Should the Euro Become the Debt-free Money of the United States of Europe?

The Crisis, The Reinvention of a Vision and the Re-engineering of the Treaties of Europe: The Double Dilemma

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The idea that had inspired generations, the United States of Europe, is ALMOST dead. The euro is the currency of a country that does not exist [1] and it has become the unit of account of differential misery in a crisis that has been expected since 2004.

THE CRISIS

Phillipe Legrain, a former independent economic advisor to Barosso (*I do not address him as President since I regard the Commission as a non-democratic illegitimate body*), gave an inspiring speech last month at a conference in Athens. He began his assessment of the crisis by saying that,

> "***first and foremost it is a banking crisis. It originated with the bad lending of Eurozone banks, mostly French and German ones***."[2]

Today, more and more people begin to realize that the systemic defect that needs to be fixed is inherent in our debt-based monetary and financial architecture. While experts suggest that there is a "*financial cycle of credit booms and busts … which has a larger duration … [and] is not always easy to detect*" [3], organizations are campaigning throughout the European Union raising the awareness that money comes into existence as loans through credit creation by private commercial banks; the very same enterprises responsible for the crisis.

If something holds true, it is that neither the financial deregulation nor the supranational regulatory supervision in the form of capital requirement accords or independent unaccountable companies such as credit rating agencies have had any whatsoever positive effect in the prevention of the 420 systemic banking, sovereign debt and exchange rate crises since the 70s. [4], [5] **Was the leadership of the European Union unaware of the crisis that was coming?** The European Council of Ministers meeting in Barcelona on the 15-16 March 2002 obviously anticipated the idea when they

> "***requested the Commission to present a report on the consequences of the Basel deliberations for all sectors of the European economy with particular attention to SMEs***."

The European Parliament has also sought a similar report. [6] The requested report was finally submitted on **April 8th 2004**, a very long time before the sign of any crisis either in the United States or Europe and elsewhere.

> ***"In principle, it might be acceptable to lose some economic output over the current cycle as a result of a tighter regulatory regime if that regime reduces the risk of catastrophic loss at some time in the future."***[7]

What a gross understatement! What a coincidence that the same year the Commission issues the 2004/C 244/02 Guideline on State Aid for Rescuing and Restructuring Firms in Difficulty [8], that eventually became the legal bedrock for bank bail-outs under the 2008/C 270/02 [9] Communication from the Commission for The Application of State Aid Rules to measures taken in relation to financial institutions in the context of the current global financial crisis. Chapter 3.1 art.25 (a) of the 2004/C 244/02 guideline states that aid

> "***consist[s] of liquidity support in the form of loan guarantees or loans*** [but] ***an exception may be made in the case of rescue aid in the banking sector, in order to enable the credit institution in question to continue temporarily carrying on its banking business in accordance with the prudential legislation in force."***

Banks are special and above the Treaties!

Subsequent decisions to rescue the Too Big to Fail through the emergency liquidity mechanism were based:

1. **On Article 14.4 of the Statute of the ESCB and ECB that states:**

> "***National central banks may perform functions other than those specified in this Statute*** *unless the Governing Council finds, by a majority of two thirds of the votes cast, that these interfere with the objectives and tasks of the ESCB. Such functions shall be performed* ***on the responsibility and liability of national central banks and shall not be regarded as being part of the functions of the ESCB***."

2. **On the suggestions of the 2001 Brouwer Report**. [10]

> “*The report gives extra attention to the institutional mechanisms for information sharing and emergency liquidity assistance in the euro area …*"

Section 4.4 informs us of the existence of Memorandums of Understanding but

> “*in most MoUs, however, crisis management procedures are not explicitly foreseen. Therefore, **supervisors should further develop these MoUs, and make them more concrete on crisis management issues** …*”

A “*Memorandum of Understanding on high-level principles of co-operation between the banking supervisors and central banks of the European Union in crisis management situations*” was released on March 10th, 2003. [11] The Press Release states:

> “***The MoU, which is not a public document**, consists of a set of principles and procedures for cross-border co-operation between banking supervisors and central banks in crisis situations*.”

The MoU was revised on **May 18th 2005** [12] and included the finance ministers as well. Paragraph 6 reads:

> “***An MoU is a non-legally binding instrument** for setting forth practical arrangements aimed at promoting co-operation between authorities in crisis or potential crisis situations without overriding their respective institutional responsibilities or restricting their capacity for independent and timely decision-making in their respective fields of competence, notably with regard to the conduct of day-to-day central banking and supervisory tasks, as set out in national and Community legislation*.”

In addition section 5.3 of the Brouwer Report states:

> “*Central banks generally do not lay down explicit and publicly known guidelines for liquidity support. Yet, any central bank will, where possible, want to secure its lending with acceptable collateral and take an appropriate margin to protect itself against credit risk. Such collateral requirements also help to limit moral hazard. For the same reason, penalty rates, i.e. above-market rates, on liquidity assistance could be used, and conditionality could be imposed.*”

What a forceful presentation of unaccountability!

3. On the decisions of the ECOFIN on October 7th 2008[13]

So what exposed the bad lending practices of commercial banks and triggered the crisis? It was the implementation of **Basel II** rules under the **directives 2006/48/EC** [13] "*relating to the taking up and pursuit of the business of credit institutions"* ***and 2006/49/EC*** [14] *on the capital adequacy of investment firms and credit institutions*." Subsequent revisions to both directives as the crisis was deepening due to the financial apocalypse resulted in a catch-22; the more rules (Basel III), the further the exposure of the financial toxic waste, the deeper the crisis. [This is not a statement supporting an ideology that regulation is by definition unwanted.]

So there was a crystal clear common perception of the coming crisis and it is very hard to conceptualize that intelligent people could not foresee the effects. **Yet, what are the solutions that the European Union has engineered to overcome the crisis?**

In short two solutions stand out in the thousands of pages of ECB and EU regulations and decisions to deal with the crisis.

First, at the core of the EU countless decisions have been approved to **support the failing banks**. For the periphery **the Troika** has been engineered as Europe's attempt to rescue the Too Big To Fail and eventually save the euro from Europe's institutional inefficiencies. The Troika was the "solution" that failed to resolve any aspect of the expected banking and the resulting fiscal and sovereign debt crisis. The Troika epitomizes the failure of every single citizen and taxpayer in Europe to understand the root causes of the crisis and represents the best example of throwing good money after bad money. In the self-fulfilling 2004 prediction of the expected recession, it couldn't have happened otherwise if TBTF were to be saved. The Troika has socialized the losses and privatized the profits.

Second, the European Union, after the "successful experiment" in Cyprus, is engineering a **banking union and resolution mechanisms baptizing the depositors as investors** and threatening the very essence of an open liberal society. None of the above arguments are in support of the view that countries, like my country, Greece, did not suffer from chronic economic mismanagement. However what exactly does Ireland prove with the recent successful bond issuance? At a combined 650% private and public debt to GDP ratio, the confidence has been restored? **What a gross misunderstanding of the root causes of Ponzi capitalism is heralding the signs of recovery!**

The results of the Economic Adjustment Programs, bank bail-outs and future bail-ins, and the "*there is no alternative*" approach are radicalizing the electorate. There is a civilized silent anger and if we cannot see in the coming elections a clear vision for the future the anger will be, rightly so, directed to uncivilized alternatives. The taxpayers of the core are sharing a burden and rightly accuse the periphery for mismanagement while the taxpayers of the periphery have been devastated and rightly accuse the core for the destruction of the social fabric. **The whole of the European Union is in a deadly debt-driven deflationary spiral and is racing hopelessly for the rock bottom.**

THE DILEMMAS

The European Union and the Eurozone must reinvent a vision for the future and must reengineer both the Treaties establishing the European Union and its monetary and financial architecture if we want the European Union not to be dismantled in the coming years; but at what direction?

THE FIRST DILEMMA: DO WE WANT A UNITED STATES OF EUROPE OR NOT?

I am not going to attempt to evaluate the yes or no. I choose and take the yes for granted but at the same time I couldn’t care less about anyone's proposal for a Banking Union, resolution mechanisms and solutions to overcome the social problems that the Troika has created.

What I ask for, and probably what many are in search of, is a clear vision and a timetable for the United States of Europe based on the principles of democracy, liberty and justice. Even change the name into United Civilizations of Europe to instill into a reinvented identity the cultural diversity. What I am looking for is the democratization of all unaccountable institutions:

- I want a Constitution for the United Civilizations of Europe reforming the institutional structure.
- I want a Presidential democracy with an elected President and a government for Europe abolishing the Commission.
- I want a European government to be held accountable to an empowered European Parliament as the legislative body of the Union.
- I want a Senate for the United Civilizations of Europe.
- I want a centralized defense and foreign policy.
- I want to reform the objectives of the ECB and include full employment.
- I want the ECB to remain completely independent.
- I want to be able to elect who becomes the President of the ECB and Attorney General of the European Court of Justice!

- I want decentralized decision making for local issues.
- I want European wide referendums when constitutional issues are at stake and important decisions must be made.
- I want you to put your national allegiance at backstage and behind a vision.
- I may be wrong but **Reengineer all Treaties, Reinvent Europe!**

What do I have to offer? Nothing more than the recognition of the power granted to the representatives to make decisions within the institutional framework! That is however the very principle that differentiates political power from authority isn't it? Political parties and candidates should take nothing for granted and should they fail yet again to deliver a vision and plan for the future, they must remember that Europe already in the eyes of many of us resembles more and more a fascist bureaucratic super state that must be dismantled. Europe will have to present an alternative vision other than banking resolutions and centralized unaccountable decision making. Can any vision engineered through the use of coercive power, even in the case of a benevolent dictatorship, unite people behind any purpose?

THE SECOND DILEMMA: MONETARY REFORM, SHOULD THE EURO BECOME A DEBT-FREE CURRENCY OR NOT?

I have started by saying that the euro has become the unit of account of differential misery. Yet there were and there are alternatives but these alternatives require hard to be made decisions that transcend any proposals put forward so far.

Prof. Richard Werner, an acclaimed academic who has coined the term quantitative easing in 1995 [16] – although none of what he wrote actually was ever implemented never mind the fact that the term has been misused - and who, to my knowledge, is also a member of the shadow council of the ECB, had submitted proposals in the form of a To-do list for the ECB [17] to overcome the current crisis:

> "***1.*** *The* ***ECB should purchase all non-performing assets from all Eurozone banks at face value****, in exchange for banks agreeing to comply with a new* ***'credit guidance regime'*** *run by the ECB.*
>
> ***2.*** *The ECB should introduce and* ***operate this new 'credit guidance', whereby the ECB via its national central banks (NCBs) requires banks to meet monthly and quarterly quotas concerning the growth of total credit*** *outstanding AND the credit outstanding in each of the sub-*

categories of credit, on which banks have to report on a monthly basis as well, namely:

A. bank credit for GDP transactions … [productive credit]
***B.** bank credit for non-GDP transactions … [credit to the financial sector]*

whereby the ECB via its NCBs restricts credit to type B sectors and sets positive year-on-year percentage growth targets for credit of type A.

***3.** The ECB should **institute a loan guarantee scheme for the most desirable types of loans**, i.e. to the manufacturing sector implementing new technology, environmentally enhancing and sustainable energy producing sector, as well as in R&D and education. Loans are guaranteed by the ECB.*

…

***5.** Until above scheme has got traction, **the ECB, via its NCBs** introduces a new direct lending facility whereby the NCBs **extend credit to type A sector** borrowers.*

***6.** The ECB should introduce a new scheme, whereby the ECB and NCBs meet with the national finance/treasury ministries and debt management offices in order to **end the issuance of government bonds** in the markets and instead fund all public sector borrowing requirements (that must meet **unchanged Brussels budgetary requirements**) through direct loan contracts from the national banks. This reduces borrowing costs sharply, as the prime rate is lower, helps banks as their business expands without further capital adequacy requirements (risk weights are zero), while the loans do not need to be marked to market, but can be used for ECB refinancing. (The Werner-Siekmann proposal).*

***7.** The ECB should meet with national bank regulators, the European Banking Authority and the Basel Committee on Banking Supervision (BCBS) in order to **negotiate release of eurozone banks from the Basel capital adequacy standards for the coming three years**, until bank credit growth and hence nominal GDP growth is back to full employment levels.”*

The advantages of his proposals address the core underlying problem of slow nominal GDP growth, increasing employment and tax revenues, pushing countries back from the brink of a deflationary contractionary downward spiral back into a positive cycle that prevent harmful speculative credit creation. The framework doesn’t place the burden on taxpayers to bail out banks. Yet Prof.

Richard Werner, in a conference on "*The Future of Money*" held in Athens in 2013 [18] has recognized the advantages of monetary reform and the issuance of debt-free state currency.

Prof. Joseph Huber, a visionary economic sociologist, recently wrote:

> "*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 communalized, as have policies related to the common market. … 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.*" [19]

So what options do we have in Europe? There are 5 options according to Prof. Huber.

> ***"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 organized return to the former national currency.*"

Prof. Huber continues that by saying that the first option,

> "*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.*

> *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.*
>
> *Implementing a sovereign money system in the euro area can actually be expected to strengthen the eurosystem and contribute to stabilizing 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.*"

Central to monetary reform is the abolition of Art.123 of the Treaty on the Functioning of the European Union that prohibits Member States to directly fund national government budgets. [20] In addition Prof. Joseph Huber favors the creation of a fourth branch of government, the monetary authority, complementing the legislative, executive and judicial branches. [21]

Various organizations throughout Europe and the world [22] are campaigning to put an end to our debt-based monetary system. To mention but a few, Positive Money in the UK, Monetative in Germany, Sensible Money in Ireland. Vollgeld in Switzerland is gathering signatures to support a referendum on monetary reform.

In one way or another there is unanimity that something must change in Europe. Prof. Michael Hudson said, "*Debts that can't be paid, won't be paid.*" [23] Prof. Hans Werner Sinn recently suggested that among other things the first measure that is needed to reconstruct the euro is a debt conference. [24]

Is the way Out of the Crisis the Debt-End or is the vision of the United States of Europe a Dead-End?

> *"The euro is the currency of a country that does not exist" [25] and "if we are serious about deepening European integration, we must recognize that there is no credible alternative to reforming the euro from the ground up.*" [26]

A failure to reinvent the vision of the United States of Europe and reengineer the Treaties is not fatal. We can always revert back to our national currencies and the politics of national interest. The double dilemma must become priority number one in the coming elections. Should the Euro become the debt-free currency of the United States of Europe? If the answer on any of the two dilemmas is no, then the European beasts of Brussels and Frankfurt must be dismantled. If the answer on both dilemmas is yes, then there is a cause worth fighting for.

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