



Tax-credit instruments as complementary
currencies: a policy proposal for fighting the
austerity while saving the euro zone

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Summary

How should progressive governments respond to what seems an endless crisis of the eurozone? Most of the policy debate focuses on two equally bad options: either pursuing the current path in hope to “muddle through” or exiting the eurozone. This paper outlines an alternative strategy where the euro is preserved as the common currency used in everyday life but complemented by national means of payment, a type of quasi-money made up of low-denomination Treasury Bonds. Backed by future tax revenues, this means of payment would be called the euro-franc, euro-lire, euro-peseta, euro-escudo, etc. It would be kept at parity with the euro but its exchange into euros would be strictly limited and submitted to special conditions.

A Member State determined to implement this policy would probably face retaliatory measures from European institutions, but it cannot be expelled from the eurozone nor from the EU. The outcome of such a confrontation will depend, among other things, on government’s ability to win confidence of its population for the plan, to gain popular support in other European countries and to negotiate firmly with the EU institutions.

Such a step is only one element of a broader economic policy package, including tax reform and debt restructuring. But it is the key element, as it will make it possible to resist creditors’ blackmail and stay the course long enough to reconcile the two imperatives of any progressive strategy in Europe today: using national democratic spaces to build a European public space and redirect the European project towards more cooperation and solidarity.

Theory of money shows that a currency is much more than a store of value or a means of payment; it is a “social operator” of belonging to a political community². The euro has, until now, failed in that respect. The new currency could have contributed to a stronger European political community through economic and monetary integration, but the way in which it was set up as a pure financial tool led to its failure. As a consequence, the European monetary union aggravates the very geographical imbalances and social inequalities it was supposed to attenuate, and weakens the European political identity it was thought to construct. This in turn undermines its legitimacy, especially in countries with structural deficits (Southern Europe and France) which became prisoners of

¹ The authors would like to thank the legal scholars Matthieu Caron, Jean Grosdidier and Romain Zanolli, for reading and commenting on a previous version of this text. We have tried to take their remarks into account in the present version.

² Michel Aglietta, « La monnaie est un rapport social », (Currency is a social relationship), interview with Jean-Marie Harribey and Dominique Plihon, *Revue Les Possibles*, April 2015 (in French).

permanent high unemployment. In result, the looming political or financial crisis threatens to shatter the whole project. The question is how to address that challenge.

The eurozone could of course be made more viable through radical, democratic reforms of the European treaties in a spirit of cooperation and solidarity, through strict regulation of finance, European taxation, budgets voted by a Eurozone Parliament and so on. However, for time being the dominant political forces in Europe have no intention of moving in that direction. As shown by Syriza's failure to challenge EU policies in the case of Greek debt, European political elites prefer to mobilize the power of finance and the straight-jacket of existing treaties, while pursuing the same path as before and opposing any national attempts to find an alternative to the status quo. Democratic political action is still played out, for the most part, at local and national levels with the European public space kept stunted and powerless, with little public scrutiny.

Europe's next financial or political crises will doubtless trigger, each country going at its own pace, new attempts to break free from the stranglehold of the treaties and the ECB. It is therefore vital to prepare now. We should avoid past mistakes and retain lessons from history proving the value of thinking "outside the box".

Clearly, hoping to somehow "muddle through" the crisis is not viable, as the flaws of the eurozone are structural. But neither is leaving the euro and going back to a devalued national currency a good option. Considering how deeply integrated European productive and financial systems are, this could further exacerbate the political instability favorable to authoritarian and xenophobic movements.

How should then progressive governments in Europe respond to this situation? As stated above, simply leaving the euro and opting for a competitive devaluation of the new national currency is in our view not viable. It would amount to a classic mercantilist policy for increasing the exports and reducing the domestic purchasing power by importing inflation; in other words, to an aggressive competitive policy which is unlikely to lead Southern Europe out of austerity.

In addition, solving the euro crisis is not possible without shifting towards a new model of development, which will necessarily have major distributional effects and imply internal political conflicts. Winning the domestic political struggle will require broad support from the population and solid popular back-up in other European countries, including among the middle classes, savers and entrepreneurs, who have – or think they have – something to lose if the eurozone were to collapse.

Most importantly, the construction of Europe as our common political arena is the requisite for going beyond national antagonisms and organizing the social-ecological transition towards a more sustainable society. This transition must be global, it cannot possibly work merely at a national or even regional level. We need a credible European project if we want to have some weight in global power relations with transnational companies, the US and the so-called "emerging" countries. Such a project should emerge from the euro crisis itself, which is a crisis of the neoliberal ideology underpinning the

European monetary union in its current form. To say “first let’s take refuge behind our national borders, then we’ll see on how we can get out” would only pave the way for nationalist forces that would crush any prospect of a democratic European integration.

For all these reasons, leaving the eurozone – which for some legal experts would mean leaving the European Union³ – cannot be a legitimate objective nor a prerequisite for change for progressive political movements. Choosing that option amounts to giving up the fight to impose a trans-European political debate over how to redirect the European project. There is also a risk that this option will dissuade the middle classes without satisfying the working classes.

As it is, the euro and its conceptual flaws are creating a de facto solidarity and a common interest among the populations who pay the price of austerity and the growing inequality. This actually includes broad social groups in “core” European countries such as Germany, even though they may not realize it until it is too late. The battle for a new political hegemony cannot be won in any single European country, it has to be waged on the European level. Some of the foremost principles of European construction, such as subsidiarity, are still available to political forces determined to bring this battle to a successful conclusion. However, this means that some Member States must mobilize the political resources which remain at their disposal, such as taxes and economic policies. In this respect, issuing a fiscal currency to complement the euro could be a crucial political tool – though the actual term “currency” should probably be avoided for legal and tactical reasons, as explained below.

Fiscal (tax-credit) complementary currency: the basic principles

The challenge then is to use a national political crisis as an opportunity, and to show to voters that it is possible to emerge from austerity and conduct alternative policies without calling into question *a priori* the unity of the eurozone. Issuing a tax-credit currency by the State in parallel to the euro issued by commercial banks might enable a progressive national government to inject liquidity in an independent, efficient and targeted fashion, thus immediately reducing its floating debt and ultimately its consolidated debt⁴. Such a currency emission strictly complies with the principle of subsidiarity, as Member States are alone in disposing of their own fiscal power legitimized by an annual vote on the budget by their Parliaments.

This strategy retains then the euro as the common currency of legal tender, but complements it by a national means of payment made up of low-denomination Treasury Bonds - of 5 to 50 euros - with limited but renewable duration. The complementary currency can also take the form of an electronic currency run by the Treasury or an

3 Cf. Helmut Siekmann, “Replacing or Supplementing the Euro in Member States whose Currency is the Euro”, *Working Paper Series* no. 109, 2016, Institute for Monetary and Financial Stability, Goethe University Frankfurt Am main).

4 Cf. Thomas Coutrot, Wojtek Kalinowski, Bruno Théret, <https://www.veblen-institute.org/The-Euro-Drachma-a-Monetary-Lifeline-for-Greece.html> ; Gaël Giraud, Benjamin Lemoine, Dominique Plihon, Marie Fare, Jérôme Blanc, Jean-Michel Servet, Vincent Gayon, Thomas Coutrot, Wojtek Kalinowski, Bruno Théret, <https://www.veblen-institute.org/Ending-Austerity-without-Leaving-the-Euro-How-Complementary-Fiscal-Currencies.html> .

independent agency using transparent implementation. Backed, like any public debt, by future tax revenues, this instrument of payment would be called the euro-franc, euro-lire, euro-peseta, euro-escudo, etc., and kept at parity with the euro yet not freely convertible and not negotiable on an exchange market.

This new complementary currency can be used to pay a fraction of civil service salaries, welfare benefits and public expenditure, as all these expenses are *de facto* short-term public debts. In exchange, the State commits to accepting these bonds as payment for taxes, in parity with and as the equivalent of the euro issued by the banking system. It is this guarantee that mainly ensures social acceptance of the complementary currency as a means of payment nationally and upholds its parity with the euro⁵.

Parity with the euro, guaranteed by the State, is an essential condition in this strategy, for two reasons. Firstly, it will strengthen confidence in the complementary currency and prevent inflationary expectations. Secondly, it is indispensable to convince the populations of Europe that the strategy to reform the euro system is a cooperative one, and make more difficult tactics such as the one used by the ECB against Greece in June-July 2015, withholding liquidities and strangling the Greek economy. By contrast, creating a convertible complementary currency at risk of immediate devaluation would signal from the outset that an exit was possible. It would trigger negative expectations, then speculation, further devaluation and finally a disordered exit from the eurozone. Indeed, this was the scenario envisaged by the then German Finance Minister Schäuble and the ECB in 2015 with a view to preparing a Grexit⁶.

A tool for strengthening the local economy and reviving popular consumption

To confront current austerity policies there is an urgent need to issue this type of currency wherever the single currency is leading to recession, mass unemployment, rising social insecurity, the decline of public services and insufficient long-term investment required for the ecological transition. The State could agree to pay-rises (of a uniform amount, for example, 300 euro-pesetas or euro-francs a month) to civil servants and pay its suppliers partly in complementary currency. It would thus inject extra liquidities towards two key policy objectives: helping low wage households and strengthen domestic productivity. As the new complementary currency is not freely convertible into euros, its emission will favor suppliers who produce locally. The effect of economic regeneration will rapidly reach the private sectors and all wage-earners. A reduced debt will also give the State a renewed investment capacity, especially for the ecological transition.

A tool for debt reduction

⁵ In practice, this acceptance can also be boosted by issuing notes with a lifespan limited to, say, 2 years and earning interest, but with a zero coupon. On the possible variety of specific forms of fiscal credit currency, cf. B. Théret,

https://www.academia.edu/36548963/Le_papier_monnaie_de_petites_d%C3%A9nominations_%C3%A9mis_par_les_provinces_argentines_entre_1893_et_2003 (Paper money in small denominations issued by the Argentine provinces between 1890 and 2003) (in French).

⁶ Jennen Birgit & Rainer Buergin (2015), “Schäuble said to cite option of Greek parallel currency », Bloomberg.com, 22 May 2015. <http://www.bloomberg.com/news/articles/2015-05-22/schaeuble-said-to-cite-option-of-greek-parallel-currency>

This policy will reduce public debt and the State's dependence on foreign lenders. Combined with defaulting on part of the public debt – that deemed illegal or illegitimate by a citizen audit – and possible restructuring of the part deemed legitimate, issuing a fiscal credit currency emission will, with time, contribute to resolving the public debt problem. This is because it has a double effect on the dynamics of indebtedness: a direct effect, since the State will cease to incur debt on the financial markets for its floating debt (the debt funding the Treasury cash-flow of a given year), which in turn affects its transformation by consolidation into longer-term debt⁷; and an indirect effect due to the economic vitality regenerated by the injection of money. Public debt will diminish in relation to GDP as the numerator goes down and the denominator goes up. Moreover, the foreign trade balance will also improve with the reduction of imports and this too reduces dependence both on international finance and on foreign markets.

An expression of non-nationalist popular sovereignty

On monetary matters, the political and symbolic dimensions are crucial. Issuance of a fiscal credit currency is the equivalent of creating interest-free indebtedness of the State towards the citizens, so that confidence in this type of money will broadly depend on confidence in the government issuing it and in its political project. In this way the violence exercised “from above” through the euro could be opposed by people's trust in “their” fiscal currency. This revival of popular, national and democratic sovereignty will not be to the detriment of the other nations of the European Union but to the advantage of all its peoples, as a proposed alternative path of development to free our societies from financial dominance. The negotiations with the European institutions will obviously be difficult, but they'll give time to bring this narrative onto the European public stage and wage the struggle for political hegemony.

Here, it would be useful if a group of countries willing to promote such a policy were to take joint action in an ad hoc coalition. It would no doubt be difficult to mobilize the principle of enhanced cooperation as it requires a unanimous vote within the European Council⁸. But in practice, it would only take one country to go down that road for the others quickly to follow, so that the procedure would become a common practice shared by a significant number of member States.

Historical antecedents

In France, the “Treasury circuit” made it possible to finance post-war reconstruction using similar principles. And in some federations, federated States have already successfully tried out recourse to issuing currencies to complement the federal currency, and this over a long period of time. Thus, we know the conditions required for such experiments to be successful: they must be negotiated upfront with the workers' unions and small business federations, the issuance must be moderate and controlled, and the government must win popular support for the political project underpinning the monetary policy. In fact, the idea of complementary fiscal currency springs not from preconceived theoretical concepts but from historical experiments such as:

⁷ Bruno Théret (2016), « Dette publique et auto-répression monétaire des États », (Public debt and the self-oppression of States) *Savoir/Agir*, n° 35 (in French).

⁸ M. Caron brought this point to our attention.

- the quasi-monies issued by the Provinces of Argentina between 1984 and 2003, most of which – like the *patacon* of the Province of Buenos Aires during the 2001-2002 crisis⁹, or the *bocade* of the Province of Tucuman which lasted from 1985 to 2003¹⁰ - met with significant success despite the relative weakness of their fiscal back-up and the macro-economic instability at national federal State level.
- the *tax anticipation scrips* issued in the United States by many major cities during the crisis in the Thirties; and also the *currency finance* practised in the American colonies – i.e. federated States- in the 18th Century and, in certain specific forms, in the 19th Century.

Furthermore, similar proposals have been lively debated across Europe since the start of the euro crisis, with numerous academic contributions and press articles¹¹. Several fiscal currency mechanisms have been proposed, depending on the national context and the authors of the proposal. The model suggested here is inspired by the mechanism adopted by the Argentine Province of Tucuman, which proved resilient – lasting from 1985 until 2003 – and efficient at reducing public debt and as a contracyclical political tool. To mention only one similar proposal, the Italian scheme for *tax credit certificates* (TCC) to be distributed as “helicopter money” and linked to a *tax debit card* is also worth examining, even though its option of making the TTC negotiable in euros on a daily basis does seem rather problematic¹².

A unilateral but cooperative process

The creation of a national fiscal credit currency in complement to the euro avoids the pitfalls of the two usual kinds of proposals for resolving the euro crisis, i.e. sovereignism and Europeanism. The former sacrifices the European project on the altar of a supposed democratic sovereignty at the national level, while the latter (in its different versions, neoliberal or Keynesian – providing, for example, for a system with a common currency accompanied by cooperatively devalued national currencies) in fact sacrifices national democratic choices for an improbable Europe-wide consensus on reform.

9 Bruno Théret and Miguel Zanabria (2007), “Sur la pluralité des monnaies publiques dans les fédérations. Une approche de ses conditions de viabilité à partir de l’expérience argentine récente », (On the plurality of public currencies within federations. An approach to conditions of viability based on the recent Argentine experience.) *Economie et Institutions*, n° 10-11, p. 9-66. <https://journals.openedition.org/ei/295> (in French).

10 Bruno Théret (2018), “Birth, Life and Death of a Provincial Complementary Currency: Tucuman Argentina (1984 – 2003)”, in G. Gomez (ed.), *Monetary Plurality in Local, Regional and Global Economies*, London, Routledge. This article details the very significant effect on public debt reduction of this fiscal credit currency judiciously named “bono de cancelacion de deuda” (debt cancellation bond).

https://www.academia.edu/36548872/BIRTH_LIFE_AND_DEATH_OF_A_PROVINCIAL_COMPLEMENTARY_CURRENCY_TUCUMAN_-ARGENTINA_1985_2003

11 Bruno Théret (2017), « Sortir de l’austérité grâce à des monnaies nationales complémentaires à l’euro : une revue de littérature », (Getting out of austerity using national currencies to complement the euro: a literature review.) Paper given at the AFEP conference, Rennes, France, July 2017 (in French).

12 Biagio Bossone, Enrico Grazzini, Marco Cattaneo & Stefano Sylos Labini (2015), « Fiscal Debit Cards and Tax Credit Certificates: The Best Way to Boost Economic Recovery in Italy (and Other Euro Crisis Countries) », 8 September 2017. <http://www.economonitor.com/blog/2015/09/fiscal-debit-cards-and-tax-credit-certificates-the-best-way-to-boost-economic-recovery-in-italy-and-other-euro-crisis-countries/>

This initiative is obviously only one element of a much broader economic policy including tax reform, debt audit and cancellation, democratic socialization of banks, etc. But it is the key element, one that will make it possible to resist creditors' blackmail and stay the course long enough to reconcile the two imperatives of any progressive strategy in Europe today: make use of existing democratic spaces – mainly local and national – and initiate a new European project founded on solidarity. It will give progressive governments time to carry on the European political battle and allow other countries to reach the tipping point and redefine the nature and the contours of the European project.

Preparing for the legal-political battle

The system can be implemented in such a way as not to contradict existing European treaties¹³. The payment instrument proposed here is to be used strictly for tax and local payments and is not legal tender: it is not money in the legal sense of the term, and its creation does not impinge on the prerogatives of the European Central Bank. Neither would the issuance of fiscal credit notes be inflationary, since any excess would result in their devaluation against the euro rather than by inflation of the general level of prices.

Also, at the legal level, Member States pursuing this policy cannot be expelled from the eurozone, which has no institutional existence separate from the European Union, nor in expulsion from the latter, this not being provided for in the treaties¹⁴. These are crucial points in constructing a power balance that is favorable to governments who want to undertake this kind of innovation.

The example of Greece, despite its very specific character¹⁵, does however suggest that a State which takes the initiative of such an innovation would face retaliatory measures taken by the European institutions, primarily the ECB, in order to force the country either to abandon its project or leave the EU. This battle seems inevitable and therefore should be anticipated. Thus, political parties that might choose this strategy need to prepare in advance – not only to build trust in the fiscal currency, but also to prepare for a tough legal-political battle against interpretations claiming that the initiative would be at variance with the Treaties, obviously with ideological and political motivations.

In fighting that battle, Member States could recall various impingements and exceptions to the treaties introduced by European institutions since the financial crisis of 2007/08, for

13 The three French legal scholars, specialized in public finance and monetary issues, that we consulted share this point of view.

14 Cf. Phoebus Athanassiou (2009), "Withdrawal and expulsion from the EU and EMU: some reflections », *Legal Working Paper Series*, n° 10 / December, European Central Bank); Helmut Siekmann (2015), "The Legal Framework for the European System of Central Banks", *Working Paper Series* no. 89, Institute for Monetary and Financial Stability, Goethe University Frankfurt Am main.

15 On this specificity that concerns the historical long term dependency of the Greek State on foreign creditors and the private character of the Central Bank, cf. respectively Carmen M. Reinhart and Christoph Trebesch (2015), "The Pitfalls of External Dependence: Greece, 1829-2015", *Munich Discussion Papers*, n° 2015-17, and Nikolaos Karatsoris (2015), "A Complementary Currency for Greece: An Institutional Perspective", May, https://www.academia.edu/17401928/A_Complementary_Currency_for_Greece_An_Institutional_Perspective and <https://www.youtube.com/watch?v=JoZx1C9ogfE>

instance ad hoc organizations such as the Eurogroup and the European Stability Mechanism (ESM), validated *a posteriori* by the Court of Justice of the European Union (CJEU). A major precedent could also serve as argument in that debate, namely the use of exceptional powers by the governor of the ECB and “non-conventional” monetary policies, which seem to exceed ECBs mandate and were justified by the “exceptional” situation and the need to “save” the euro. Another possible source of inspiration is the German habit of challenging EU prerogatives by submitting them to the German Federal Constitutional Court.

Preparations should also be made for responding to the legal argument which holds that a fiscal credit currency – even if it is considered as an element of the fiscal policy of the Member States, i.e. a prerogative which, while “coordinated”, remains the exclusive, sovereign initiative of the Member States – is prohibited by the CJEU as contradicting the spirit of the European treaties, according to which the Member States create “an ever closer union” (Article 1 of the TEU.)¹⁶ The challenge would be to explain to European institutions that given the determination of a national government to escape from austerity policies and the liquidity trap at all costs, the system is in fact a solution for maintaining and even strengthening the Union; the other term of the alternative being not the status quo of the single bank-euro, but the exit from the euro and thus from the Union. After Brexit, if either Portugal or Spain, let alone Italy, were to leave the EU, the effect would be the opposite to moving towards an “ever closer union.”

Choosing a proper name for the system is also important to avoid accusations of counterfeiting. It must be made clear that these quasi-currencies (terms used by the IMF and the World Bank in the case of Argentina during the 1980s-90s) are purely tax credit instruments, in fact Treasury bonds in bearer form and in small denominations, issued directly to the public in order to serve as payment instruments consistent with a budgetary policy aimed at reducing deficit and debt in euro.

The exact form of the new system requires careful consideration, since from a legal point of view, depending on the country it can be easier to issue digital or paper currency. When a parallel payment system is being set up at the level of a member state, the framework of its implementation must be carefully designed as to reduce legal and regulatory constraints – both European and national – that could hamper it and make it ineffective. Clearly the national fiscal currency must have a high degree of autonomy in relation to the current banking system and the financial markets, and must be founded within a restructured Treasury Circuit that can house it.¹⁷ The simplest solution in an emergency situation is look for inspiration in experiments that have achieved success and whose implementation does not need a complex infrastructure; this would suggest issuance of paper notes complemented by the creation of Treasury and postal current accounts with debit cards.

In any case, the constraint of the EU law would be neither immediate nor heavy; it could

¹⁶ This point has been stressed by M. Caron.

¹⁷ J. Grosdidier and R. Zanolli have emphasized the importance of the accurate institutional design of the complementary currency.

not prevent a determined and duly prepared government from instituting a payment system based on anticipation of tax revenues, as is the case with any government debt. In short, the idea should not be abandoned that due to the current institutional shortcomings of the EU and of the Eurozone, a political and legal space exists within which progressive governments can refuse any blackmail regarding an exit from the euro and the EU, and conduct autonomous national policies that may one day change the balance of power in Europe. A government whose program includes the issuance of a complementary fiscal currency, kept at parity with the euro, should be prepared to fight this battle offensively, and not from a situation of weakness at the legal level. In that regard, to prepare such a strategy of defending the legal nature of a complementary fiscal currency, the political forces proposing it need to be backed by a group of qualified legal experts.

In any case, if an exit from the euro and thus from the EU were finally to become inevitable, it would be less painful with a complementary currency already in place. And above all, at the end of such a political and legal battle, the exit would appear to European public opinion as an unjustified expulsion, a sanction against a courageous government looking for a solution to save the eurozone.

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