The Euro as Common Money, not a Single Currency
A Plea for a European Monetary Federalism

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Executive Summary

The euro crisis forces us to completely rethink European monetary policy. The European Central Bank’s policy of buying back sovereign debt does not address the real problem: it is only a way of propping up a system that has already failed. A structural response to the crisis would consist of giving states back the power to act, but in a way that would not destroy the monetary union. This paper suggests a way in which, while preserving the Eurozone, each state would put into circulation in its own territory a complementary currency guaranteed by tax revenue and pegged to the euro, what we call a “fiscal currency”. This parallel currency would be a “popular” currency, issued as bills in small denominations and intended for day-to-day purchases. The euro would continue to be used for large transactions, transactions occurring at the European level, and for savings.

The kind of monetary federalism we propose would end the private banking system’s monopoly on currency issuance. Alongside a common currency regulated by European monetary authorities, it would create complementary national currencies subject to individual governments. At the same time, it would offer a response to the current crisis, though its scope is not limited to the problems afflicting the Eurozone’s “peripheral” countries.

More fundamentally, we affirm that a currency’s organizing principles must be consistent with a political community’s foundational values. In the case of the European Union, the goal is to transpose onto monetary policy the old maxim “unity in diversity” and to recognize monetary policy as a tool that must be available to a sovereign people to ensure its survival.

A decentralized fiscal currency—whether it be national, regional, or local, as it is perfectly possible to envisage several levels of issuance, providing they are backed up by anticipated fiscal revenue—is first of all a form of short-term credit that is cheaper than credit offered by financial markets. But its goals could also be more ambitious: it can be designed as a full-fledged means of payments, a currency that permanently circulates through the local economy alongside the euro. To this end, it must be accepted by the population, and its implementation must be negotiated with the private sector. To do so, the government must actively build trust in the new currency and ensure its convertibility into euros.

The third goal of a fiscal currency is to force states to pursue more responsible fiscal and financial policies. When a superior federal currency exists, a state issuing its own means of payment has every interest in maintaining its value: inflationary policies would reduce the value of its own future revenue and undermine its credibility and thus viability by increasing its dependence on federal authorities.

The need for internal convertibility and the defense of euro parity distinguishes our proposal from other ideas that have been recently advanced in the European debate, notably relating to the crisis in Greece, where a parallel currency would be devalued as soon as it was established.

Creating a parallel fiscal currency and defending its parity are challenging but feasible political actions, as several international political experiments indicate. Ultimately, it is an attempt to reform public governance in the midst of a crisis of confidence in the usual procedures of neoliberal “good governance.” Its success depends on the capacity of issuing authorities to win the trust of their populations: a fiscal currency issued by a state or local government must be seen as legitimate as the euro itself.

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I. The Origins of the Euro Crisis: The Contradiction between a Commercial Currency and a Political Project

The current crisis of the Eurozone proves that the dominant economic thinking must be profoundly revised. Indeed, it is precisely this way of thinking that prevents European governments from drawing lessons from the history of economic crises and leads them to repeat the errors of the past. Specifically, this thinking makes it impossible to understand why currencies inspire confidence. These days everyone is talking about the lack of confidence in the euro, but they reduce confidence to a state’s “credibility” with investors. In truth, one can only understand the concept of confidence in a currency if one recognizes that money is a social institution and not simply a means for settling transactions. For trust in a currency to exist, the principles governing it must be consistent with those upon which a political community is founded.

1.1. A Currency without a Political Community

The architects of the euro lacked this conception of money. At present, we are witnessing the consequences of this failure. From the beginning, critics observed that the European Monetary Union (EMU) was trying to kill two birds with one stone. It sought to integrate the union into the process of financial globalization by making of the euro an alternative reserve currency to the dollar, while hoping that, over the long term, the euro would also reinforce European political union. However, the values and the vision that lay at the root of these two projects were contradictory.

On the one hand, we have the apolitical and radically individualistic ideal of an international commercial society; on the other, that of common territorialized project, a will to establish a united political community. The former seeks a “single,” purely commercial currency, freed from any ties to the political community it is supposed to serve and issued solely to settle commercial debt; the latter, a “shared” money, that is, a unit of account bringing together several payment currencies, which settles public and social debts as well as commercial debts.

Ultimately, neither project has really succeeded. The euro as “single” currency, the euro of financial globalization, cannot inspire confidence as long as the public rejects the project of a vast commercial society—a project that seems all the less realistic, given that it presupposes the homogenization of a culturally and linguistically diverse region and the promise that justified the single currency—growth—appears less and less genuine. The euro defined as a “common” money, on the other hand, would make it possible to transcend our linguistically-grounded cultural differences, while simultaneously acknowledging our interdependence. But in order to achieve this, it must transcend a purely mercantile vision of money and become embedded in real life economy, which is much more than commercial transactions.

1.2. Commercial vs. Social Debt

To understand why the euro does not inspire trust, one must first grasp the relationship between money and debt. Every society is a social fabric woven out of reciprocal rights and obligations. These very heterogeneous rights and obligations are converted into credit and debt through the mediation of money. These credit-debts have various origins: they obviously include commercial exchanges, but also centralized taxes redistributed by communal organizations, gifts between individuals, and gifts offered to such higher powers as god or the nation. The credit-debts link the individual to society through bonds that are not purely contractual, but express the sovereign’s duty to protect the population.

In democratic societies, the state recognizes the existence of a social debt—in other words, an obligation to protect the population through centralized tax payments that are redistributed through social spending. This transformation goes hand in hand with the establishment of a democratic state with social rights and the rise of waged labor as the primary form of social integration.

Citizens covered by national systems of social protection have thus become the public debt’s new and perpetual creditors. They differ, however, in two ways from traditional creditors, i.e., those who acquired “sovereign” debt on financial markets. On the one hand, their credit is a kind of debt that democratic states cannot write off and which they

“Money” and “Currency”

The distinction between “money” and “currency” introduced in this paper is not self-evident and needs an explanation. It goes back to the two generic properties of money, namely a unit of account and a means of payment/settlement of debts: a monetary zone is a community of account and of payments, which means that within it, different means of payment circulate in different spheres of transaction but all share a common unit of account. Consequently, there are several currencies operating as means of payment, but only one of them can be both a means of payment and the unit of account for all the currencies: this “superior” currency, because it gives its value to all other currencies, is what we call here “money”. It is the keystone of the whole monetary community that it represents symbolically.

Thus, when we claim that euro should be Europeans’ “common money” but not their “single currency”, it is to say that it should remain a common unit of account and a means of payment in its own right, but that it should also allow for a plurality of currencies within the monetary system. This plurality is exactly what is excluded from a system founded upon a “single currency”.
can only partially control, as it comes from the social body rather than the state itself and the state has no monopoly over it. The creditors of social debt are also its primary debtors: the citizens finance it themselves through income and payroll taxes, whereas “sovereign” debt is financed by borrowing and represents a refusal to pay taxes on the part of the class living off of capital returns. Social debt represents the pacification of the social body, whereas liberal public debt has always justified itself on the grounds that it represents the most efficient means to finance war and, more generally, the power of the state. Moreover, social debt does not simply imply one social group that derives its revenue from the financial exploitation of the state. Through universal social coverage, it applies to the population as a whole. It protects citizens and is thus best suited to serve as the legitimate and financially credible foundation of a democratic political order, particularly a federal one.

1.3. Monetary Repression of States

Once the concept of debt is understood to refer to something larger than the contractual debts of a commercial society, the problem of the euro becomes clear: it lies in the fact that the monetary doctrine that prevailed at its creation deprived it of its public character, reducing it to a currency issued exclusively at the initiative of private commercial banks that are blind to protective debts. The euro’s association with financial globalization has as its co-rolls a ban on member states—as well as the EU itself—issuing their own means of payment, backed by taxation, and depositing treasury bonds directly with the central bank. Such a ban was already partially in effect in most member states, but it assumed new proportions with European monetary union (EMU): public treasury currency circuit and banking was prohibited; even buying treasury bonds on the secondary market (from private banks) was in principle declared illegal. Only in the current crisis has the ECB felt constrained to authorize numerous “exceptional” measures.

The establishment of EMU has thus had two major consequences.

First, wage limitation policies have forced households to go into ever deeper debt simply to finance their basic consumption needs, with all the deleterious effects that became evident in the United States in 2007, monetary repression obliged states to becoming increasingly stingy in honoring their social debts as they cumulatively indebted themselves on financial markets, in order, among other reasons, to finance their floating debt on a daily basis.1

Secondly, the “single currency” system was the equivalent of a “currency board”2 for the states on the union’s southern periphery that had lost all ability to adjust their exchange rates to restore equilibrium to their external deficits. Until the 2008 crisis, these countries “benefited” from nominal interest rates converging toward the German one while inflation was remaining higher than in Germany. Thus they could finance their deficits through massive inflows of cheaply remunerated capital. But in the absence of any force obliging them to limit their trade deficits, their foreign debt increased cumulatively to the point that, combined with an equally cumulative rise in public debt, financial markets lost confidence in their ability to uphold the euro.

This led to the crisis’ second phase, which affected European public debt. It also shed light on the euro’s trust deficit and on the inability of European leaders to grasp the need to establish political union on a tutela European people. Of this, the lack of solidarity displayed by the member states towards one another and the ECB’s opposition to refinancing the public debts of countries that found themselves in dire straits left little doubt.

Meanwhile, member states’ determination to fully honor their sovereign debts, even at the expense of their social debts, whatever their legitimacy and whatever their cost, triggered a vicious circle of endless and ever deeper austerity policies, leading them down a bottomless pit. “Social faith” in the euro continued to plummet, yet without the benefit of restoring the euro’s credibility with financial markets.

1.4. Threefold Crisis of Trust

This question of trust is decisive for the euro’s future. Since the abandonment of the gold standard, private bank-issued currencies are tied and anchored to public money, the value of which is purely conventional. This monetary system’s sustainability depends solely on trust in this public money (that is now managed by central banks), which is simultaneously a unit of account and a means of payment.

Trust of this kind is different from market credibility, as it can be expressed in three forms: methodically, hierarchically, and ethically.

Methodical trust or “confidence” refers to the mimetic behavior displayed by currency users: an individual accepts a particular currency because others do the same. But such daily acceptance is inherently fragile. It lasts only if its rests on hierarchical trust or “credibility,” which depends on monetary policies in charge of protecting the public money’s value. Finally, methodical and hierarchical forms of trust are themselves dependent on ethical trust—i.e., trust strictly speaking. This means that the rules governing currency

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1 In other words, the treasury debt resulting from the discrepancy between the continuous flow of public spending and the more irregular and discreet flow of fiscal revenue. The floating debt is the government debt in the form of short-term treasury bonds, advances agreed upon by the central bank, and deposits made to the treasury by its correspondents (localities, public companies, contractors, individuals, etc.)

2 A monetary institution that sets a fixed exchange rate between the national currency and a “hard” foreign currency (most often the dollar).
The fact that it has continuously shown itself to be part of a financial system keeping the subjection of the European Union secondary markets, contingent on the approval of structural adjustment programs overseen by the IMF, perpetuates the subjection of the European Union to financial markets and the enclosure of its economy in a cycle of depression. It bolsters the system of state indebtedness to a banking and financial system keeping going in its current form, despite the fact that it has continuously shown itself to be predatory and prone to destabilize productive economies and public finances. Such a measure merely reproduces the “recipes” of the 1980s and 1990s that triggered repeated and increasingly serious crises in Latin America.

The same can be said for the Eurobonds that are so often discussed these days. Unless they are supported by union tax revenue, they will simply be the continuation by other means of a Europe focused on controlling and overseeing member states’ liabilities. What we need, however, is an active European-wide treasury. As long as such an institution is lacking, the transfer of sovereign debt to the union runs the risk of exacerbating the democratic deficit from which it suffers and further stoking political tension.

II. The Principles of Monetary Federalism

Before presenting the principles of monetary federalism, we should make it clear that this is not the only solution to the present lack of trust in Europe's currency. Over the long term, it is essential to establish genuine European social citizenship: to elicit Europeans’ trust, the euro must be anchored in a mutualized social debt, which would be concretely expressed in social citizenship and a European fiscal structure. The path to this goal would appear narrow, but, in the long run, giving the union’s government greater responsibility for social debt is the only way to place its relationship to the peoples grouped together under its name on more democratic footing.

The goal of establishing social citizenship at the European level is not utopian. It is undoubtedly the process for establishing the union on a political basis that would do the least violence to the European genius and its diversity. Thanks to the euro, this kind of citizenship is crucial to defining a form of membership in European political society that is not national, but based rather on transnational rights. This would make it possible to transcend obstacles stemming from the

Federal Social Rights: The Canadian Example

Canada offers an example of a federal system anchored in social rights, particularly in the realm of health. The fact that the Canadian health system is administered by the provinces has not prevented it from becoming one of the main bases of Canadian citizenship, making it possible to transcend the divisions between Eastern and Western provinces, and particularly the serious tensions between French-speaking Quebec and the other predominantly English-speaking provinces.

In this federation, the federal state limits itself for the most part to uniting the system by decreeing binding federal norms, notably those relating to the portability of rights from one province to another, respect for which is sanctioned by fiscal transfers, which are used to ensure that provinces are granted equal access to and equal quality in health care. Canada has, moreover, an intergovernmental and parliamentary constitution that resembles that of the EU. Furthermore, the way that it keeps its provinces together has far more lessons to teach the EU’s member states than does the intra-governmental and presidential system found in the United States.

Above all, if the Canadian example should serve as a model for the European Union, it is because it is a federation in which Anglo-American (in English-speaking Canada) and Romano-European (in Quebec) legal, ethical, and cultural traditions have blended and hybridized through idiosyncratic institutional compromises of surprising stability. The lesson of this successful hybridization is that, under current conditions, a federal pact uniting heterogeneous national democracies at a linguistic and cultural level must mobilize—to ensure its own long-term survival—the instruments of social debt and build ethical trust, which alone can preserve the monetary union.
EU’s linguistic and cultural diversity. A possible model can be found in Canada (see the box on page 5). European social citizenship would, moreover, solve part of the EU’s democratic deficit by opening the EU’s decision making process to social interests that are currently more or less excluded from it.

The major problem confronting the development of European social citizenship is, needless to say, the fact that it is contingent on fiscal federalism, which can only emerge if all the union’s members agreed to it. This would require lengthy negotiations, which current members have little interest in initiating. Monetary federalism could partially replace this system. It could be implemented quickly, at the initiative of one or several member states, without necessarily involving others—even if the procedures for launching it would have to be negotiated with other member states. Historically, monetary federalism has often presented itself as a necessity to federate states that, in the midst of a crisis, have to take emergency measures. Yet even in such circumstances, these measures must not threaten the federation’s survival. They must be the subject of bilateral negotiations with the union’s central powers, as well as of oversight or complicity.

2.1. Complementary Currencies backed by tax revenues

Monetary federalism as we understand it entails ending the monopoly of private banks on issuing currency (this is consistent with a number of historical precedents). It presupposes that member states have the ability to issue a “fiscal currency”, i.e., tax scrips backed by fiscal revenue that become regular means of payment. The underlying idea is that future tax revenue (i.e., anticipated revenue) defines the amount of liquidity that can be created without creating inflation. Currency created in this way, precisely because its circulation is limited to national (or regional) territory, can help stimulate an economy suffering from recession or underemployment.

It must be emphasized that the goal is not here to monetize the public debt (i.e., to devalue it through inflation), but to create the tools for a monetary policy that would neither pull the real economy into a recession nor be exclusively favorable to financial interests. Such a procedure, which amounts to a short-term loan granted by citizens to their government, is no more inflationary than the existing monetary system, in which states borrow on secondary markets. Having recuperated the right to issue currency on the same basis as banks, states would have to build trust in their fiscal currencies, recognizing them as means for tax payment while also pegging their value to the common federal money, which would serve as a unit of account and circulate alongside the fiscal currency.

Such complementary fiscal currencies are, we repeat, short-term credit that citizens of a state grant their national governments in order to reduce so-called sovereign debt and to stimulate the local economy, while also facilitating the operation of public and social services. In return, governments must build and preserve trust in these currencies, including parity of their value with the federal money, despite the fact that their convertibility is limited and that they circulate in a more restricted area. Any inflation that might be particular to such currencies is thus precluded from the outset.

2.2. Tax Anticipation Bills

Moreover, to solve the legal and constitutional problems they may raise, these monies should not be called “currencies” in the legal sense of the term but “anticipated tax bills,” along the lines of the “tax anticipation scrips” used in the United States in the interwar years, or “debt cancellation vouchers,” like the “bonos de cancelacion de deuda” issued by many Argentine provinces between 1984 and 2003. These vouchers can be introduced quickly and easily, for example in the form of bills in small denominations, as their primary function is to give the state short-term credit (funding the floating debt), allowing it to continue its operations without interruption by paying the wages of civil servants, the dividends of the social debt (i.e., social benefits), and debts owed to suppliers.

These vouchers are particularly well-suited to respond to an acute financial crisis, like the one currently affecting southern European countries. Already in November 2011, the IMF noted that the Greek government, desperately lacking in liquidity, would be obliged to postpone some payments (public procurement, VAT reimbursements, social benefits, etc.). Since then, the situation has only worsened. The scale of this liquidity crisis, which can be compared to the currency shortage produced by the Argentine “currency board” system in 2001, explains, incidentally, why complementary currencies tend to emerge at the local level, as with the “TEM” that has been put into circulation in the Greek city of Volos. These local initiatives are useful, but given the scale of the crisis, it is vital to make the Greek government once again able to conduct its own monetary policy.

2.3. A Complementary Means of Payment

At the very minimum, a fiscal currency is a short-term loan that is cheaper than the credit offered by financial markets. But it can also be used for a second and more ambitious purpose: that of a means of payment in its own right, a complementary currency that permanently circulates in the local economy alongside the common federal money.

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3. In the context of the European Union, the question of the constitutionality of national fiscal complementary currencies could be settled through special protocols attached to existing treaties. Many such protocols already exist, granting special rights to various member states such as the United Kingdom, Denmark, etc.

4. The vouchers could for instance carry interest in order to prove that they are loans that the public has granted to its government and that the latter must reimburse them by accepting these same vouchers for all tax payments.
It must be regularly accepted by the local population and its introduction in the real economy must be negotiated with the private sector. Experiences we are familiar with (see chapter 3 below) demonstrate that the public and small business tend to favor these currencies, seeing them primarily as a form of surplus purchasing power in a depressed economy, while big business, particularly when it is controlled by multinational corporations, is often more reticent and must be confronted with a firm political will. Whatever the case, the new fiscal currency will only be fully accepted to the extent that the state ultimately guarantees its convertibility at or near parity into the federal currency. This is the key point: a fiscal currency issued by a member state—a euro-drachma, for instance—must be as legitimate in the eyes of users as the euro itself, with the only difference being that the former circulates in a limited territory. Standard economic theory cites uncertainty and transaction costs as arguments against currency plurality. Yet in our daily lives we already use a wide variety of parallel means of payment (credit cards, checks, cash, etc.).

In reality, a plurality of means of payment is not costly as long as there is confidence that they are convertible into one another at parity (give or take a few minor transaction costs). Problems only occur when actors lose confidence in their convertibility and start calculating how much they are likely to lose in an exchange, what the future effects of exchange rate fluctuations might be, and so on. When shopowners start listing different prices for the same product depending on the means of payment used, thus anticipating a relative loss of value in one or the other, monetary plurality is in crisis and there is a risk that the monetary system will degenerate or collapse. But a plurality of means of payment is in itself the normal condition of any monetary system endowed with institutions ensuring hierarchical trust.

### 2.4. Parity Convertibility

The emphasis that we have placed on convertibility within a political union endowed with a common account and payment money distinguishes our proposal from others that have been recently advanced, in which the newly issued parallel currency would be immediately devalued in relation to the euro.\(^5\) It is of course necessary to reduce commercial imbalances between deficit and surplus countries within the European Union—it is actually the only permanent solution to current tensions. Monetary federalism as it has been sketched out here makes no claim to solve all the problems posed by such deficits,\(^6\) but it contributes to a solution to the extent that it offers territories an endogenous development tool. It does so by combining a shared unit of account (at the EU level) with multiple complementary payment currencies. But to call for parallel floating currencies is to advocate a return to competitive devaluations within the euro zone and to competition between weak and strong currencies, with all that this implies in terms of exacerbating political and symbolic domination across regions.

Indeed, the relationship between the euro and decentralized fiscal currencies (whether they be national, regional, or local) must be based on complementarity rather than competition. Parallel currencies, beyond their potential usefulness for shoring up public finances, must make it possible to "(re)conquer" internal markets, in other words, to bolster the local economic fabric and territorial self-sufficiency, rather than conquering foreign markets by reinforcing an international division of labor that already places countries that should have the greatest interest in issuing such currencies at a disadvantage. Finally, the principle of "unity in diversity" in any monetary zone associated with a federal political community requires that the different means of payment circulating within it share the same unit of account: to multiply these units of accounts would be to fragment this political community.

### 2.5. Responsible Fiscal Policy

It follows that fiscal currencies must be denominated in euros and kept at parity or near parity with the euro in a cooperative spirit and within the framework of federal regulations. From the standpoint of the individuals or companies who might be reluctant to accept payment in these currencies, the fact that they are fiscal is in fact a (hierarchical) reason for trusting them: whatever happens to these currencies on the market (inflation or a pure and simple refusal to accept them), they know that they can always be used to pay taxes, with no loss in nominal value. Here we see a third positive consequence of monetary federalism, no less important than the decline in the cost of the floating debt and the strengthening of the local economy: any currency issued by a political or administrative power forces it to pursue more responsible fiscal policies. Because it is doubly anchored—in anticipated tax revenue and in the currency to which it is pegged—the issuing power must commit itself to fiscal and/or monetary discipline. It has every interest in preserving the value of its own means of payment: to pursue an inflationary policy would amount to reducing the value of its future revenue and

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5 Consider, for example, the proposal of the French economist Jacques Sapir, who suggests floating exchange rates, or the Greek parallel currency advocated by Thomas Mayer of the Deutsche Bank, which entails a 50% devaluation. On the other hand, the proposal of Etienne Gorgeon of Edmond de Rothschild Investment Managers, which is based on issuing I.O.U’s ("I owe you"), based on the model of bankrupt American states (such as California, which recently used them), bears some resemblance to ours, but it does not specify the conditions under which this currency would be issued and used.

6 To reduce these deficits solely through the euro monetary regime, the latter would have to be profoundly modified, in the spirit of Keynes’ bancor model. Indeed, enlightened solidarity between surplus and deficit countries would demand a rebalancing of exchanges between member states.
undermining trust in its currency. In other words, it would mean sawing off the very branch upon which it sits. This feature is a particularly useful effect in countries where the tax collection rate is low and tax evasion and fraud are frequent.

2.6. Successful Issuance

Concretely, a fiscal currency can be injected into an economy via the national treasury by paying civil servants, retirees, and other social benefits, as well as debts owed to companies with public contracts. Are these various social groups likely to accept it? The answer is yes, because this currency can “free” one from tax obligations and because it can always be converted at parity back into the common currency (but under restricted conditions: conversion should be allowed for specific windows of time, for instance at the end of the month).

The Multiplier Effect and “Express Money”

Among the proposals currently circulating and related to Greece and other crisis-ridden countries, ours is closest to the “state regional currency” or “fast money” suggested in February 2012 by Christian Gelleri (the founder of a local currency in the German town Chiemgauer) and Thomas Mayer (a founding member of the “Regiogeld” association in Germany). Their project mainly emphasizes stimulating local economies. Its goal is to make the mass of euros available in a region circulate as quickly as possible by converting it into a regional currency endowed with “circulation incentives” (such as a “liquidity tax” on excessive liquid assets, which encourages holders of such assets to spend them or place them in long-term investments) and “evasion brakes” (a fixed 10% exchange rate between the regional currency and the euro, to prevent the former from being converted into the latter).

Where our proposals disagree is that while for Galleri and Mayer, the region would not be an autonomous and independent currency, but rather one that is “secondary” to the euro, entirely covered by deposits of euro reserves, and placed into circulation through a joint effort on the part of the state and the central bank. The problem of parity convertibility between euros and regional currencies is resolved by a 100% guarantee. Monetary shortages are, in this way, supposed to be entirely resolved by increasing the speed at which the regional currency circulates. This strikes us, however, improbable.

Finally, the question of the cost of financing the government is not considered by Galleri and Mayer.

Above all, it is a winning formula in periods of recession and extreme budgetary austerity, the alternative being the kinds of drastic revenue reductions that we are currently witnessing.

It is nonetheless likely that at the first opportunity to convert this currency at parity—a crucial opportunity for establishing trust—most of the new monetary mass will be returned to the issuing state in the form of conversion requests. These requests must be scrupulously respected via a currency board established for this purpose. Almost as quickly, another portion will return to the state in the form of taxes, but a third portion, which initially will no doubt be minimal, will remain in circulation. The share returned to treasury coffers can then be re-injected into the economy through new partial payments of wages and other recurrent public expenditures.

After each new successful conversion opportunity, the rate of return (i.e., requests for conversion into euros) will likely decline, gradually stabilizing around the economy’s fundamentals—in other words, around needs dictated by the outside world (imports, travel, etc.). Slowly, the influence of other factors motivating conversion requests, such as speculation or precaution, will decrease and a rising portion of the new currency will remain in circulation. Methodical trust in the new currency will grow and strengthen the overall level of local exchange. Indeed, the long-term viability of this type of currency depends on the legitimacy of the issuing state: acceptance of the new currency is a way of declaring that the state is now capable of exercising its sovereign responsibilities in the realm of public and social services, even as it remains embedded in a broader political society symbolized and instantiated by the common federal currency.

Were it to be implemented in the current European environment, this kind of monetary federalism would most likely lead to the simultaneous circulation of a common currency of account and payment, subject to the relevant European monetary powers, and of complementary fiscal currencies, subject to national political powers. Given the circumstances in which they were issued and placed into circulation, the latter would consist essentially of “popular” currency, issued in bills in small denominations and destined to pay for household purchases (corresponding more or less to exchanges that are currently made in euro paper-money). The common federal currency, the euro, despite being an “all purpose money” valid across the entire union, would mainly be used to pay for high cost transactions, transactions occurring at the European level, and as a savings currency.

In other words, this would not mean returning to the ECU as it functioned in the pre-euro European Monetary System. The ECU was not a currency circulating in the public as a means of payment. It was used only for financial transactions.
III. Historical Precedents: The Argentine Bocade

The most widely known experiments in monetary federalism were undertaken in Argentina between 2001 and 2003, when it was practiced by two thirds of the country’s provinces. However, contrary to received wisdom, these experiments were not limited to emergency measures invented during the great crisis the country experienced at that time, when provincial currencies amounted to 40% of the monetary base. Argentina is a federation with a long history of public complementary currencies, issued directly by provincial treasuries and circulating primarily within the issuing provinces: beginning 1984, following the collapse of the military dictatorship, a number of provinces used them continuously, until they were redeemed by the federation in 2003.

But Argentina is not the sole example. One could look further back in history, for instance to the fiscal currencies of the North American federate states prior to the 1787 Constitution or to the “tax anticipation scrips” issued by many United States cities in the 1930s.

3.1. Confronting a Centralized Monetary Policy

Even so, one of the most interesting cases for shedding light on a possible European monetary federalism is, given what we currently know, the bocade, a currency issued by Tucuman Province that remained in circulation for eighteen years (1985-2003). Tucuman is one of Argentina’s smallest and poorest provinces: compared to the rest of the country, its size is similar to that of Greece in the European Union. The bocade, however, has proved highly resilient when confronted with the monetary turbulences that shook Argentina during the entire period that it existed.

For the political leaders who created it, the purpose of the bocade was to counteract a central monetary policy that was focused exclusively on macroeconomic stability and blind to economic differences between provinces. The bocade’s primary goal was to preserve social peace by allowing the provincial government to honor its commitments (wages, pensions, etc.) in the midst of a local financial crisis, triggered in large part by a federal government that was regularly late in distributing to the provinces the funds that they were owed from national tax revenue.

Its second goal was to reduce public debt: the few studies at our disposal demonstrate that issuing the bocade was far more cost efficient than other forms of financing. For example, a study of its first two years of existence (1985-1987) shows that operating costs were the equivalent of an interest rate of 0.83%, as opposed to the 7.25% that the banking system was charging at the time. Another study, estimating issuance costs for 1985-1991, concluded that by refinancing itself through the bocade rather than secondary markets, the province’s savings were the equivalent of three to four months of budget revenue. Given the refinancing costs currently faced by several European states, these numbers should give pause. We should add that there is no reason to believe that the bocade led to an inflation rate superior to that of the national rate, even it is likely that inflation was slightly higher on average in Tucuman (with or without the bocade) than in the politically dominant province of Buenos Aires, which is the largest and wealthiest in the country.

3.2. Successful Implementation

The legislation introducing the bocade defined it as a “debt settlement voucher” that could be used to pay provincial taxes. Its unit of account was the national currency (one bocade = one peso) and it was convertible into pesos under certain conditions. The provincial law specified the bocade’s issuance volume while adding that the latter could evolve with inflation.

The lifespan of bocades was limited. Issued by the provincial treasury, they entered into circulation through public procurement and salaries paid to civil servants and retirees. They returned to the treasury’s coffers through the payment of provincial taxes and other fees, as well as through conversions into the national currency. Bocades could in fact be converted at parity into pesos at the provincial bank, but only between the 18th and the 28th days of each month. Similarly, even if all the vouchers were returned to the treasury at the end of the month, the province, thanks to this system, received short-term credit from the local population. It also made it possible to pay the wages of civil servants fully and on time.

From the treasury’s standpoint, it was clearly preferable that bocades return as tax revenue. But it had little wiggle-room, as provincial own revenue amounted to only 20% of its expenditures.7 To integrate the bocade as much as possible into the local economy, it was thus necessary to reduce to a minimum requests for converting bocades into the national currency: the greater the demand, the greater the system’s overall efficiency, not only for public finances, but also for the local economy. For the former, the longer it took the bocade to return to the provincial treasury, the longer the duration of the nearly free credit the Tucumanoes granted their government.

As for the intended effect on the local economy, it was necessary for the bocade to remain in circulation rather than return immediately to the issuer.

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7 For EU member states adopting a similar strategy, things would in fact be easier to the extent that they almost completely control their own tax systems. Return through in form of taxes would on average be five times greater, even for Greece, than in an Argentine province like Tucuman. Consequently, the pressure to convert over the short term would be considerably weaker. On the other hand, European national treasuries have exercised severe monetary repression. It will be necessary to reorganize them into banking networks for the deposits of the treasury’s “correspondents,” along lines that were familiar in France until the 1970s.
To alleviate the pressure to convert, flawless convertibility had to be guaranteed to bolster the local community’s confidence in the new currency. In this respect, the first opportunity to convert following issuance was the most difficult, as almost all bocades were returned to the treasury. Yet even by the second month, conversion requests had begun to decline. Seeing that the treasury honored its commitments, citizens began to use the bocade as an ordinary means of payment, one that was as valued as the peso for household expenses.

3.3. A Resilient Currency

For the eighteen years of its existence—a period of great monetary instability at the national level—the bocade undoubtedly experienced a few convertibility crises, speculative attacks, and political challenges. Yet the continuous support it received from the business community and the province’s population allowed it always to maintain its reputation as a credible currency. Even if hierarchical trust in it occasionally wavered, the bocade always enjoyed its users’ methodical and ethical trust.

When it was finally brought to an end in 2003, it was primarily for political rather than economic reasons: the benign ignorance of the federal government, which until then had closed its eyes to the currency’s rather dubious constitutionality, gave way to open hostility. This shift was provoked by the proliferation of fiscal currencies in other provinces as a result of final peso/dollar convertibility crisis. Some of these currencies, which had been poorly established at the political level, underwent considerable devaluations. Currency issuance became one of the topics addressed in Argentina’s negotiations with the International Monetary Fund, with the latter demanding and obtaining their pure and simple suppression, consistent with its commitment to monetarily repressing public treasuries.

Up until that point, the bocade had survived the hyperinflation of the 1980s, the peso’s parity convertibility to the dollar in the 1990s (which was accompanied by its increased overvaluation), the IMF structural adjustment policies that began in 2000, the severe crisis of the convertibility system in 2001-2002, as well as the errors of several provincial governors. Throughout the course of its life, the bocade remained at parity with the national currency, a criterion critical to the viability of complementary currencies.

From Political to Monetary Federalism

Federalism can be defined as a way of organizing a political order on the basis of a hierarchy of values rather than, as in the case of a unitary state, a hierarchy of powers (with a concentration of power at the summit). A federal government does not have more sovereign power than federate governments, as it does not have a monopoly of political responsibilities. Within their respective domains, federate units have more power than the federal government. The federal government does, however, control the highly valued responsibilities that are the basis of the federation, notably ensuring internal peace between the federated units and acting in their name abroad.

In a political federal order, there is strictly speaking no sovereign power. Sovereignty belongs to an authority—i.e., a separate institution—with no executive power and to the decisions of which federal and federate powers must voluntarily submit, lest the federation dissolve. This authority is a third party that is placed in a position of sovereignty over the other powers. It is the basis of judicial power—the constitutional Supreme Court—which has the authority required to settle power struggles between the various levels of government.

This overall federal structure also applies to the monetary system: to create the system and units of account and to preserve its unity are federal responsibilities of a greater value than that of issuing and circulating means of payments, which can be shared and decentralized. Payment currencies circulate within multiple issuer (banks and non-banks) transactional spheres and networks that are linked through the federal accounting system.

As for monetary authority, it derives neither from the power of setting the money of account, nor from the power of issuing payment currencies, but emanates from the “user” population, the true sovereign, those who determine the future of payment as well as account monies by either accepting or refusing them. The currency users may delegate its trust to an independent power endowed with the authority needed to settle conflicts between currency issuers, either public or private, and stabilize the unit of account while regulating the issuance and rationing of currencies at a proper level. Thus the Federal Central Bank (in the case of Germany) or the Council of Federate Central Banks (in the United States) is the monetary equivalent to what the Supreme Court is in the judicial realm: authorities that, in their respective domains, have the ability to arbitrate conflicts between powers and to which various government agencies must voluntarily submit.

One sees in this triptych that is constitutive of the monetary system the three forms of trust discussed earlier: methodical trust is located at the level of the plurality of payments (the lower-valued level of federate issuers); hierarchical trust founded on the unification of accounts (the higher-valued level of federal power); and ethical trust, founded on the values and membership norms associated with belonging to a political body, a sovereign people, community of accounts and payment.

Creating monetary federalism is thus in principle no more complicated than establishing political federalism. True, as Tocqueville once remarked: “After the general theory is comprehended, many difficulties remain to be solved in its application... The whole structure of the government is artificial and conventional, and it would be ill adapted to a people which has not been long accustomed to conduct its own affairs, or to one in which the science of politics has not descended to the humblest classes of society.” (“Democracy in America”). If one follows Tocqueville’s views on the prerequisites need to overcome such practical difficulties, one must above all worry that Europe is not a “a people which has not been long accustomed to conduct its own affairs.”
IV. Conclusion

Critics often describe fiscal currencies as non-viable and inefficient constructs. Yet as the case of the bocade demonstrates, these criticisms do not stand up to empirical analysis. While some poorly organized experiments have resulted in failure, this has not been the case for the most important examples.

In reality, the fragility of such measures has less to do with their inherent characteristics than with their incompatibility with the dominant monetary thinking. The Eurozone crisis offers in this respect an opportunity to challenge this way of thinking. The countries that have been hit the hardest by the crisis will be the first to benefit from a new monetary and financial order.

That said, the implementation of such a currency is not simply a technical or legal problem. The challenge is political: it is not self-evident that a state hit by a financial crisis and torn apart by social conflicts will be able to create the political conditions to build trust in a fiscal currency of this kind, nor that it will be able to subsequently pursue responsible fiscal and monetary policy. A comparison of different experiences suggests that difficulties will vary depending on objective economic conditions (level of indebtedness, foreign debt, exports, etc.) as well as on political conditions (institutional legitimacy, the quality of collective negotiations, etc.). Ultimately, responsibility lies with the actors themselves. The creation of regional fiscal currencies could even be considered as an attempt to reform public governance in the wake of a crisis of confidence in neoliberal “good governance.”

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