

Monetary Reform in the Eurosystem

Joseph Huber

Ad-hoc working paper as of 13 Nov 2013

The half-baked situation of the EU and the euro	2
Five attitudes towards monetary reform in the euro area	2
Position 1 – Keep the euro and conceive of monetary reform within the framework of the eurosystem	3
Advantages and problems of currency areas going it alone while other countries do not follow yet	4
Position 2 – Stop worrying about the euro. Implement monetary reform in any euro country by introducing sovereign money-on-account and/or e-money denominated in euros regardless of what other euro countries and the ECB would do	7
Position 3 – Keep the euro but introduce sovereign money as a parallel domestic currency in one or other euro country	9
Position 4 – Temporary exit from the euro	11
Position 5 – Final exit from the euro. Conceive of monetary reform as an organised return to the former national currency	11
A euro-area monetary reform organisation?	13
Conclusion	13

joseph.huber@monetative.de

The half-baked situation of the EU and the euro

Monetary reformers normally conceive of their program in the framework of a sovereign nation-state with an internationally accepted currency of its own. In a monetary union such as the eurosystem, the situation is partially different.

In the EU a number of sovereign prerogatives have partially been ceded to EU institutions and partially retained by the individual nation-states. The sovereign prerogatives of legislation and jurisdiction have to a certain extent been communalised, as have policies related to the common market, and even matters of the police and military are transnationally co-ordinated to a degree. The exceptions are taxation and government budgets which so far have been kept fully under national control. By contrast, the monetary prerogative – i.e. the monopolies of the currency, money issuance and seigniorage – has completely been ceded to the European Monetary Union (EMU), *de jure*, while in actual fact money issuance and seigniorage have almost entirely been surrendered to the private banking industry. So the situation is a halfway house between national sovereignty and a patchwork-like confederation in the making.

Moreover, opinion building and decision making on the transnational level are still more cumbersome than at the national level. As if that was not difficult enough, we currently live in a time of national debt crises and financial vulnerability. Mutual trust is in retreat, and neo-nationalist dissociation and prejudiced projections abound. These bring forth ideas of wanting to escape from what was formerly seen as a useful community by most members and is now being re-interpreted as bondage by some.

I should like to point out that this is a first working paper on the subject, a draft rather than a finished paper. Various aspects still need further clarification and elaboration.

Five attitudes towards monetary reform in the euro area

The following views represent reflections on how to deal with the euro as seen from the perspective of member countries of the eurosystem. *Mutatis mutandis*, the reflections also apply to EU countries that have decided to join the euro sooner or later. The perspective of EU countries that want to stay outside the eurosystem is different in that these keep a national currency of their own, even though they are part of the European System of Central Banks (ESCB) and subject to EU legislation on banking and finance. This, of course, is bound to change if such a country intends to exit the EU altogether.

No wonder then that there is a plurality of opinions. So far, a commonly shared position has not emerged, and most participants in related discussions have not conclusively made up their mind yet. Seen from a euro country, five attitudes can be distinguished:

1. Keep the euro and conceive of monetary reform within the framework of the eurosystem.
2. Stop worrying about the euro. Implement monetary reform in any euro country by introducing sovereign digital money denominated in euros regardless of what other euro countries and the ECB would do.
3. Keep the euro but introduce sovereign money as a parallel domestic currency in one or other euro country.
4. Temporary exit from the euro.
5. Final exit from the euro. Conceive of monetary reform as an organised return to the former national currency.

Position 1 seems to be supported by a majority. A comparable number opt for position 3 or 4, even though this would add to some additional fragmentation within the EU and the eurosystem. Position 2 stimulates debate, but not many seem to be prepared to stand up for it, because it is unclear in practical detail. Positions 2, 3, 4 appear to be ambivalent to a degree. Position 5 accounts for the smallest number of outspoken supporters. Positions 2–5 can even be seen as politically hazardous, but position 1 comes with obvious uncertainties too.

Group 1 is afraid that the other strategies would add to the present vulnerabilities of the euro. Monetary reform involves a paradigm shift, thus entailing a great deal of long-term political and educational persuading. Groups 2–5 are more impatient and think of strategy 1 simply to put off monetary reform. Position 5, however, is seen in the role of a bull in a china shop.

Position 1 – Keep the euro and conceive of monetary reform within the framework of the eurosystem

The attitude underlying this position accepts the euro as a matter of fact. Like it or not, we now have the euro and until further notice we can assume that we are going to keep it. Thus, not least for pragmatic reasons, we ought to conceive of monetary reform within the framework of the eurosystem.

The delegation of the sovereign monetary prerogative to the eurosystem is not necessarily as inimical to the national interest as some people believe, all the more considering that *all* national governments anyway have ceded the privilege of money

creation and seigniorage (advantages and profits from money creation) to the banking industry, to which they have become deeply indebted and on which they are dependent.

All arguments in favour of monetary reform in an individual nation-state with its own currency fully apply at the euro level too – safe money, much improved financial stability, less extreme credit-and-debt cycles (or boom-and-bust cycles, respectively), and balanced budgets enabled through regular additions to the money supply, that is, seigniorage to the benefit of the public purse.

In particular, replacing bank money (sight deposits) with digital sovereign money (central-bank money) offers the opportunity to reduce public debt significantly through the ensuing one-off transition seigniorage. This would definitely end the over-indebtedness of the euro states. This applies to the entire eurosystem as almost all euro countries, like almost all other industrial countries, are over-indebted, the differences being merely gradual.

Newly created money (genuine seigniorage) and ECB profits would be allocated, as hitherto, in proportion to the national holdings of ECB shares as a combination of the size of the population and the economy.

If the euro member states decided so, seigniorage could pay for their contributions to the EU budget and still leave additional money for their national budgets.

Technically, monetary reform in the euro area would take place in analogy to reform in nation-states. The important issue is that the euro area is a single currency area with an integrated common payment system (TARGET2), with all national central banks following the same rules and procedures and, accordingly, with the same reform procedure for transforming current bank accounts into sovereign-money accounts.

Implementing a sovereign money system in the euro area can actually be expected to strengthen the eurosystem and contribute to stabilising euro countries' finances. It would be paving the way for, and in itself be part of, the banking union and maybe even some sort of fiscal union.

Advantages and problems of currency areas going it alone while other countries do not follow yet

Any currency area, national and transnational alike, faces the question of whether it is feasible to replace bank money with sovereign central-bank money while other countries carry on with fractional reserve banking. Such a constellation is certainly not optimal, but it is no impediment either.

It should, however, be seen from the beginning that monetary reform can best be implemented and will yield the best results in countries with a stable political system, the rule of law, functioning administration, a low level of corruption, and a fairly productive economy. The less such conditions are given, the lower the chances of success.

A fairly stable country or currency area, in contrast to what most people spontaneously assume, can implement monetary reform *and* maintain free convertibility of its currency and the free cross-border flow of money and goods. It does not have to impose controls on these on grounds of monetary reform.

The main reason is that payment practices, including cashless payment by electronic funds transfer, will continue as if nothing had changed. All account numbers can be kept. The necessary modifications in the banks' booking systems are technically unspectacular. This applies to domestic and international payments, or, respectively, to intra-euro payments as well as payments from and to non-euro countries.

Payment systems, so to speak, do not care whether the numbers they are crunching represent bank money or sovereign money. It is just necessary to ensure that international payments do not bypass the euro-area payment system (TARGET2) which is owned and run by the central banks of the eurosystem. This also implies that clearing and settlement in the euro area would be carried out on the basis of sovereign money only, whereas pre-clearing of overnight liabilities (bank money) and final settlement in reserves (central-bank money) would no longer exist. Access to and inclusion in cashless payment systems is the present-day equivalent of the official acceptance of a means of payment.

Monetary reform is not a currency reform. This needs to be properly communicated. Introduction of sovereign money does not abolish the currency in place, but would keep the euro, the Swiss franc, the pound, the dollar, in all existing denominations, forms (coin, note, money on account or in mobile storage) and payment procedures (inpayment and withdrawal, transfer and debit, use of credit and debit cards). Replacing bank money with sovereign money will in no way alter the amount of whosoever's claims and liabilities. Equally, the reform as such will neither extend nor shrink the amount of money available (no money and capital shortage). It will not change prices either. Instead, it will contribute to stabilising prices and credit cycles, and will thus contribute to financial stability, which in turn will contribute to a stable foreign exchange rate.

Thus, there is no real reason for capital flight. Irritations, possibly nurtured by interested parties, may arise, but would be short-lived.

As soon as the stabilizing effects of sovereign money become visible, the first problem that a reform country might face is too great an inflow of foreign money from countries with less stable finances, causing an undesirable strong revaluation of the currency concerned (the Swiss-type currency problem).

In an open economy, the relation between outside money and domestic money has to be taken into account anyway. As far as outside money adds to the domestic money supply, it reduces the domestic potential for money creation. On balance, however, the effect is not too important, because it is counterbalanced by capital exports (thus outgoing payments) by way of foreign investment.

A certain problem – again not too important – can arise from imported inflation. Even if there is an effective domestic control of the quantity of money, there can of course be no control of foreign prices. Thus, rising prices of import goods such as oil, gas, raw materials, food, and producer and consumer goods, may actually result in some degree of domestic inflation in spite of full domestic control of the money supply. If, however, the currency of the country concerned is revaluing, this will compensate for higher foreign prices.

Something similar can be said on asset inflation in some financial-market bonanza. Even if credit creation for speculative leverage can domestically be tamed, a foreign inflow of bank money for such purposes could not. On the other hand, however, this is not a loophole that could be exploited by banks more systematically. Intra-corporate loans – domestic or cross-border – are subject to legal constraints in all industrial countries.

Notwithstanding the above, national central banks, or the ECB, respectively, will obtain full and comparatively high amounts of seigniorage that benefit public households.

Regular seigniorage from growth-commensurate additions to the money supply could pay for 1–6 per cent of total public expenditure, depending on economic growth and the overall size of public expenditure.

Furthermore, the one-off transition seigniorage from substituting sovereign money for bank money would enable governments to pay back over the years up to half or even two-thirds of total public debt – without having to impose harsh austerity programs or debt cuts (creditor haircuts). Sovereign debt would no longer be an issue. This might be one of the decisive arguments for other countries to follow suit.

Position 2 – Stop worrying about the euro. Implement monetary reform in any euro country by introducing sovereign money-on-account and/or e-money denominated in euros regardless of what other euro countries and the ECB would do

The attitude behind this position is: let's go it alone, even as a euro country.

Proponents suggest launching a campaign on the national level, calling for sovereign money-on-account and/or e-money.

Part of the background to this is the fact that there is no explicit legal foundation for money-on-current-bank-account. There are, however, EU Directives on electronic money (e-money) to be withdrawn from or paid into current accounts. There is an age-old government monopoly on coin, and there is the central-bank monopoly on banknotes for about 150 years. However, there is no law regulating the issuance of bank money, i.e. primary credit used as money-on-account—which in fact has allowed the banking sector to establish its present de facto monopoly on money-on-account (sight deposits).

Laws on electronic money, also referred to as e-cash, are the Payment Services Directive (2007/64/EC) which laid the foundation for the Single Euro Payments Area (SEPA), and the European E-Money Directive (2009/110/EC) which regulates the business of electronic money institutes. In the latter Directive, e-money is defined as 'an electronic surrogate for coins and banknotes', which is stored on an electronic device such as a chip card or computer memory or mobile phone and 'which is to be used for making payments, usually of limited amount' (introductory explanations no.13).

This introduces electronic money – that is, electronic funds other than in a bank account – as a fourth kind of means of payment in addition to coins, banknotes and money-on-account. The Directive expressly states that the issuance of e-cash must be kept apart from granting credit or from taking deposits¹ (Art.6, 2–3). So, e-cash is different from a deposit, but can be obtained in exchange for a deposit, and shall be redeemable in cash or a sight deposit upon request 'at any moment and at par value' (Art.11). The activity of issuing electronic money is permitted to credit institutions (banks), post office giro institutions (where applicable), the ECB and national central banks as well as to public authorities of member states (Art.1).

As a result, a national government or central bank can possibly consider issuing its sovereign electronic currency for use on account or on some electronic device.

¹ If something is paid for with e-money, which is credited (as a scriptural entry) into the receiver's bank account, this actually means, seen from the bank involved, having 'received' or 'taken' a deposit. A number of stipulations in the European E-Money Directive are not as plain as they should be. Maybe there are certain obsolete elements involved, such as (mis-)understanding customer deposits as means of payment (liquid assets) available to the respective bank.

Nowhere is money-on-account stated as a legal monopoly of the private banking sector. Issuance of electronic money is expressly permitted to institutions other than banks, including public authorities. Although the legal situation is far from clear, there might actually be a loophole that could be exploited as a lever for heaving up monetary reform onto the public agenda. Questions and controversies arising in the process might be expected to create more attention for monetary reform than could be attained so far.

Let us assume that from a **legal** point of view there actually is some loophole.

Which **institution**, then, would be in charge of the sovereign e-currency denominated in euro, the treasury or the national central bank, which at the same time is part of the eurosystem?

Technically or operationally, the approach could only work if the ECB and other national banks in the eurosystem are well-disposed and co-operative, and if the introduction of national e-currency does not collide with other EU laws. For example, the ECB council would have to grant full access to its payment system TARGET2 and accept the establishment of the particular national subsystem of the payment system as a quasi-separate branch, since the introduction of national e-currency involves a clear boundary—either between the flows of sovereign e-currency and bank money on current account, or between the one national sovereign-money system and the fractional reserve system in other euro countries.

It is hard to imagine an ECB governing council accepting treasury-created e-money, or allowing one national central bank to create regularly, at its discretion, sovereign e-money denominated in euros. If at all, there might rather be central negotiating of nation-specific quotas based on population size, GDP and growth potential. One implication of this would be a far-reaching change in monetary policy by re-introducing elements of quantity policy in contrast to short-term interest-rate policy. For the time being, orthodox central bankers hardly seem to be prepared to accept something like this.

Still more importantly, the ECB council would have to agree to put an end to banks' primary credit creation. Even if the majority of the ECB council would be supportive of this—which is unlikely—it remains, in any case, highly questionable whether this would be lawful for an individual euro country. Preventing banks from extending primary credit might even be unlawful for an individual EU country with its own national currency. This actually raises the question of whether any euro or EU country could go it alone without leaving the euro and even the EU.

Furthermore, in the case of introducing sovereign e-currency in parallel with bank money would

- either be **monetarily dysfunctional**, in that, if in co-existence with fractional reserve banking, it would result in an over-supply of reserves,
- or, alternatively, be rather complicated and costly because it would imply a parallel system of sovereign-currency accounts in addition to existing current bank accounts.

Finally, how to deal with minimum reserve requirements that are obsolete in a plain sovereign money system? (as in fact they are under present fractional reserve banking as well). Would the ECB give up minimum reserves altogether? Or would it continue to impose minimum reserve requirements on the sovereign-e-currency country? (where this would be absurd).

From a general **political** point of view, introducing sovereign e-currency in one euro country, or demanding a full transition from fractional reserve banking to sovereign money in one euro country alone, might trigger disturbances and alienation from euro member countries, with unpredictable outcomes.

Position 3 – Keep the euro but introduce sovereign money as a parallel domestic currency in one or other euro country

Having a split currency – one for domestic circulation, another one for foreign trade – is a proven practice, at times applied in countries with certain currency problems. Returning to this approach is an obvious idea for euro countries that have fallen from grace in bond markets. Implementing a split currency is seen as the softer alternative to a temporary or final exit from the euro (positions 4 and 5). In particular, it was suggested for Greece in 2011/12. Monetary reformers then added the idea of running the domestic part of the currency as a sovereign money system, while the foreign part would continue to follow the fractional reserve system in place. Other monetary reformers generalised the approach to all euro countries regardless of their current condition.

One or the other legal question raised above possibly also applies to a parallel domestic euro, just as the first question again relates to the institutional arrangement. Who would be in charge of a parallel domestic euro, the treasury or the national central bank? Let us assume that most euro countries would prefer to assign the task to the national central bank. Would the national central bank then be free to decide over the supply of domestic euros or would decisions have to be brought into agreement with the ECB council? Could the national central bank set the exchange rate between the foreign-trade euro and the domestic euro? Or would this be left to the forex market?

Split currencies have their pros and cons, that is, they are of ambivalent utility. The **pros** of parallel domestic currencies in comparably weak economies have to do with devaluation of the domestic currency while making available fresh domestic money:

- Spending sovereign money into circulation, as an addition to the money supply, would re-activate idle capacities, comparable to the irrigation of dried-out land. This would create turnover, employment, earned income and tax revenue, even though at a debased level of purchasing power (as explained below).
- If the parallel currency is implemented as a sovereign money system, public budgets would benefit from full seigniorage, helping to achieve balanced budgets.
- As far as the national debt is held by national agencies, this would help to service and redeem that part of the debt.
- The introduction of a parallel domestic currency would prompt its devaluation against the foreign-trade currency. This improves the position in international cost competition and would thus boost exports, which in turn helps to earn foreign-trade euros and other foreign exchange.

The list of **cons** of parallel domestic currencies includes the following aspects:

- Devaluation of the domestic euro equals a real price increase in foreign goods and services (imported inflation), resulting in lower domestic purchasing power and maybe in a trade deficit.
- Devaluation of the domestic euro devalues domestic financial assets to the same extent.
- As a result, massive capital flight would set in, adding to a probable current-account deficit, unless inhibited by capital controls, which, however, are not allowed within the euro area.
- Devaluation of the national euro means revaluation of the foreign-trade euro and thus revaluation of foreign debt. Even if a large part of the total national debt in euro countries is held by domestic agencies, a comparably large part is foreign-held, partly by other euro countries and partly by the rest of the world. As a consequence, the introduction of a parallel domestic euro would significantly augment the real national debt burden—while foreign-trade euros and other foreign exchange would be draining away by capital flight.
- This in turn would hurt that country's international trade and co-production in general. The domestic government, banks and companies would face difficulty in meeting their foreign liabilities.
- Foreign credit would be relatively hard to come by or be extra expensive, while representing a high forex risk.

- There would probably be much cumbersome litigation on the infringement of claims and liabilities from old contracts, in particular regarding whether payments have to be made in domestic euros to a domestic account or in foreign-trade euros to a foreign account.

On balance, opting for a split currency is not as obvious as it might appear at first glance. Whether or not the pros outweigh the cons seems to depend on the special situation at a particular time. In nations with a high rate of unemployment and not too much external debt, the introduction of a parallel domestic currency can help, but is certainly no royal road to complete avoidance of debtor austerity and creditor capital cuts.

Moreover, conceiving of a parallel domestic currency as a sovereign-money system raises the question of whether this is meant to be a permanent institution as long as the eurosystem remains a fractional reserve system. Having a split currency is not normally meant to be of permanence. Split-currency countries so far wanted to overcome the split sooner or later and return to just one national currency. With regard to such a split in a euro country, one will not want to implement monetary reform and then have to revoke it upon return to the eurosystem. Position 3 thus only makes sense if there is the expectation of having implemented monetary reform sooner or later on the eurosystem level too. Otherwise the parallel sovereign currency would have to be kept as a parallel one, or abandoned, or the eurosystem would have to be abandoned.

Position 4 – Temporary exit from the euro

A temporary exit from the euro has been proposed by quite a number of experts. So far, however, the proponents of this proposal assume the continued existence of fractional reserve banking and have in no way envisaged monetary reform. Technically and economically, a temporary exit might in fact be easier to manage than having a split euro at the national level. From a monetary reform point of view, however, a *temporary* exit from the euro only makes sense, like in the case of a parallel domestic euro, if there is the perspective of replacing bank money with sovereign money also on the eurosystem level in a not too distant future.

Position 5 – Final exit from the euro. Conceive of monetary reform as an organised return to the former national currency

From euro countries that currently feel repressed by having imposed austerity programs, as much as from euro countries that currently feel put-upon by having to bail out the others, a number of voices are now speaking out in favour of a final exit for

individual euro countries so that these can regain national control of their currency and thus become able to devalue the national currency deliberately, as they were able to formerly.

In actual fact, however, leaving the euro as to be able to devalue the currency cuts both ways, similar to introducing a split currency. It would help in international cost competition (normally in low-cost segments) and postpone structural reforms aimed at improving productivity and up-market competitiveness. Thus, the exit option will ultimately not be of great help to an exit country. One will probably not clear up a mess by the same behaviour that led to it.

An addiction problem is involved, an addiction to money printing or debt accumulation, respectively—money that is not channelled into investment for improving productivity, but just spent to please all sorts of clientele, thus in fact avoiding measures aimed at changing the national condition. Ever more quantitative easing and still more debt will of course perpetuate the malaise rather than help end it. *All* euro countries, it must be said, and actually almost *all* hitherto advanced countries, are addicted to disproportionate money printing and debt accumulation, even though to different degrees.

In the present situation, it cannot be taken for granted that the euro countries under the most financial pressure would obtain any relief by returning to national currencies as long as they are dependent on the goodwill of banks and financial markets. Badly rated sovereign bonds within the euro might actually be rated worse outside, and they would not be rated any better in a badly run sovereign-money system. It does not make sense to replace overshooting money printing by the banks with overshooting money printing by the government.

It appears that within the monetary reform movement, the final euro-exit option does not have many explicit supporters. Normative desirability may play a role here, though many participants clearly see it as politically hazardous.

Apart from that, the idea of a negotiated, orderly return to national currencies appears pretty naive. Putting forth any wilful exit option might trigger more far-reaching processes of disintegration among euro countries and within the EU in general. Start by trying to figure out in whose interest it seems to be to keep or kick out whom, and who would rightfully inherit which claims and liabilities of the ECB and the ESM.

Not by chance, many supporters of leaving the euro also make propaganda for leaving the EU altogether. In quite many European countries, a return to national currencies is most loudly propagated by resentful national chauvinists through to outright neo-fascists. One should not blind out the fact that the extreme right is keen on monetary

reform. Thus, one should clearly distance oneself from political forces who would like to instrumentalise monetary reform for machinations directed against the liberal rule of law.

A euro-area monetary reform organisation?

Does monetary reform in the euro area entail a euro-wide reform movement? Yes, of course, but this, in the first place, consists of national reform initiatives within individual euro countries. For reasons of language alone, they reach a national audience, approaching civil society, national media, academia, think tanks and politicians of basically all stripes, also including politicians and other representatives at the EMU/EU level.

At the same time, monetary reformers make cross-border contact, thus creating personal networks and maybe also an inter-organisational network. Independently, existing NGOs (such as Attac or Occupy) and other agencies (such as Finance Watch) might eventually be won over to monetary reform. Over time, this may lead to a co-ordinated eurowide campaign and maybe even an umbrella organisation.

The success and momentum of such possible developments depend not only on the monetary reform movement itself but equally on the developments in neighbouring fields. Of particular importance for making it onto the political agenda is a certain degree of resonance in the media as well as in academia, in particular a paradigm shift in monetary and financial economics.

Conclusion

Most of the aspects discussed above point in favour of position 1 (keep the euro; monetary reform within the eurosystem). Trying to make the best of a bad euro situation might actually be the least unsatisfactory option. Interestingly, and in spite of declining support for the European unification project throughout Europe, two-thirds of voters in euro countries continue to speak out in favour of keeping the euro.²

Position 2 (sovereign e-currency regardless of what other euro countries do) may be suited to stimulating the imagination. Its feasibility, however, is unclear, as are the consequences.

Positions 3 and 4 (parallel domestic euros as sovereign currency within the eurosystem, or temporary exit from the euro) seem to be feasible—without monetary reform, i.e. as a continuation of the system of fractional reserve banking in place. If, however, a parallel

² European Voice 16 May 2013. www.europeanvoice.com/article/imported/opinion-poll-shows-support-is-at-an-all-time-low-for-eu/77239.aspx.

domestic euro can be implemented as a sovereign money system, which implies putting an end to banks' primary credit creation, depends on compatibility with European law on money and banking.

Expectable results of a split currency, or a temporary exit, are ambivalent, creating additional complications. In view of the external financial constraints which a domestic-euro or euro-exit country has to face, it is questionable whether regaining public control of the money is really easier at the national level than at the European level.

The questions of whether, or in what respect,

(a) the issuance of sovereign money in the form of coins, notes and e-currency, and

(b) preventing banks from extending primary credit

are compatible with existing European laws on money and banking, are of relevance to all EU countries. Thus clarification of these two fundamental questions should at present be given priority.

As for the future of Europe, positions 2, 3, 4 have an incalculable side to them—which is most obvious with regard to position 5 (scrapping the euro altogether). The supporters of option 5, though, think that sticking to the euro might even be more hazardous than dissolving it.

* * *

Monetary reform within the euro, for sure, will have to start with an overhaul of the eurosystem. The monetary and fiscal rights and responsibilities of member states need to be re-stated. However, previous experience with the preparedness of member states to play by the rules is not very encouraging (Maastricht criteria - 60% sovereign debt ratio, 3% budget deficit; common pre-testing of national budgets; breach of the no-bail-out clause of Art. 125 TFEU). In addition, the overwhelming influence of the banking and financial-industry lobby in Brussels might well prove to be the biggest obstacle.

Not to return to the no-bailout principle, as well as to communalise national debt through eurobonds, would foster national mismanagement and definitely undermine any future the eurosystem can have.

In the own interest of euro member states and the euro banking sector, there ought to be a sovereign insolvency procedure allowing for significant cuts, including bank resolution, instead of entering into a state of perpetual delay of state and banking insolvency (i.e. public overindebtedness, or banks' overexposure to public debt, respectively).

Since public overindebtedness is a tandem failure of the state *and* the banks and bond markets, any imposition of austerity always ought to be accompanied by equivalent debt cuts (aka. creditor haircuts, i.e. adjustment of doubtful accounts).

Unsettled TARGET2 balances should not be allowed beyond specified ceilings and periods of time.

The voting rights in the ECB council should be more proportionate to the real size of member states. Outvoting of small countries can be a problem, but outvoting of bigger countries on the basis of disproportionate voting rights is a problem as well.

If one started to think seriously about these issues, one would conclude that effective solutions cannot be found within the present system of fractional reserve banking in which governments are dependent on the banking industry, while the central banks have become willing servants of the banks by acting as their 'unreserved' lender of last resort, always accommodating banks' demand for least reserves in normal times, and any amount of reserves in times of crisis, including acceptance of the role as a bad-bank depository taking up depreciating sovereign bonds (dubbed Outright Monetary Transactions).

Sustainable answers will include the introduction of a sovereign money system that replaces bank money with a state's complete monetary prerogative which consists of the monopolies of currency, money issuance and seigniorage. This is a prerogative of constitutional importance. Basically, there is no reason why a community of sovereign states such as the eurosystem would not be in an equally good position to implement it.