

# Parallel Currencies for the EMU

A short comparison of design options and proposals

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WISSENSCHAFTLICHE ARBEITSGRUPPE NACHHALTIGES GELD, Berlin

Presentation at

European Seminar Series “Monetary Unity in Diversity”

**“Addressing the Eurozone Crisis: are Parallel/Dual Currencies a Solution?”**

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Die WISSENSCHAFTLICHE ARBEITSGRUPPE NACHHALTIGES GELD wurde zur Begleitung und Beratung der «Enquete-Kommission „Wachstum, Wohlstand, Lebensqualität – Wege zu nachhaltigem Wirtschaften und gesellschaftlichem Fortschritt in der Sozialen Marktwirtschaft“ des Deutschen Bundestages gegründet. Die Mitglieder der Arbeitsgruppe haben sich zum Ziel gesetzt, folgende Fragen tiefergehend zu analysieren:

- Verhält sich Geld so neutral, wie es die Wirtschaftswissenschaften in den meisten ihrer Modelle voraussetzt? Oder treibt die Konstruktion des Finanzsystems, treibt das Geld selbst wirtschaftliches Wachstum mit an?
- Inwieweit ist die Geldarchitektur auf Wachstum angewiesen, um ihre eigene Stabilität nicht zu gefährden?
- Eröffnen sich der Politik hier neue, bisher übersehene Gestaltungsspielräume, um das Wachstumsparadigma zu überwinden?

Eine erste inhaltliche Auseinandersetzung bietet der im Mai 2012 veröffentlichte Zwischenbericht „Wachstumswünge in der Geldwirtschaft“.

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**Economists welcome the proposal of a parallel currency regime as a third way between fiscal union and Euro exit**

We acknowledge the idea of parallel currencies as a blueprint for a fundamental restructuring of the European financial architecture. We consider it to be the appropriate means to systematically deal with the structural differences within the Euro area.

Thomas Mayer, chief economist of Deutsche Bank, recently proposed to prevent the seemingly inevitable withdrawal of Greece from the EMU by introducing the "Geuro" as a national parallel currency. We welcome his initiative and are pleased to find the long prevailing assumption of a lack of alternatives on this serious matter to be overcome.

Now, the extent to which such proposals contribute to the stability of Europe, both politically and economically, depends on their concrete implementation. Their primary focus should be the sustainable benefit of the general population of Greece, and eventually of Eastern Europe.

**Our authors**

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Regiogeld  
Die neue Herausforderung der Region

Neuigkeiten Netzwerk Werte Regiogeld Handbuch Kontakt Mitgliedschaft

**Tagungen & Kongresse**

- 8./14.02.2013 - Macht Geld Sinn Kongressreihe in Köln
- 3./5.05.2013 - 5. Regiogeld Kongress in Traunstein
- 19./23.06.2013 - 2. Internationaler Komplementärlösungs-kongress in Den Haag

**THEMEN**

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- Termine Wirtschaftsförderung
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- Die Inkassur hat inzwischen mit Erfolg stattgefunden
- was sagt denn das Finanzamt einem Unternehmen, der ...
- So ist es. Und es wäre wünschenswert, wenn die eta...

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Handelwährung SURCE erwartet für 2013 Umsätze im Wert von 1,7 Milliarden Dollar mit @regioverband Expand

Regiogeld Verband @regioverband  
Donnerstag, 17.02 um 22:15 in Abenteuer Leben auf Videotext. Download

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Ludwig Schuster and Margrit Kennedy

## WITH A COMPLEMENTARY CURRENCY, GREECE CAN DEVALUE – AND REMAIN IN THE EURO AREA

The European project is at risk. The current PIIGS (Portugal, Ireland, Italy, Greece, Spain) Dilemma shows that Europe's monetary union was built with a structural flaw. When introducing the Euro, the joining nations threw important economic adjustment screws over board – the possibility to adjust their currencies' exchange rates and monetary tools to support underperforming nations – without any monetary substitutes.

### The standard recipes and their negative effects

As a result, all underperforming nations have become dependent on compensations, loans, debt restructuring, haircuts and other exogenous goodwill policy options "kindly" offered to them by their stronger neighbors. Alternatively, they are forced to undertake extensive fiscal cuts at great social and political costs, although it is not at all evidenced that these cuts really contribute to long-term recovery. Indeed, quite the opposite is likely to occur.

### The most disliked recipe: Greece exits the euro

The prevailing view is that draconian cuts are preferable to Greece or other PIIGS exiting the Euro and getting back to issuing national currencies. Against this view, some argue that, for all the disadvantages, this would at least enable countries to adjust their currencies' exchange rates against the Euro and enter the path to recovery. But if exiting the Euro is not an option, how can a nation like Greece recover at all?

### The "Baron von Münchhausen recipe":

Karl Friedrich Hieronymus Freiherr von Münchhausen, a 17th century German gentleman, soldier and honest businessman, and a teller of tall tales, claimed to have extracted himself from a swamp by pulling on his own hair. With the right monetary tools at hand, Greece could pull itself out of the economic swamp just the same way, *endogenously*; it could re-establish its monetary adjustment facilities not by exiting the Euro, but with the help of an official Complementary Currency.



Jane Jacobs' heritage

## ZfSÖ ZEITSCHRIFT FÜR SOZIALÖKONOMIE

ISSN 0721-0752

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Suchbegriff eingeben...

DER BVMW | LEISTUNGEN | STANDORTE | POLITIK | PRESSE | VERÖFFENTLICHUNGEN | MARKTPLATZ

Neue Wege zur Eurorettung:  
Experten diskutieren das Thema Parallelwährung.

NEWS

03.09. **CSR-Preis der Bundesregierung**  
Die Bundesregierung sucht nach den verantwortungsvollsten Unternehmen des Landes. Dem CSR-Preis der Bundesregierung werden 100 Unternehmen für die Jahre 2011/12 nominiert.

31.08. **BVMW und Minister: Fachkräfte für den Mittelstand sichern**  
Die Bundesregierung will die Ausbildung im Mittelstand stärken. BVMW und Minister diskutieren die Möglichkeiten.

22.08. **Obavenc Klein Volkswagen im Offshore-Bereich**  
Die Bundesregierung will die Ausbildung im Mittelstand stärken. BVMW und Minister diskutieren die Möglichkeiten.

MAGAZIN **Mittelstand und Marketing**

**Die Parallelwährung: Optionen, Chancen, Risiken.**

Dienstag, 24. Juli 2012  
10.30 bis 18.00 Uhr

Konferenz  
BVMW e.V.  
Leipziger Platz 15  
10117 Berlin

BVMW Bundesverband mittelständische Wirtschaft

www.bvmw.de

## GEMEINSAME ERKLÄRUNG ZUM THEMA "PARALLELWÄHRUNG"

Die Unterzeichner teilen die Sorge, dass ein unkoordinierter Zerfall der Europäischen Währungsunion allen beteiligten Ländern einen gravierenden ökonomischen Schaden zufügen und die Integrationsidee Europas nachhaltig beeinträchtigen würde. Daher fordern die Unterzeichner die Verantwortlichen auf, Alternativen zu der derzeitigen Euro-Krisenpolitik zu prüfen.

Für eine ökonomisch überzeugende und politisch durchsetzbare Alternative sehen wir die Einrichtung einer Parallelwährung an, die auch mit Artikel 128 AEUV<sup>1</sup> vereinbar ist.

Bei einer Parallelwährung wird zusätzlich zum Euro eine weitere Währung eingeführt. Dadurch können Defizitländer wettbewerbsfähiger werden und die Europäische Währungsunion bleibt in den Grundzügen erhalten.

Dabei ist uns bewusst, dass eine Parallelwährung notwendige Strukturereformen nicht ersetzen, sondern nur ergänzen kann.

### Unterzeichnende

- Mario Ohoven (Präsident des BVMW und CEA-PME e.V.)
- Trond Andresen (Norwegian University of Science and Technology)
- Eckhard Behrens (Seminar für freiheitliche Ordnung e.V., Bad Böll)
- Prof. Dr. Ulrich Brasche (Fachhochschule Brandenburg)
- LL.M. André ten Dam (unabhängiger Euroforscher)
- Christian Gelleri (Chiemgauer e.V.)
- Reinhard Hübner (Hübner GmbH)
- Dr. Hans Kremendahl (SPD Staatssekretär a.D.)
- Prof. Dr. Bernd Lucke (Universität Hamburg)
- Dr. Jochen Leonhardt (Wirtschaftsprüfer)
- Dr. Thomas Mayer (Center for Financial Studies der Goethe Universität Frankfurt und Deutsche Bank)
- Wolfgang Menke-Glückert (Deutsches Forum nachhaltiger Mittelstand)
- Werner Onken (Zeitschrift für Sozialökonomie)
- Dr. Hans-Michael Pott (Sernetz Schäfer Rechtsanwälte Düsseldorf)
- Dr. Rüdiger Schuster (MonNetA e.V.)
- Prof. Dr. Roland Vaubel (Universität Mannheim)
- Michael Vogelsang (Chefvolkswirt BVMW e.V.)

<sup>1</sup> Vertrag über die Arbeitsweise der Europäischen Union



The screenshot shows the website of the 'FREIE WÄHLER' party. The header includes the party logo and navigation links like 'Portal', 'Bundespolitik', and 'Europapolitik'. The main content area features a news article titled 'Lösungsvorschlag der FREIEN WÄHLER zur Euro-Krise findet ein Viertel der Wähler gut', dated 5. Dezember 2012. The article text discusses a FORSA survey showing that one-quarter of respondents support the party's proposal to reintroduce the old currencies in parallel with the Euro. The text is partially cut off at the bottom.

“ Euro-crisis countries shall reintroduce their old currencies in parallel, recover gradually and then return to the Eurozone. About a quarter ... of the 2000 respondents considers this solution statement ... reasonable.

...  
The highest approval comes from the young generation, who experienced the D-Mark for the shortest time. 28% of the aged 18-29 in Lower Saxonia and even 36% of this peer group in Bavaria appreciate the FREIE WÄHLER proposal.”

FORSA survey in Bavaria and Lower Saxony, 1 – 23 Nov 2012, by order of FREIE WÄHLER Bundesvereinigung

# How Parallel Currencies tackle the fundamental structural problems of the EMU

*“interest rate reductions do not get through to the real economy”*

*Jörg Asmussen, ECB chief economist, Die WELT, 04 Sept 2012*

## Situation today (e.g. Greece):

- Self enhancing trade imbalances and debt spiral
- Austerity programs and high interest level prevent economic recovery
- Greece in year 6 of recession,
- GDP still declining
- unemployment now up to 25%
- German exports into deficit countries decreased massively.

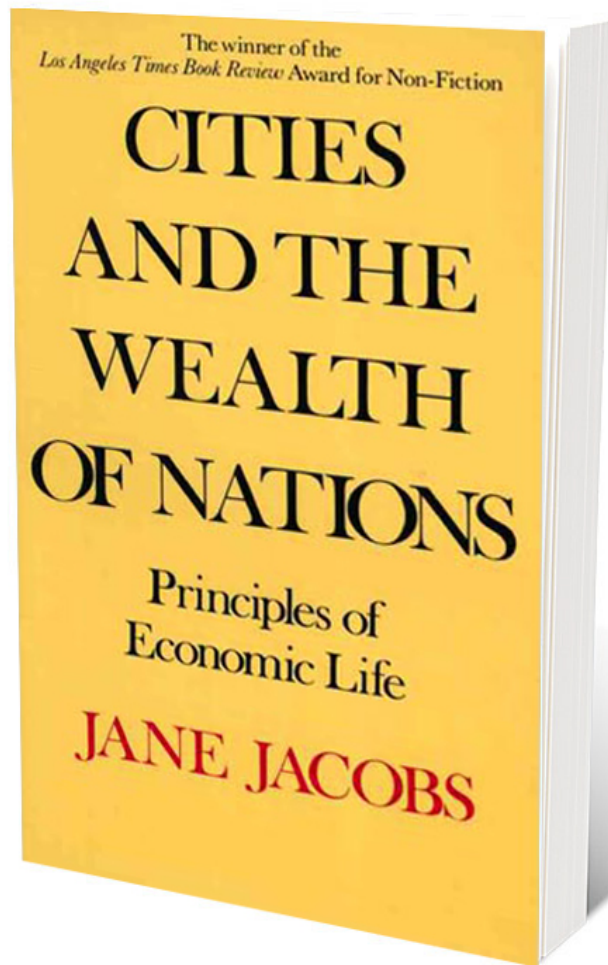
## Some obvious structural flaws of the Euro:

- At EU level, necessary treaties and institutions for an integrated policy are missing
- Monetary policy cannot distinguish between financial markets and the real economy and is not able to stop self-enhancing dynamics



## The EMU's most fundamental structural flaw:

- The Euro is blind for regional and structural differences between and within member states.
- One unitary monetary policy for a huge and heterogeneous economic area like the Eurozone cannot work equally well for all.



“ Imagine a group of people who are all properly equipped with diaphragms and lungs, but share only one single brainstem breathing centre. [...] Suppose some of these people were sleeping, while others were playing tennis. [...] In such an arrangement, feedback control would be working perfectly on its own terms, but the results would be devastating.

... Nations are flawed in this way, because they are not discrete economic units. [...] Nations include [...] differing city economies that need different corrections at given times, and yet all share a currency that gives all of them the same information at a given time...”

Jane Jacobs (1984): *Cities and the Wealth of Nations*

## Parallel Currencies are more than a bugfix. They...

- ... are evolutionary, not reactionary, leading to a differentiation of the EMU rather than its breakup
- ... help resolve the structural deficits of the EMU rather than curing the symptoms
- ... allow underperforming areas to adjust locally while remaining in the currency union
- ... could be implemented immediately and even without consent of EU member states.

Parallel Currencies are instruments that can be designed very differently

*“Who creates **what kind** of money, **how** and for **what purpose?**”*

# Some design elements of Parallel Currencies

Inconvertible  
-----  
convertible

Conversion of existing money (stocks & flows)  
-----  
New money creation in P.C.

Parity  
-----  
Non-parity

Fixed exchange rates  
-----  
Controlled / adjusted exchange rates  
-----  
Market adjusted exchange rates

Issued conventionally by banks in the banking system  
-----  
Issued by central bank / Government  
-----  
Issued by private / non-government Institution

Endogenous (credit) money creation  
-----  
Exogenous (helicopter) money creation

Increase of money supply (M1) in P.C.  
-----  
Increase of P.C.'s money velocity

Conventional (cash & current accounts)  
-----  
Digital money / current accounts only

## Design elements: comparison and trade-offs

	Parity (nominal value)	Non-parity
+	balance sheets, existing loans & contracts nominal consumer prices etc. remain unchanged ( <i>depending on concept</i> )	Allows for easy self-regulating adjustments throughout a whole nation's economy, without steady interference or lobbying ( <i>dependent on concept</i> )
-	requires steady interference by central banks, dependent on political climate may result in higher national debts ( <i>depending on concept of issuer/issue and allocation</i> )	Dual price regime balance sheets, existing loans & contracts etc. need thorough regulation to prevent debt defaults and overly import burdens



# Design elements: comparison and trade-offs

	Parity (nominal value)		Non-parity	
	Higher velocity of money (liquidity tax)	Additional money supply (easing / state IOU)	managed exchange rate regime (currency board, crawling band)	flexible, market adjusted exchange rates
+	Effective monetary policy esp. in debt-deflation scenarios, to overcome lower zero bound, non-inflationary, easily adaptable for current accounts	low additional transaction costs and easy handling in everyday life; no systemic risk of Euro inflation no additional debt if issued outside banking system	Allows for incremental adjustments, lower risk of capital flight, bank runs, systemic defaults and overly devaluation of existing assets	Automatic and steady adjustment of the “right” exchange rates according to markets, no interference through central banks required, least political influence
-	Requires legal constraints (obligation to accept and/ or pay taxes in P.C.), not easy to implement with coins and paper money, enhances risk of capital flight	Latent risk of (hyper)inflation or devaluation of overly issued P.C. and respective market reactions (e.g. national ratings?) <i>(depending on concept)</i>	Exchange rates exposed to political decisions rather than reflecting structural requirements	Higher risk of capital flight, bank runs and recession if introduced overnight may not cure structural deficits like competitiveness or trade deficits, but have only temporary effects

# Comparison of concepts

## Issuer

Conventional 2-level banking system (banks & central bank)

17

State (government, central bank)

16

Private / non-government institution

3



# Comparison of concepts

## Issue and allocation

Conventional interest bearing bank loans



6

Non-bank loans / mutual credit



1

State IOU's / bearer bonds



10

Once-off conversion of given money flows and/or stocks



7

# Comparison of concepts

## Other policy elements

Substitution of given flows & stocks (no increase of money supply)



Policy Element	Value
Substitution of given flows & stocks (no increase of money supply)	15
Increase of money supply (in Parallel Currency, not in Euro)	12
Increase of the money velocity in Parallel Currency	5
Only current accounts / digital money, no cash	12

15

Increase of money supply (in Parallel Currency, not in Euro)

12

Increase of the money velocity in Parallel Currency

5

Only current accounts / digital money, no cash

12

# Comparison of concepts

## Convertibility / parity / exchange rate

Flexible, market adjusted exchange rate

9

Managed exchange rate

7

Parity (1:1)

6

inconvertible

1



## Summary and conclusions

- Diverging motives and design, but
- general consent about the potential of Parallel Currencies...
  - ... as a means of economic self-help and development
  - ... as a tool to strengthen the economies of all EU member countries
  - ... as a prerequisite for a solid Euro and EMU



Thank you for active listening!

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[www.monneta.org](http://www.monneta.org)