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Θέμα: Press Release - Four Scenarios for Greece - Most promising among them: a euro-backed complementary currency incorporating a spending incentive.

by Christian Gelleri and Thomas Mayer

As the Greek elections on June 17 approach, Greece´s euro future is once again up in the air. But the standard black-white question "euro or drachma?" is the wrong one to be asking. A promising gray area exists between those two alternatives, and many economists have been proposing the adoption of a Greek parallel currency, outlining various potential models. Here´s a look at Greece´s current options and their likely outcomes.

Scenario 1: Austerity implementation produces long dry spell.

Assuming the consolidation plan proceeds on schedule, Greece continues to receive the support of the EU, the ECB, and the IMF; remains financially solvent; and receives extra revenues from the EU structural fund amounting to 2% of the GNP. But in spite of all the governmental austerity measures, the mountains of debt continue to grow, the recession lasts at least another two years, unemployment remains high, and impoverishment increases. Wages sink yet further, bowing to firms´ pursuit of greater competitiveness. This all leads to embitterment and radicalization of the public at large, as they experience no economic recovery.

Scenario 2: Chaotic crash follows euro abandonment.

If the new Greek government decides to cancel or fails to implement the bailout package negotiated with the EU, ECB and IMF, aid payments are partially or fully terminated. The first effect is the insolvency of the Greek state; it is longer be able to pay wages, annuities, interest on debt, or its suppliers. Owing to this insolvency, the ECB no longer accepts Greek government bonds as debt collateral, so all Greek banks are cut off from their liquidity sources, bankrupting them. Simultaneously, a panic-fired bank run and funds transfer to foreign banks ensue. The situation becomes so chaotic that the government´s only recourse is to a temporary closing of the borders, freezing of all bank accounts, and reintroduction of the drachma, accompanied by Greece´s exit from the euro zone and from the EU itself. All existing euro accounts are force-converted to drachmas. The drachma will be devalued to perhaps as little as 50% of the euro, resulting in a doubling of import prices. Overnight the populace suffers a huge loss of income; foreign trade is only possible on a cash basis; businesses are hard put to finance purchases of raw materials and unfinished products from abroad. The Greek GNP sinks by an estimated further 20%. Projections are for the Greek economy to profit in the long run from the severe devaluation, but first the shock-treatment losses must be absorbed and sorted out.

Since the Greek government no longer has euros at its disposal, all foreign creditors face a further massive loan default. This leads to shock waves in the international financial markets. In Germany alone, losses of up to 80 billion euros result. Worst potential outcome of all: Greece's exit unleashes a domino effect with devastating economic and social consequences for the entire euro zone, which will impact non-euro economies as well.

Scenario 3: Enhanced competitiveness via a strongly devalued parallel currency.

Euro abandonment with all its negative consequences could be avoided by implementing the simultaneous validity of the euro and a new parallel currency. Among those proposing this measure are Marek Belka, head of Poland´s Central Bank, and Thomas Mayer, chief economist of the Deutsche Bank, who calls the new currency the «geuro». For months, several other economists have also been discussing potential parallel currencies for Greece. (All proposed models are documented at www.eurorettung.org/103.0.html)

Central to the proposal is that the Greek government begin to pay all or part of its obligations in vouchers which function as the envisioned parallel currency. To the extent that these vouchers are used, euro aid credits are no longer required. This parallel currency could be issued by a new bank, backed by state bonds or by the securitization of government assets.

Existing euro accounts remain untouched by introduction of the parallel currency, thus avoiding bank-run panics and maintaining the value of savings. The new «geuro» is allowed to float freely vis-à-vis the euro, and will presumably be devalued by up to 50%. In Greece prices are then quoted in two denominations, a euro price and the current geuro price. Imports thus become correspondingly more expensive, but Greek exports become significantly cheaper, which enhances long-term competitiveness and puts new wind in the sails of the Greek economy and tourism. Demand for domestic products rises simultaneously, since imported goods have become unaffordable. This provides obvious growth incentives for the Greek economy.

But since all existing domestic and foreign loans are denominated in euros and therefore can no longer be serviced by the devalued geuro revenues, the debts will have to be converted pro rata to geuros. This means losses for foreign creditors – unless the geuro, assuming conservative fiscal and economic policy formation, over the course of several years regains the equivalent of euro status. Since the Greek banks have re-financed themselves in euros but now have outstanding geuro loans, they must take substantial write-offs which they themselves cannot afford, leading to a renewed need for assistance from the EU and the ECB.

Thus a freely convertible parallel currency, while not a panacea, would avoid the catastrophic results of a euro exit. True, the drastic devaluation would hit primarily consumers and businesses, and would cause significant problems in terms of existing euro-based loans, but the long-term competitiveness of the Greek economy would be improved. Recovery would happen more quickly, and Greece could be freed sooner from rescue-package protection. Therefore this option is presumably less expensive for the other euro countries than the first two scenarios. Greece would be granted a developmental grace period till such time as the geuro is no longer needed.

Scenario 4: Economic stimulus and gentle solution via «Express Money».

The complementary currency developed by Christian Gelleri and Thomas Mayer (no relation to the Deutsche Bank economist) and described in the study «Express Money: Avoiding the Eurozone Breakup», is structured differently. Its authors founded the «Chiemgauer», Germany's largest regional currency, and now propose applying the lessons learned there to Greece.

Express Money (EM) is coupled to the euro and backed by a euro escrow account. It is brought into circulation by the Greek state and its central bank. Conversion from EM into euros is burdened with a 10% fee (a «leakage inhibitor»). The effect is to keep the money circulating in Greece while devaluing it somewhat vis-à-vis the euro, which will help stimulate the Greek economy. The set exchange rate simplifies calculations for businesses and is tolerable for the Greek citizenry. Thanks to the firm coupling with the euro, no euro loans will need to be converted, so Greek banks will not have to suffer the write-offs that conversion would entail. Greece can remain a full-fledged member of the euro system; the Greek Central Bank´s only added task is changing euros into EM. Approximately 13 billion euros will suffice as backing for the EM amount needed by Greece, and this amount requires no new loans; the government changes euros into EM and starts paying its expenses with them.

In addition to its euro backing and leakage inhibitor, Express Money utilizes a «spending incentive». Circulation is accelerated by an annual user fee of 8%, spurring economic activity. The rationale is this: When additional money can't be brought effectively into the economy either because it´s not available in the first place or because it immediately flows out again via import purchases or transfers to foreign banks, the money at hand must be used more efficiently. (This is called «liquidity optimization».) If all stakeholders change their habits and spend their money more quickly, domestic demand will be massively invigorated, and Greece in all likelihood will emerge quickly from the recession. As long as expenditures take place in the real economy and unused productive capacity is present, doubling the velocity of money circulation produces a doubling of GNP.

Thus Express Money fits seamlessly into the euro system and into existing agreements with the «Troika» (EU, ECB, IMF). Euro loans are protected. The 10% leakage inhibitor improves Greece's competitiveness, and the spending incentive promotes robust economic growth that creates new jobs and greater tax revenues. The other parallel-currency concepts lack this economic stimulus; they assume that growth will ensue only through painful devaluation. Express Money, by contrast, avoids all financial shocks and the resulting embitterment of the populace – thus constituting the gentlest, most humane path to recovery. (For further details visit www.eurorettung.org.)

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