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World Economics Association Newsletter

To *plurality*. The Association will encourage the free exploration of economic reality from any perspective that adds to the sum of our understanding. To this end it advocates plurality of thought, method and philosophy.

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Syriza did not expect to stand alone in the negotiations

Interview with Athanase Contagyris by Norbert Häring

Anasthase Contagyris is a French and Greek economist living in Athens. He is Co-Founder of Attac-Greece, CEO of Dialogos Ltd, an Athens Startup coaching and export facilitation consultancy he founded in 1987. He is a member of the Truth Committee on Public Debt of the Greek Parliament, which recently issued a preliminary report. We met in Frankfurt. He is well conneted, though not a member, to Syriza.

The Interview

Häring: Mr. Contagyris, in Germany many people do not understand the behavior of the Greek government in the negotiations with creditors. It seems to have made quite a few unexpected turns.

Contagyris: This negotiations were a lot like a poker game all along. Players adapted to the hands they had and to what they found out about the cards of their opponents.

What did Syriza hope to achieve in these negotiations?

One of Syriza's missions was to change Europe. They wanted to act in a European context, within the currency union, but they wanted this context changed. They wanted a much less neoliberal and more solidary Europe. This explains why they were met with such fierce opposition right from the beginning.

Not only was there fierce opposition. Greece seemed to stand alone against 18 opponents. Was that expected by the Government?

The Greek government was indeed expecting support from countries having common interests with Greece in terms of debt issues, unemployement and austerity policies. That did not include the Governments of Spain and Portugal,which had an obvious need to justify austerity choices against a growing opposition at home. Only in last days they supported Greece against an imposed Grexit, which would have been very harmful for them. For France and Italy the initial hopes were greater. These hopes were disappointed in all initial contacts. However these two countries have been the most supportive during final talks, even though they backed some of the "punitive" measures imposed to Greece on July 13th. This dual attitude is symptomatic of the European socialist parties attitude on European policies: they are accepting austerity but ask for growth policies to balance its negative effects.

Tsipras rejected a proposal by the Eurogroup in late June and called for a referendum, just to sign a similar agreement on 13 July anyway. Did Tsipras overplay his hand? Why did he call the referendum, instead of signing the first proposal?

The Greek negotiation team realized that the other side did not want an agreement that the Greek government could accept when they added a totally new demand to a proposal that was close to agreement. They demanded a vate-rate hike for hotels to 23%. This would have killed large parts of Greek tourism. The Greek negotiation team realized that even if they agreed to this new condition, the creditors would come up with something more. To get out of this, Tsipras called the referendum.

What exactly was the point?

Brussels wanted confront the Syriza-led government with an impossible choice to bring it down. Either it would be blamed by the people for signing a very bad agreement and breaking their election promises, or they would be blamed for being responsible for Greece being thrown out of the Eurozone Tsipras countered that tactic by asking the people. Commission president Juncker exposed the Brussels tactic, then he change the proposal again on the day before the referendum and took out that VAT-hike for hotels that they had inserted in the last minutes to poison the deal for the Greek government (see Reuters-report). Many in Europe still hope and speculate about a downfall of the Syriza-government. But this is wishful thinking. It will not happen. Tsipras is still very popular in Greece. He is ready to call for snap elections, if were should be too many defectors amoung Syriza members of parliament. And everybody is afraid of this. The opposition parties have very low popularity and Syriza defectors are in big danger of losing their seats.

Why is Tsipras still so popular, despite the deal he signed and the promises he broke or had to break?

The Greeks know full well that he was blackmailed and think he did the best he could. They blame the blackmailers, not him.

The Greek people rejected the proposal with a large margin. But then, Tsipras signed something that seems to be even harsher than the initial proposal. Think about the transfer of government assets into a privatization fund meant to pay down debt to creditors. This is not easy to understand.

There are three important aspects to this. One is the poker aspect. Finance minister Varoufakis had negotiated under the premise that talk about a Grexit was essentially a bluff, that the other side would be frightened of a disintegration of the Eurozone if Greece showed readiness to exit if needed. This is why Varoufakis advocated the introduction of a parallel currency in the form of government IOUs after the referendum to show this determination to the other side.

This did not happen, though.

Varoufakis ended up in a minority in the inner cabinet circle, with deputy Prime Minister Dragasakis his main opponent on this. Dragasakis is the most moderate and pro-European amoung the important figures in Syriza and the government. It seems that in the fateful 17-hour negotiations in Brussels Tsipras got convinced that the other side was really ready to force Greece out of the

Eurozone. An uncooperative exit with little preparation and with the bank already closed and in desolate shape was really a quite frightening prospect.

The second aspect is that the agreement finally signed is not in all aspects worse than the one offered before the referendum. The rise of te value added tax for hotels to 23% is actually not in the final agreement. Only the VAT on food served at hotels went up and on restaurants in general. Also, this agreement is for about 80bn euros in loans. The other one was for 7bn. So if Tsipras had signed the first proposal, he would have only gotten a bridge loan to cover payments to the ECB and the IMF. After the summer, negotiations for a new program would have started again, and it is unclear, if the conditions would have been any less harsh than the ones of the agreement that Tsipras signed.

And the third aspect?

Well, do not understand me wrong. The agreement is terrible and it will not work. It will throw the Greek economy in a recession again. It is not unlikely that in a number of months Greece will have to leave the Eurozone anyway, to be able to end this destructive austerity. Then, Tsipras will have won time to do this in a more prepared way, and it might be able to happen in a cooperative way.

This grace period would come at a high price, though, wouldn't it? Government assets have been transferred to the privatization fund, taxes raised, pensions cut.

Some of this can be reversed. This is even true for the privatization fund. Tsipras prevailed with his demand that it would be set up under Greek law, not under Luxemburg law, as Schäuble wanted. This makes a big difference.

So you don't think the Greek crisis has been resolved by July 13th agreement?

On the contrary. This agreement transformed the Greek crisis into a European political crisis, by revealing the authoritarian behavior and role of non-elected informal decision-making structures like the Eurogroup and Troika in the decision making processes of the Eurozone. This will fuel Euroscepticism in public opinions in countries like France or UK which will be exploited dangerously by nationalist Eurosceptic parties in the next months and years.

You are critical of the procedure, but what about the content?

The July 13th agreement is adding austerity to the hard austerity already imposed on Greece. The economic irrationality this programme which is mostly just aimed at punishing the Greeks and at destabilizing their government will appear soon: The agreement reduces the capacity of Greece to reimburse its debt. This at the end will make the cost higher to European tax payers. Before this agreement the IMF estimated that 30% of Greek debt should be written off. After this agreement the required haircut will be higher and, if no haircut happens, the Grexit will become a necessity and not an option. Then not only the haircut and the cost for European tax payers will be doubled, but also the risk of a progressive end of the Eurozone will be much higher.

Thank you very much, for this interview, Mr. Contagyris.

[Editor's note: This interview was previously published here on the Real-World Economic Review Blog]

Currency is Destiny: new currencies for new times

By John Rogers

"We are in a debt crisis of historic proportions because…banks have been lending money into existence as debt with too few effective restraints on their conduct and all the risks of doing so forced upon the taxpayer… thankfully the institution of money is a human, social institution and it can be changed…I want to see every obstacle to the creation of alternative monies within the ordinary commercial law removed."

Conservative MP Steven Baker made these statements in a UK Parliament debate entitled "Money Creation and Society" in November 2014, the first full debate on the subject of money creation in 170 years. A Conservative MP in the world's oldest Parliament criticizes the banking system, calls for the 'institution of money' to be changed and even argues for legal reforms to enable 'alternative monies'? Is the Revolution upon us?

Philosopher David Hume wrote that "*money is not…one of the subjects of commerce; but only the instrument which men have agreed upon to facilitate the exchange of one commodity for another. It is none of the wheels of trade. It is the oil which renders the motion of the wheels more smooth and easy."* In the narrow context of particular markets this statement has value but in the broader context of international economics ignoring the provenance, nature and quality of the 'oil' has proved disastrous. Why were money and banking absent from models of the economy before the 2007 finance crisis when they clearly played the most central role? As Queen Elizabeth II asked the head of research at the LSE "*Why did noone see the finance crisis coming*?"

This abstract idea of money as 'oil', a mere lubricant of the wheels of exchange, has led some to claim that money is 'neutral' but this begs such questions as who creates the oil, what kind of oil, at what cost, how the oil gets to the 'machine' of the economy or even whose job it is to oil the cogs. In practice money is far from neutral.

Understanding the nature of this oil and the possibility of different kinds of oil is more critical than ever.

IMF researchers calculated that there have been at least 400 currency and banking crises around the world since 1970 alone. At the same time as this unprecedented financial turbulence we have seen accelerating envi-

ronmental crises - from resource exploitation to species extinction to global warming - that can be directly linked to economic activities, a process driven by the endless need for economic growth, which in turn is driven by investors' need for money to grow. This is one kind of 'oil'. Oil for oil we might say.

However, new forms of money free of speculation and exploitation are growing up mostly unnoticed in the midst of this speculatory madness. A potential money shift towards currencies acting primarily as an exchange medium rather than a medium for financial speculation is taking place.

Sometimes money seems like a wild animal raging around untamed. There are four types of 'money tamers' with different taming strategies, each potentially complementary to the others:

Money Tamer 1 - Shorter chains for the beast: taming through better regulation

They believe that in recent decades there has been too much liberalisation of the money markets. Their solution: better oversight and control by government.

Money Tamer 2 – Better training for the beast: taming through ethical investment

They believe that money is often invested in companies and projects that are bad for people and planet. Their solution: investment in fair trade, social enterprises, ethical investments etc.

Money Tamer 3 – New leashes for the beast: taming through state-created money

They believe that the exchange medium of money is unjustly created by private banks as loans and debts. Their solution: state-created interest- and debt-free money.

Money Tamer 4 - Breed new species: taming through new forms of money

They believe that one form of money alone - national currency - is not sufficient to meet the needs and challenges of the twenty-first century. Their solution: a variety of currencies for different purposes.

What do these new forms of money look like?

There are two main types of currency: 'legal tender' currencies for payment of debts and taxes, like the euro and the dollar, and other legal but not 'legal tender' currencies for various purposes. This second category includes:

- Bonus programmes, like Airmiles and supermarket loyalty schemes (not circulating currencies)
- Virtual currencies that can only be used in a closed, virtual world like 'Second Life'
- Digital currencies like Bitcoin, that can be used anywhere on the internet
- Sectoral or 'targetted' currencies e.g. for businesses, for young people, for seniors, for the environment or for voluntary groups like B2B currencies, time banks, exchange rings
- Local and regional currencies like Bangla PESA in Kenya, Banco Palmas in Brazil, WIR Bank in Switzerland, Chiemgauer in Germany, SOL in France, BerkShares in the USA and Bristol Pound in England.

National currencies controlled by central banks arose with the first waves of industrialisation and globalisation in the 19th century and subsequently spread around the world. Local and regional currencies existed for thousands of years before that. They mostly died out after the 19th century - apart from a few experiments during the Great Depression of the 1930s - and were then rediscovered in the 1970s with continuous experimentation until the present.

Bernard Lietaer, a former central banker and currency trader, argues that our mono-culture finance system based on monopoly national currencies created through bank loans as interest-bearing debt is the systemic cause for various kinds of un-sustain-ability: it amplifies business cycles; it makes economic growth compulsory; it automatically concentrates wealth; it programs short-termism. For instance, it is more 'economical' to plant a quick growth forest you can harvest in ten years than an oak forest for which you may have to wait a hundred years. Investors are constantly drawn towards the 'quick return', which makes it very difficult to get investment in truly sustainable initiatives.

Lietaer coined the term 'complementary currencies' to describe an ecosystem of local, regional, national, global, virtual and digital currencies working in parallel to balance each others' strengths and weaknesses. This 'jungle' of currencies might look chaotic to an uninformed observer but it ensures overall balance in the system. Natural systems ensure a fine balance between efficiency and resilience. Some currencies optimise efficiency and competition, others emphasise cooperation and resilience. Just as nature ensures continuity through the diversity of a rainforest rather than the monoculture of a pine forest, so should our economic systems encourage currency diversity to strengthen resilience before disaster hits.

Paradoxically it is the monopoly national currencies that led to financial chaos by tying everyone so tightly into the same system with little resilience when crisis came. We should not fear a world with currency diversity. New currencies pose an interesting challenge to economists to rethink their definitions of money and to model the implications of a multi-currency world. They can contribute to the creation of a more sustainable finance system and a more sustain-able world, one we can sustain for the coming generations.

[Editor's note: John Rogers is an author, consultant and trainer specialising in new currencies. He is joint author of Margrit Kennedy, Bernard Lietaer and John Rogers (2012) *People Money: The promise of regional currencies*, Axminster: Triarchy Press http://www.triarchypress.net/people-money.html. See also www.valueforpeople.co.uk]

On Integrity and Research Misconduct in Economics

By Ioana Negru

Research Association for Knowledge Integrity in Economics (RAKIE) Network (http://rakie.org/)

Most research methods textbooks, whether in business, economics or other social sciences, have a section dedicated to *Ethics in Research*. Research is widely viewed as a systematic and dynamic process that is based on trust, accepted conventions and the idea of 'building blocks', i.e. new research builds on previous research. Being 'ethical' when conducting research equates with conducting research in a responsible way. The areas commonly addressed in these contexts are: ethical conduct and professional conventions; treatment of animals in research; relationships between researchers, other researchers and the objects of their study.

In recent years, universities, associations and institutions have issued their own codes of conduct in research that contain rules about what is appropriate behavior when pursuing research. The essential term that is used is that of *research misconduct* or *scientific misconduct*. According to the Office for Science, Technology and Policy, scientific/research misconduct is defined as:

> "as fabrication, falsification, or plagiarism in proposing, performing, or reviewing research, or in reporting research results. Fabrication is making up data or results and recording or reporting them. Falsification is manipulating research materials, equipment, or processes, or changing or omitting data or results such that the research is not accurately represented in the research record. Plagiarism is the appropriation of another person's ideas, processes, results, or words without giving appropriate credit. Research misconduct does not include honest error or differences of opinion" (http://ccnmtl.columbia.edu/projects/rcr/rcr_misconduct/foundation/index.html#1).

Researchers are expected to interpret data appropriately given general methodological standards and to report findings without bias; to explain the methods and processes used to gather and analyze data; to report potential errors and distortions in their publications or reports and so on.

The discussions around scientific misconduct have been more present in natural sciences than in economics and business. Karabag and Berggren (2012) in *Retraction, Dishonesty and Plagiarism: Analysis of a Crucial Issue for Academic Publishing, and the Inadequate Responses from Leading Journals in Economics and Management Disciplines* investigate the state of academic dishonesty, plagiarism and retractions within business and economics disciplines (using databases such as EBSCO, JSTOR, Emerald and Science Direct). The authors undertake a literature review and conclude that studies on academic honesty in economics and business can be divided into two groups:

> "The first group focuses on plagiarism behavior among authors. Honig and Bedi (2012), for example, analyze papers submitted to the Academy of Management conference, and found that almost 1 of 4 papers contain some degree of plagiarism. The second group attempts to understand how journals are dealing with this issue. Enders and Hoover (2004) surveyed editors of economic journals about the nature of plagiarism and their strategies related to plagiarism." (pp. 174)

In this study, authors mention also duplication and self-plagiarism as forms of academic misconduct in research. The conclusion of this study is grim:

> "The analysis shows that management journals rarely retract papers, and economics journals do it at an even lower rate. Although there are many indicators of academic dishonesty and plagiarism among academicians and researchers in general, the leading business and economics journals' response to academic dishonesty and plagiarism has been slow" (pp.179).

Evidently, further surveys and work need to be undertaken in the area of research misconduct in economics but there is a clear awareness of the need for discussions amongst economists regarding forms of scientific misconduct. The REPEC Database (Research Papers in Economics) has a Retraction Watch point for economics that is designed for documenting news about retracted papers in economics. The following post focuses on economics:
http://retractionwatch.com/2014/09/19/economics-paper-retracted-for-plagiarism-after-citing-its-twin/

One can add examples such as Rheinhart and Rogoff and the flaws of deductive processes that assume causation between high debt levels and low growth instead of just recognising tendencies of economic processes within certain contexts (http://www.newyorker.com/news/john-cassidy/the-reinhart-and-rogoff-controversy-a-summing-up). Or one can point towards research on widespread misapplication of hypothesis tests and for statistical significance results due to a lack of appreciation of the 'fallacy of the transposed conditional' (Ziliak & McCloskey, 2008, p. 17)

In 2011, George DeMartino published the book *The Economist's Oath: On the Need for and Content of Professional Economic Ethics*. In the book DeMartino argues for the importance of establishing a new field of critical inquiry that examines the ethical requirements of economic practice. In Chapter 1 of the book he states:

> "The Economics Profession today has an enormous impact on the life chances of people across the globe: one that is far greater than that of most other professions. It is not always the impact that economists hope to have, to be sure, not least since economists' pre-

scriptions are often distorted in the political arena, but it is considerable nonetheless" (pg. 4).

And yet, as DeMartino argues, leading economists have not had five minutes training in what it means to be an ethical economist, or what it would mean for economics to be an ethical profession. Given the extent of its influence in the world, the failure of economics to engage its ethical duties and the ethical challenges its members face represents a gross professional ethical failure. In this regard, as DeMartino argues elsewhere, economics can be considered a "rogue" profession.

In August 2014, a group of economists led by Altug Yacintas, Ankara University and Wilfred Dolfsma, Groningen University, has organized the first ever workshop on research ethics in economics in Izmir, Turkey. A list of workshop participants is available here: http://rakie.org/wp-content/uploads/2014/12/ConfirmedListOfParticipants.docx

The original CFP is available here: http://rakie.org/wp-content/uploads/2014/12/EconEthics2014_CallForPapers.pdf

This was a fascinating event which has generated debates on research misconduct in economics and the responsiveness of the profession to such cases. As a result of this meeting, the participants of the workshop decided to form a pluralist network, RAKIE.org, established in December 2014. 33 members have subscribed to the RAKIE Network so far. Below, there is an excerpt from the RAKIE's opening page:

"Rakie.org is a scholarly network set up by a group of economists who are concerned about the unresponsiveness of the professionals in economics to the significance of the problem of research misconduct. The purpose of the network is to reach economists who care about the economic science. At this early stage of setting up the association, we wish to expand our network and organise a larger workshop in 2016".

We would like to invite economists, of all orientations and beliefs, to join us. We aim to provide a forum for discussion and generate debate to counter dishonest academic behaviour and to promote sound research practices in economics. The scope includes challenging accepted conventions and standards that are seriously flawed and produce misleading results.

To make contact or join RAKIE, go to http://rakie.org.

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Some Thoughts on my Experience as Co-Editor of *Economic Thought*

By Alejandro Nadal

The journal *Economic Thought* renews the dialogue between theoretical developments in economics and the history of economic thought. It is also one of the latest additions to the growing list of open peer-reviewed journals. It was a privilege to contribute to the launching and development of this journal.

The history of economic thought can take different paths. One consists in identifying the sequence of contributions made by different authors since the birth of the discipline. The typical narrative is that of a list of discoveries and developments where each stage is considered to be an improvement over its predecessors. The study of the older ideas and doctrines becomes a curiosity, something for the visitors to the museum of obsolete doctrines on a rainy afternoon. History of economic thought, from this perspective, is a venture of limited scientific value.

But if one considers the fact that contemporary economic theory has not been able to solve several fundamental problems that were identified since the origins of the discipline, the simple chronological sequence of discoveries is not only not enough: it is totally misleading.

This realization leads to a different way of looking at the history of economic thought. It is based on the idea that the history of a scientific discipline is the history of the efforts to build or to determine the discipline's fundamental concepts. These fundamental concepts are those elementary particles without which it would be impossible to enunciate statements with an economic sense. At least three or four come to mind: price formation, markets, money and, finally, capital. When looked at from the vantage point of how different authors contribute to the development of these fundamental concepts, the history of economic thought corresponds really to a study in comparative economic theory.

It is difficult to think of examples of economic utterances that do not contain or make reference to these fundamental concepts. And yet, there is a raging debate on the nature of each of one of these concepts in the discipline of "Economics", cutting across micro and macroe-

conomics, and even confronting different schools of thought. Even money, without doubt the most important economic object, remains a problem area where origin and nature are hotly debated. The fact that money was exiled from the analysis of market processes as the discipline was being born and that this tradition has been maintained until our days is one of the most outstanding facts of economic theory. The difficulties in the integration of value theory and monetary theory occupied the attention of authors as diverse as Marx, Hahn, Clower, Samuelson and Patinkin. But the problem remains largely unsolved and microeconomics continues to be developed in terms of relative prices in a non-monetary context.

But the problems surrounding the concept of money are not the only example. The state of economic theory today reflects a collection of many unsolved problems that go back in time, in some cases, to the days of the foundation of economics as an autonomous branch of the social sciences. Let me just focus on what is perhaps the best example of this. The well-known reference made by Adam Smith in Book IV of his *Wealth of Nations* to the invisible hand helped design and launch a research programme that led all the way to general equilibrium theory. This is why Arrow and Hahn, in their General Competitive Analysis (published in 1971) say that Smith was the creator of general equilibrium theory. It also explains why they think that the underlying idea that a social system moved by independent actions is consistent with a final coherent state of balance is "the most important intellectual contribution that economic thought has made to the general understanding of social processes".

But that research programme ended in a resounding failure. The first symptoms came with the rather unsatisfactory results of stability theory produced by Arrow, Block and Hurwicz in 1959 and then with the more lethal findings contained in the Sonnenschein-Mantel-Debreu theorems of 1974.

That mainstream theory continues to have a difficult time swallowing these results is revealed by the fact that they are seldom taught and are in many ways systematically ignored in current theoretical thinking. Almost nobody teaches stability theory any more. And only cursory references made *en passant* on Lyapunov functions are offered to students even in advanced microeconomic courses. On the other hand, macroeconomic theory, from the rational expectations critique to the real business cycle and New Keynesian models, has systematically proceeded to ignore these negative results from mainstream microeconomic theory. Ironically, this was common practice even as the cry to provide microeconomic foundations for macro models was raging!

The practice of incorporating the standard assumptions of microeconomics to build a theory of the aggregative behaviour of capitalist economies is a colossal mistake. It not only denies the essence of macroeconomics, it also says a lot of the subordinate place that has been assigned in academia to the history of economic thought.

Once we recognize the shortcomings and limitations of contemporary economic theory, going back in time to study the contributions of past authors becomes a necessity. It can help unravel the nature of the problems that occupy our attention today and it can improve our understanding of the way in which those problems can be tackled in contemporary societies.

I suspect this is what students had in mind in 2000 when they first started to protest in the beginnings of the post-autistic movement. They were right. History of economic thought should be seen as part and parcel of a scientific research programme in economic theory.

Learning from my colleagues in the editorial team of *Economic Thought*, as well as from contributors, authors and commentators alike, was a great privilege. I owe special thanks to Edward Fullbrook for inviting me to take part of this project.

Journal of Australian Political Economy, special 'Heterodox Economics' issue

A special 'heterodox economics' issue, JAPE Issue 75, is now available. In order to commemorate 75 editions of *JAPE*, volume 75 is a special issue examining the contemporary state of heterodox economics. It contains an editorial by Frank Stillwell discussing the relative merits of framing along heterodox, pluralist and political economy lines.

The issue **can be freely accessed** on the JAPE website at www.jape.org. A hard copy version is also available for small fee. Email requires to Frank Stillwell.

Tributes/obituaries

Edmond Malinvaud (1923-2015)

Edmond Malinvaud: A Tribute to his Contributions in Econometrics

Published 02 June 2015, Peter C. B. Phillips

Ajit Singh (1940-2015) Cambridge University

Nathan Rosenberg (1927-2015), author of *How the West Grew Rich*

Private seigniorage, defined and estimated (includes a free Eurozone example!)

By Merijn Knibb

1. Introduction

Economists routinely estimate 'public seigniorage income', or the amount of money the government earns from its monopoly on issuing bank notes. However they do not estimate 'private seigniorage', or the amount of money banks make by issuing deposit money. This is remarkable as, in the Eurozone, banks create about 94% of all money.[1] Can 'private seigniorage', or the amount of money which deposit-taking banks make by issuing money, also be estimated? Is it useful to estimate it? Below, it will be argued that it can be defined and measured in a straightforward way using existing data. Moreover, it is also useful to estimate it, as it gives us a possibility to gauge the amount of money banks make using their 'exorbitant privilege'. This privilege means that banks have a right to issue money at a guaranteed 1:1 exchange rate with the banknote-money issued by the government. The government also accepts this bank money for payment of taxes. Also, money created by bank A can (thanks to the 1:1 exchange rate mentioned above!) also be used to redeem debts accepted by bank B at a 1:1 exchange rate – bank lending and money creation, including the profits made by this, are clearly backed by the government in a decisive way. The concept and measurement of private seigniorage might shed some light on the magnitude of profits made. To be able to understand this we first have to analyse the definition of public seigniorage and to investigate how this definition can be extended to the private sector.

2. Public seigniorage: definition and measurement

According to estimates of the Bank of Canada, 'seigniorage income' of this central bank in recent years was about 1.2 to 2 billion dollar a year, an amount which, after the deduction of some costs, was transferred to the government. The Eurosystem (the ECB plus the national central banks) earned (based on a somewhat fuzzy graph on page 20 of this publication) about 20 to 25 billion Euro seigniorage income in 2008 which, as the spread between some specific interest rates declined (see below), dwindled to about 6 billion in 2010. This money is partly (8%) transferred to the ECB and, after deduction of costs, transferred to national Eurozone governments. How do central banks estimate this income? According to the recent tract on monetary reform in Iceland by Frosti Sigurdjonsson this does not always happen in a consistent way: *"The term "seigniorage" has been used to mean different things by different texts."* (Sigurdjonsson, 2014, p. 27). One can indeed find many examples of such different things in economic texts. Seigniorage is for instance often conflated with 'the inflation tax', but these are in reality are two entirely different animals (a government can even in a situation of mild deflation sometimes still reap a seigniorage profit). However, the way seigniorage is actually calculated is pretty clear once we take account of institutional differences.

3. Modern definitions of seigniorage

Two examples of the calculation of seigniorage will be investigated, one by the Bank of Canada (2013) and another by the European Central Bank (ECB) (Efthymiadis et al., 2010). Note that institutional differences lead to quite large differences in the operationalization of seigniorage, while at the same time a clear common denominator exists at the definitional level. First, the statement by the Bank of Canada (emphasis added):

> ***Seigniorage is the revenue earned from the issue of money****. Historically, this revenue accrued to the "seigneur" or ruler. In Canada today, seigniorage can be calculated as the difference between the interest the Bank of Canada earns on a portfolio of Government of Canada securities—in which it invests the total value of all bank notes in circulation—and the cost of issuing, distributing, and replacing those notes…Here is a simplified example of how this works, using a $20 note, which is the most commonly used denomination. If the Bank of Canada* ***invests the proceeds*** *from issuing the $20 note* [I.e.: the money earned when the Bank of Canada sells notes to the normal banks, M.K.] ***in a government security*** *generating 2.5 per cent interest, this note will yield $0.50 per year of interest revenue. The overall production cost for the note is about 19 cents. Given an average life of about 7.5 years for a new bank note, the production cost of the note averages out to 2.5 cents per year* [the Bank of Canada has promised to buy the old notes back, which means that the proceeds themselves are not a profit, M.K.] *If average distribution expenses of about 2 cents per year are added to this, the total average annual cost of putting this note into circulation and replacing it when it is worn is approximately 4.5 cents. Thus, the Bank of Canada earns an annual* ***net revenue*** *of about 45.5 cents for each $20 note in circulation. Seigniorage varies according to prevailing interest rates and the value of notes outstanding, but has ranged from $1.4 to $2.0 billion annually over recent years. After deducting the Bank's general operating expenses of about $446 million (of which spending on bank notes is approximately 48 per cent),* ***the remainder is paid to the Receiver General for Canada.***

So, the 'normal' banks lend money to the Bank of Canada at 0% interest and receive notes (a promise that the loan will be paid back) in return. The Bank of Canada invests the funds in interest bearing financial assets. The difference is (after deduction of production costs) called 'seigniorage'.

The ECB statement is somewhat less clear but nevertheless contains comparable elements (the Eurosystem consists of the ECB in Frankfurt plus the national central banks):

> *As inflation moderated in developed economies in the last decade, the average* ***seigniorage income*** *has decreased for many central banks over time…The monetary income of the Eurosystem mainly consists of* ***interest income arising from the liquidity-providing operations due to the refinancing needs of the banking system. Those refinancing needs primarily stem from the issuance of euro banknotes whose volume is a function of euro banknote demand.*** *The income earned by Eurosystem central banks is linked to the interest rate applied on liquidity providing operations, which is usually close to the marginal rate of the main refinancing operations (MROs), slightly higher than the main policy rate of the ECB* [in a sense this situation is the opposite of the Canadian system. Banks have to borrow at a stipulated rate of interest 'Reserve Euro's' which they have to use to buy notes, M.K.] …. *The monetary income consists of this interest income minus certain expenditures. The main expenditure is the interest paid on the amount of required reserves the monetary financial institutions hold with the Eurosystem. This interest rate paid is the average MRO rate such that on average the required reserves do not provide income to the Eurosystem. Any excess reserves kept with the Eurosystem are not remunerated and therefore profitable to the Eurosys-*

tem, but are typically small (<0.5%, for that same reason, because it is costly to commercial banks). The central banks only incur a small cost for printing banknotes; hence the so-called seigniorage income represents most of the Euro system's monetary income. ***The ECB receives interest on its 8% share of the total euro banknote issuance. As the ECB does not put the euro banknotes into circulation, it holds a claim on the NCBs of the Eurosystem which fulfil that task****. Interest on the claims of the ECB in respect of its share of banknotes is earned at the latest marginal rate (or fixed rate) for the Euro system's main refinancing operations…* [Mind that profits are not paid to the 'Receiver General' for the Euro Area or the European Union, which is another difference with Canada. A part of national profits are however paid to national governments, M.K.].

Clearly, in both the Canadian and the Euro Area case seigniorage income is defined as net interest income generated by issuing banknotes, part of M-3 money in circulation *plus* banknotes in the vaults of banks and inside ATP machines (which are not part of M-3). Interest paid on bank reserves is deducted. The congruence with issuing deposit money is obvious. MFI-banks provide deposit-money creating loans and households and companies pay interest on these loans while they receive interest on their deposits.

4. Modern fiat money: loans create deposits

It is, alas, still necessary to stress the money creating nature of bank loans. The endogenous and largely private nature of modern fiat money creation was stressed by prominent authors such as Hayek, Keynes and Schumpeter. Money as we measure it is, to a large extent, not created by the government but by private banks (including those owned by the government, including in the UK the Royal Bank of Scotland and in the Netherlands ABN-AMRO). These banks do this by lending money which, by law, entitles these MFI's, or Monetary Financial Institutions, to create transferable assets (deposit money) which can be used to pay back loans to the bank issuing the money *but also to pay back loans to other MFI-banks at a 1:1 exchange rate* and which also have a central bank guaranteed 1:1 exchange rate with 'government money', or banknotes and coins. These banks (or rather: the banking system) basically face no lending constraints as the assets created are also used to fund banks, at least not as long as there are increases in the value of assets used as collateral (to an amazing extent these are houses) and/or as long as the financial reputation of borrowers (non-financial companies, households) is considered good. Though this idea can be found in older, non Anglo-Saxon textbooks it seems, according to the Bank of England, for the wrong reasons to have been excluded from mainstream Anglo-Saxon textbooks, and these nowadays dominate the market. The omission applies not just to textbooks. Even the seminal work on bank lending in 17 countries between 1870 and 2011 by Òscar Jordà, Moritz Schularick and Alan M. Taylor, which as far as I'm concerned changes the nature of macroeconomics and which shows that 60% of money issuance is backed by houses, still uses a 'loanable funds' idea of lending (which in the end prevents them from explaining *how* the 'Great Mortgaging' could take place: they have no idea where all the money lent to home owners and enabling the financialization of our economy came from!). It therefore still seems necessary to stress the private nature of much money creation. Banks, together with borrowers, can and do create the larger amount of this thing called money and face few constraints to do this if macro prudential policies fail (as they did before 2008, except in Germany). The point to stress is that they are able to do this because of all kinds of explicit and implicit government licenses and guarantees – an exorbitant privilege! Calculating 'private seigniorage 'enables us to gauge the amount of income generated, or at least enabled, by this exorbitant privilege.

5. Calculating private seigniorage in the Eurozone

The statistics of the ECB (here for MFI balance sheets, here for interest rates) enable us to calculate private seigniorage in a pretty straightforward way. The non-consolidated MFI-balance sheet statistics show that the total amount of deposit money (just like, of course, the total amount of loans) is about 17 trillion Euro. Average interest rates on the amount of outstanding loans is 2.81%, down from 3.26% one year ago (non-financial corporations only, I couldn't find the household data on the ECB site, but this statistical bulletin shows that, contrary to interest on deposits, interest on new loans to households is about the same as new loans to non-financial corporations). Interest on the outstanding amount of deposits is 1.58%, down from 1.95% one year ago for deposits with an agreed maturity (outstanding amounts) and 0.78%, down from 1.07% one year ago, for deposits redeemable at notice, so let's take the average (1.07%). The spread between both interest rates is (2.81-1.07) = 1.74%. The outstanding amount of loans and deposits is €17 trillion, 0.0174*17,000,000,000,000 = €296 billion… (or, per Euro area inhabitant, about €1,000). That's – a lot. It is about as much as the total government debt of a country such as Greece. However, some costs have to be subtracted, including the costs to safeguard the internet payment system etc. (as an aside – banks devote large amounts of attention to this and do a pretty good job). I do not know how high these costs are. Economic statisticians use the concept of FISIM (Financial Services Indirectly Measured) to calculate these, but this concept is calculated by using hypothetical interest rates and not by looking at actual costs. When spreads between interest rates change (as they did post 2008) FISIM becomes extremely volatile. This makes it unreliable as an indicator of true costs. Taking a well-argued percentage of the total value of the balance sheet of banks would even be better. See also Diane Coyle about this. It would take too much space to develop this argument here, but, considering i) the pre- and post-2008 events, ii) the still extremely high incomes in the banking sector and iii) the massive amounts of tax-payer money transferred to the banks, it can be stated that part of the bonuses, wages and dividends paid by the banks should not be considered 'costs' in the business accounting sense, but rather a rent income and consequently part of seigniorage income.

6. Conclusion and discussion

As Minsky stated, every economic institution can create money but the point is to get it accepted. One example of a privately issued type of money are stamps: they can serve as a store of value, a means of a specific kind of exchange, and nowadays even as their own unit of account. Also stamps are accepted as money because they are convenient. Deposit money is also accepted because the government guarantees a 1:1 exchange rate between deposit money and bank notes, as well as a 1:1 exchange rate between money issued by bank A and money issued by bank B (provided that these banks have the necessary government license), while it also accepts this money as a way to redeem tax debt – an exorbitant privilege and even more so as, in reality, governments also transfer tax payer money to banks (as well as, in the Eurozone, newly printed 'Emergency Liquidity Assistance' money) whenever balance sheet problems arise. This means that bank profits contain an element of rents and monopoly profits, even more so as the government also guarantees and often also subsidizes

property, especially the ownership of, among other assets, the houses which are used as collateral for money creating lending by banks. Using the concept of 'private seigniorage', an upper limit can be calculated for the Euro Area of (at this moment) about €300 billion, or €1,000 per Euro Area inhabitant, for these rents. Central banks transfer their seigniorage income to the government. Considering the government guarantees which are the backbone of the modern monetary system as well as all kind of implicit guarantees, an argument can be made that at least part of this seigniorage income should be transferred to the government (on top of taxes), a policy which has to include macro-prudential checks for the banking sector, aimed at restraining bonuses and wage income for the senior managers – as these are, in effect, not private entrepreneurs but civil servants.

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[1] In this article money is defined not just as M-3 money, or deposit money on short-term time deposits plus banknotes and coins but also includes deposit money stacked away in longer-term savings accounts and the like.

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Capitalist Varieties and Stages of Capitalism

By Terrence McDonough

If capitalism survives the current global crisis, what form will it take? Predicting the future is a task outside the scope of social science, but two literatures in the broadly heterodox tradition can address aspects of this question. These are the varieties of capitalism discussion and the Marxian concept of stages of capitalism. Bruff (2011) defines the comparative capitalisms literature as "contributions which take institutions as their starting point when considering the evolution of national political economies (p.482)." A dialogue with the Marxist tradition of historical capitalist stages can serve to address a number of shortcomings in this literature. Criticisms revolve around three common themes. The first is that the framework is biased towards an assumption of stability rather than change (Deeg and Jackson, 2006, 150). Bohle and Greskovits (2009) sum up this perspective in the following way:

> From the very moment that factor-based and specific asset-based models are imputed into history, they set in motion a "perpetuum mobile" of systemic logics, which then allow L(iberal) M(arket) E(conomies) and C(oordinated) MEs to survive as clear alternatives, world wars, global economic crises and political cataclysms. (370)

A second critique is that the observation of widespread change in institutional structures challenges the coherence of the limited number of typologies. Indeed, empirical investigation uncovers a wide variety of institutional configurations. (Deeg and Jackson, 157)

In addition to these critiques, a third, more foundational criticism has been advanced. This is that the comparative capitalisms literature has become so enamoured with its discovery of the trees that, to its cost, it has started to ignore the wood. Bohle and Greskovits conclude their consideration with the following:

> More fundamentally, the instability of contemporary capitalism in all its variants suggests the need for a return to very old literatures and debates, which had had crucial insights into the system's expansionary nature, specific vulnerabilities, destructive and irrational tendencies, and recurrent crises: that is, features of capitalism *tout court* that got lost in the course of the extensive study of its varieties. (382)

Such an approach to capitalist institutions can be found in the Marxian stage theoretic tradition. While it by no means denies the possibility of capitalist variation across countries or regions, the Marxian stage theoretic tradition locates these differences in national responses to capitalist crises which demand for their resolution the reorganization of the institutional conditions of the capitalist accumulation process. In this way the emphasis is instead on the dynamics of capitalism over time. This contrasts with the comparative capitalist emphasis on the survival of capitalist variation over space in the context of global competition.

There is a continuous tradition of Marxian stage theory from the beginning of the twentieth century until the present day. This history begins with the pioneering work of Rudolf Hilferding (1910) on finance capital, Nicolai Bukharin (1915) on the world economy and V.I. Lenin (1917) on imperialism. All three argued that the capitalist economy had, with the advent of monopoly capitalism, entered into a new and higher stage of capitalism. The second wave of Marxian stage theorizing emerged with the end of the post-World War II expansion. Ernest Mandel's Long Wave Theory (LWT), the Social Structure of Accumulation Framework (SSAF), and the Regulation Approach (RA) analyzed the stagflationary crises of most of the advanced capitalist countries as the end of a long wave of growth following the end of the second world war. This long wave of accumulation was underpinned by the emergence of a new stage of capitalism after World War II which was analogous to the reorganization brought about by monopoly capital at the turn of the century. Since this new stage was the resolution of the crisis of the monopoly stage, these new schools were reluctant to predict the non-resolution of the then current crisis. This reluctance opened up the possibility of further stages of capitalism in the future. Recently the SSAF has identified the current crisis as the crisis of the global neoliberal SSA which followed the stagflationary crisis (Kotz and McDonough 2010).[1]

In addition to providing a Marxian tradition of the integration of institutions into the creation of dynamic capitalist variety, the Marxian stage theoretic tradition, and the SSA framework more specifically, have the potential to resolve

the problems identified earlier in the varieties of capitalism literature. The emphasis here is specifically on the "varieties of capitalism" school rather than the broader comparative capitalisms literature of which this school is a prominent part.[2] The most fundamental critique is that institutional analysis needs to be rooted in a conception of the basic underlying nature of capitalism. This is indeed the starting point of the stage theoretic tradition and the SSA framework in emphasizing the dynamics of capital accumulation.

Capitalism contains multiple conflicts, instabilities and crisis tendencies which need to be moderated and channeled through institutional means. At the same time, capital accumulation tends to erode its own institutional preconditions. This creates an historical dynamic of both the success and failure of capital accumulation, alternating periods of growth and crisis.

It is the onset of capitalist crises that allows the stage theoretic tradition to also escape the first critique of the comparative capitalisms literature that the complementarity of the institutions predicts a stasis and inability to transit from one institutional regime to another. The SSA framework predicts precisely the opposite dynamic. Capitalist contradictions eventually come to the fore, eroding the institutional conditions of capitalist accumulation and precipitating crisis. The stagnation will only be overcome through the construction of a new SSA. Contrary to any stability thesis, the new SSA differs fundamentally from the previous SSA.

Wolfson and Kotz (2010, 81-89) draw a striking contrast with the Hall and Soskice (2001) conceptualization of Liberal Market Economies (LMEs) and Coordinated Market Economies (CMEs) and their relationship over historical time. Wolfson and Kotz elaborate a conception of Liberal SSAs and Regulated SSAs which roughly parallel Hall and Soskice's LMEs and CMEs.

Liberal SSAs tend to enter into crisis because capital's ability to dominate labour leads to stagnant wages, inadequate demand and overcapacity. Unregulated economies are often prey to financial crises. These Liberal crises are most easily resolved through an increase in the strength of labour, a limited redistribution of income, and the regulation of demand and finance - that is, the establishment of a Regulated SSA. Regulated SSAs by contrast are prone to "profit-squeeze" crises, due to rising wages and popular demands for intervention by government in the markets. These crises are most often resolved through the reassertion of capital's dominance over labour and the promotion of deregulation through the creation of a Liberal SSA.

Thus the dynamic is directly the opposite of that hypothesized in the Varieties of Capitalism argument. Types of capitalism are not internally reproduced over the medium term. Rather they enter into crisis and succeed one another, sometimes in a repeated leap-frog fashion.

This analysis does not require any purity in the two types of SSA, thus addressing the second critique of insufficient variety. Indeed the suggestion of two types runs against the tendency of the rest of the literature. The emphasis is on the concrete historical origin of SSAs in the context of the crisis which precedes them. Further, the inclusion of political institutions, as well as cultural and ideological institutions, means that, at least before advent of the global neoliberal SSA in the 1980's, SSAs were conceived as primarily national in character. Thus a large variety of institutional regimes are capable of characterization as SSAs.

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[1] For a useful collection of articles explaining, reviewing and applying the SSA approach see Kotz et al. (1994). See also McDonough et al. (2010). A comprehensive collection is now available in McDonough et al. (2014)

[2] For a discussion of these issues from the perspective of the comparative capitalisms approach see Becker (2007 and 2009)

More on Piketty and *Capital*

The October 2014 issue of the ***Real World Economic Review*** was a special issue containing 17 articles on Piketty's *Capital*. There is further discussion of these and other critiques of *Capital* by RWER co-editor Jamie Morgan in his article, Morgan J (2015) Piketty's Calibration Economics: Inequality and the Dissolution of Solutions?, *Globalizations*, 12:5, 803-823.

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Worldwide fiscal crisis: fact or fiction?

Many pundits and policymakers are calling for drastic reductions in government budget deficits throughout the world. Their fear is that the weight of accumulating government debt will eventually lead to disaster as it drives up interest rates, causes inflation, and forces defaults. What may appear to be reasonable policy today, they caution, will bring catastrophe in the not too- distant future. The groundswell of fear is so great that calls for budget balancing have spilled into grass-roots internet campaigns and political movements to adopt balanced-budget requirements for national governments.
These are not the only voices, however. Just as vehement are those arguing that the real danger lies not in increasing, but reducing deficits and debt. They say that government spending is, by definition, private sector earning and that warnings regarding national bankruptcies are based on a flawed understanding of modern fiscal budgeting and financial markets. They point to the unemployment and stagnation created by austerity programs as evidence of what reducing spending and raising taxes really accomplishes.

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