



Policy Note

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COMPLEMENTARY CURRENCIES AND ECONOMIC STABILITY

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The budget proposed by the current Greek government for the 2016 fiscal year went through the required parliamentary process and, after the customary heated debate, passed and became law. However, in order to produce the primary surpluses required by the new Memorandum of Understanding (MoU) between Greece and its international lenders, the budget includes: (1) more cuts in pensions and other public expenditures; (2) higher direct and indirect taxes; (3) acceleration of the process of privatization of public enterprises; and (4) establishment of incentives and programs aimed at attracting private investments, including European Union cofunded programs fostering entrepreneurship, new skill acquisition for elderly workers, and focused training for new entrants in the labor force, together with completion of old and new infrastructure projects. The last (4) will offset, in part, the negative impact of the austerity programs of the other three, but won't put the country rapidly onto the path of economic recovery. Following this recipe, which satisfies the provisions contained in the three MoUs with the European institutions and the International Monetary Fund—that is, doing business as usual—will simply take too long to regain what has been lost since 2008.

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My colleagues and I have written before about the usefulness of a parallel financial system, especially for a country like Greece struggling to make significant progress to achieve a full economic recovery (Papadimitriou, Nikiforos, and Zezza 2014, 2015, 2016). The idea of implementing a parallel (complementary) financial system in Greece has, unfortunately, acquired a bad name, for two main reasons: (1) the adverse publicity resulting from the revelation of a secretly devised parallel financial system identified with former Greek finance minister Yanis Varoufakis, known as “Plan B”; and (2) the misrepresentation by the government’s opposition parties and certain media outlets that such a system would be tantamount to transitioning toward a euro exit. For these reasons, and the Greek people’s overwhelming desire to stay in the euro, such a policy was unlikely to be seriously considered by the current government. After being reported in the media and presented at conferences, it was sent to the proverbial dustbin. But it deserves better.

Our writings at the Levy Institute have so far centered on ex ante theorizing about the structure and organization of such a system, including simulations of policy outcomes once implemented. In this policy note, I want to focus on the experiences of a complementary financial system that is very similar to the one we envision for Greece. Complementary currencies have proven to be macroeconomic stabilizers, especially for economies enduring a downturn. A complementary currency circulates within an economy alongside the primary currency without attempting to replace it.

The Swiss currency WIR (from *Wirtschaftsring*, meaning “economic circle”), implemented in 1934 as a response to the discouraging liquidity and growth prospects of the Great Depression, is the oldest and most significant complementary currency now in circulation. It remains largely unknown, following the Swiss National Bank’s wishes that it not be widely promoted, since commercial and other banks are opposed to its use. The structure of the WIR system contains a private exchange network with a clearinghouse supplemented by a cooperative bank that offers the system’s participants traditional banking services in WIR-denominated currency (loans granted independently of the exchange, payment services, etc.). These transactions must be settled in WIR-denominated currency, making it absolutely necessary that a company that has been extended a commercial loan from the WIR bank continue to sell its product and services in WIR, therefore increasing the aggregate demand for the WIR currency within the exchange

network. Since the mid-1970s, participants leaving the WIR system can neither convert WIR into Swiss francs nor sell them at discount, which would render the WIR a bad currency and thus undermine confidence in the system. Accumulated WIR-denominated currency can only be spent within the exchange network (Kalinowski 2011).

The latest available statistics from the WIR Bank indicate that more than 60,000 small- and medium-size firms throughout industry and services, representing 16 percent of all Swiss companies, use the WIR-denominated currency. There are *registered* and *nonregistered* companies: the former agree to accept a portion of transactions or split transactions in WIR and Swiss francs regularly, while the latter use WIR-denominated currency on an ad hoc basis (Stodder 2010). Transactions subject to taxation are taxed in Swiss francs, as the WIR is not accepted for fulfilling tax obligations. The WIR currency is only used in electronic form and is not issued in paper currency or coins. A user of the WIR currency maintains at least two accounts in the WIR Cooperative Bank: one in Swiss francs, the other in WIR. Each WIR is equal to one franc but is not convertible to a Swiss franc.

As Wojtek Kalinowski of the Veblen Institute in Paris has suggested, a complementary currency is a spontaneous money creator—that is, monetary creation managed by economic agents lying outside traditional banking—with the capacity to sustain and increase an economy’s aggregate demand during downturns. Thus, the complementary financial system is a potentially powerful countercyclical tool. Indeed, research on the WIR currency from Stodder (2009) shows that the volume of transactions of WIR-denominated currency has tracked unemployment very closely, especially since the early 1970s.

The experience drawn from 80 years of use of the WIR complementary currency highlights its notable achievements. To small- and medium-size businesses, which are more severely affected by fluctuations of employment, the WIR provides a source of credit and liquidity, especially in times of recession when traditional bank credit is restricted. To an economy in recession, use of a WIR-type “credit” has countercyclical effects, whereas conventional monetary policy usually moves procyclically (Stodder 2005, 2010).

The evidence provided by the long, successful operation of the WIR complementary financial system—in a country noted for its economic prowess and stability—offers an opportunity to reconsider the creation of a similar system in Greece. Private consumption and investment are down and so is bank lending,

especially for the thousands of small Greek firms; public expenditures are constantly under attack to ensure compliance with primary budget targets set by the MoUs; real interest rates are up—among the highest in the eurozone—and price deflation continues unabated while the number of unemployed workers remains stubbornly very high, despite the miniscule improvement of last year. The current strategy, evidently, has failed to deliver an economic turnaround. Even abandoning the imposed austerity measures would provide relief at an exceedingly slow pace. European structural funds—once matched privately and/or from the public purse—will be helpful, but won't be nearly powerful enough to fuel a turnaround.

The proper implementation of a complementary currency would be designed in a way that the liquidity flow of the Greek complementary currency would not grow faster than the additional output, keeping inflationary pressures at bay. It would conserve euro balances for imports and contribute significantly to achieving the required high primary euro surpluses. As with the WIR system, the Greek complementary fiscal currency would be nonconvertible and purely in electronic form, and thus would not compete with the euro or violate the Maastricht Treaty, which specifically identifies the euro as the exclusive form of paper money, issued by the European Central Bank (ECB). The expectation is that such a complementary currency, as a “fiscal currency,” would neither be approved nor disapproved by the ECB. The emission and control of the quantity of this fiscal currency would be carried out by a newly established independent institution—a bank—responsible to the Greek Parliament, so as to avoid having the government in power use the fiscal currency to engage in partisan politics.

The simulated outcomes of using such a system to supplement fiscal policy are very encouraging (Papadimitriou, Nikiforos, and Zezza 2016). Growth and employment would be put on a faster track without jeopardizing Greece's membership in the eurozone. Restoring domestic demand needs to be the emphasis of Greece's economic policy. A complementary financial system that supports regional development and employment-targeted programs would be a U-turn toward restoring people's purchasing power and rebuilding Greece's desperate economy.

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