek debt crisis is there to remind us of it. The issues thus raised are far more fundamental, than we perhaps think they are. We did not manage to address them in 2008; they therefore reappeared in another form: in the current European psychodrama. These unaddressed issue will rear up again and again, in other crises that are already looming.

We have no alternative, but to put aside our old conception of the money, and to build a new one, which stems from what the events themselves teach us, if we are willing to listen to them. As an example, let us consider the situation of Greek banks. It is planned to recapitalize them through a loan to Greece of 25 billion Euros, with interest on top, which will further burden the budget of this country. These 25 billion Euros are unblocked to avoid bankruptcy of the banks. They should allow these institutions to: (1) restore depositors' confidence, and prevent bank runs and capital flight; and also (2) they intend that banks make loans to businesses and individuals, thereby facilitating a restart of the Greek economy.

Let us examine these two issues from a new conception of money:

1. Financing the real economy

Concerning the financing of the real economy, we saw that it should be done on the basis of a future-oriented money, that is to say a 100% monetary creation, realized by the Institutes of Financing, which we already mentioned[5]. It is the quality of the projects of enterprises that will guarantee the repayment of the loans. If the staff of the Institutes of Financing properly evaluate the feasibility of entrepreneurial projects, the maximum reimbursement default by the enterprises working in the real economy should be less than 5%. In other words, the balance of loans that work represents a large surplus. In any case, if we want the money supply to be balanced, every monetary creation through a loan has to be followed by a corresponding monetary destruction, which should happen when the loan is reimbursed. We therefore have to foresee the monetary destruction of loans that would not be reimbursed by Greek enterprises. If the reimbursement rate is higher than 95%, a mutualization of risk is possible, and an insurance technique would guarantee that the Institutes of Financing get back the totality of their loans.

From the perspective of the real economy, it is thus possible to develop new banking methods to restart the Greek economy. There is no need to ask for European funding, and further burden the Greek State, which already has enough to do, never mind taking up the charge of a 25 billion Euro debt.

The role of the Greek government could be limited to encouraging the birth of such Institutes of Financing, either by allowing competent actors of civil society to create them, or by requisitioning some of the existing banks, and asking them to reestablish themselves as independent institutes. In both cases, these new facilities should have a public service status, which we will not detail here.

2. Preventing bank runs and capital flight

Regarding massive withdrawals of capital, here too we would have to revisit our understanding of Consumption Money. It would need much more than an article to examine the different aspects of the issue. To illustrate one of them, let us go back to Greece, in a very concrete and current context.

Take the case of Mrs. Athena and Mr. Socrates. They worked the entire month of June and each one received a salary of €1,000 which was transferred into their accounts on the last day of the month. From July 1, the bank remains closed and they only can withdraw €60 at the ATM. They hear lively discussions in the street. Some claim that the bank has no more money. “But how is that possible?” they say to themselves. “The transfer has arrived. The money is in my account. How could the bank not have it any more?”.

An informed reader might smile at such naivety. Yet, there is more common sense that we would think in this naive reaction of Mrs. Athena and Mr. Socrates. It even contains the solution to one of the major problems of the banking system. We came close to it at the time of the subprime crisis, when the Glass-Steagall Act mentioned above was again spoken about. But even at the level of research, the root of the problem was not sufficiently addressed, at least to my knowledge.

Indeed, if the bank of Mrs. Athena and Mr. Socrates would only deal with the management of the deposits and transfers, it would not be in the current situation of the Greek banks. It would be a mere registration chamber of inputs and outputs on depositors' accounts. In other words, it would only deal with the money that is used for everyday expenditure, which I call Consumption Money. This would eliminate any possibility of Bank run. In fact, if a Bank of Consumption Money were to terminate its activities, or even go bankrupt, depositors' accounts would be transferred to another facility, exactly like in the case of a company that changes its chartered accountant. Its bookkeeping goes from one audit firm to another, without the accounts being affected.

Starting with simple facts, we come to see the function of money in what it should be in essence: just accounting. It exemplifies what happens in the real economy, when producing, buying and selling. As soon as it goes beyond its role of enabling reciprocal exchange (like when it enters into the speculative sphere), money becomes a commodity, instead of only being a measuring instrument. In some way, it becomes judge and jury. It loses its neutrality and is subject to variations, as if the length of a meter could vary, depending on whether it measures fabric, wood or metal.

But what is that money accounts for? It records rights to consume. Whether I use a bank note or a bank card to pay for a purchase, the seller and I are enrolled in a set of rules and conventions related to the unit of account that we use, the Euro for example. We are therefore in the field of law.

If we well understood the nature of money, as a right to consume, we would realize that the question of an exit by Greece from the Eurozone, is a badly put question. Greece, as a member of the European Union, has the right to free circulation of goods, and so is it entitled to use the euro as a unit of account. Did Greece manufacture counterfeit money? Has she cheated with the rules of the Euro as a Consumption Money? No! The economic and financial problems come from another monetary circulation, the one relating to the financing of economic activity.

Now, these two circulations, that of Consumption Money and that of Finance Money are always reduced to one. This is clearly visible in the banking system, and this is what causes the disorganization of an economy, especially that of Greece. This fused circulation influences how the Greek crisis is addressed by countries of the Eurozone. The Greek debt relates to Financing Money. The question of Financing Money should be addressed directly for itself. To link it to the membership of the Eurozone is a monetary nonsense, because money would thereby not be considered as a unit of measurement, i.e. falling within the field of law.[6]

If the Greek State defaults on its debt, this should not prevent Mrs. Athena accounting for her purchases in Euros. If the accounting is done in compliance with the rules, there will be no damage to the Eurozone. On the contrary, it is in the interest of companies belonging to that zone to continue to trade with Greek companies, in good conditions. In reality, the Eurozone has no interest in a Grexit. It would have everything to lose.

So, what is the solution? Instead of putting Greece into debt, through the recapitalization of its banks, the European countries would do better in helping the Greek government to implement Banks of Consumption Money, which have a public service status. This operation could be done by converting part of the existing banking infrastructure into nonprofit autonomous units. The accountancy related to their own expenses and revenues would be completely separate from that of depositors' accounts. I describe this functioning in detail in my book, Decontaminating the economy[7].

Other measures would concern the status of corporate profits and of rents. They are described in the video: “4 measures for saving Greece”[8]. Each measure involves revisiting the concept we have of these notions.

In this article, I wanted to draw attention to a method of approach regarding the question posed by the Greek situation. The problem is systemic and appears to be very deep. In reality it affects all countries of the world, especially those in the Eurozone. Addressing it through a systemic way of thinking would be to say, the common money is in trouble. Is it the word common that is the problem, as many believe, or is it the word money?

Translated from the original French, by Raymond and Helena Aitken,

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[1] Michel Laloux is an economist and philosopher of education. His research focuses on new social forms in which civil society plays a central role. He has published, among other books, Evolutive Democracy Editions Yves Michel and Decontaminating the economy (see note 7). See on this website: https://www.civiliens.info/livres

[2] Naomi Klein, The Shock Doctrine: The Rise of Disaster Capitalism, published by Penguin.

[3] There is no alternative (shortened as TINA) was a slogan often used by the Conservative British Prime Minister Margaret Thatcher. In economics, politics, and political economy, it has come to mean that "there is no alternative" to economic neoliberalism.

[4] In the USA, the 1933 Banking Act, known as GlassSteagall Act imposed, in particular, a

separation between the functions of the deposit banks and the investment banks. Little respected, especially since 1970, it has been abrogated in 1999, under the presidency of Bill Clinton.

[5] Let us remember that, according to the Bâle III agreements, the traditional banks create in any case up to 90% of the money that they lend out.

[6] It is this confusion on the nature of money which leads several economists to think that Greece should exit the Eurozone. In their opinion, Greece would then have the possibility to use devaluation as an adjustment variable of its unbalanced economy.

This type of reasoning is like saying that the remedy to global warming is to modify the thermometers. It looks like we have not learned all the lessons from the failure of Bretton Woods.

[7] Michel Laloux, Dépolluer l'économie, Tome 1: Révolution dans la monnaie, Démocratie Évolutive 2014. Raymond and Helena Aitken are working on the translation into English. It will be published in Januar 2016 under the title Decontaminating the economy - Volume 1: A monetary revolution.

[8] 4 measures to save Greece: http://youtu.be/kwXy5rLMuo