**A short note for the Nov 3-4 Workshop
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Could Euro-bonds stop the public debt black plague which is destroying Eurodom?

An attempt to understand the unfolding Homeric new tragedy: the revenge of economic laws in the Eurodom nightmare.

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Could Euro-bonds exorcise the new European black Plague, the public debt folly?

A short note for discussion

At the very start of the first black Plague (1348) , the then Pope summoned an extraordinary council in Avignon. The council decreed special exorcism against the devil and bonfires for its agents, sorcerers, witches, heretics, midwives, etc... Bonfires spread all over the christendom, two years after, the plague stopped, besides burned victims, 1/3 of the population died and it was the start of a first escape from the Malthusian iron heel.

Had the holy trinity rating agency judging souls be satisfied by the bonfires, the then austerity policies?

What about the new black plague which is destroying not the bodies but the balance-sheet of the new christendom banks, the euro land? Attained by the panic, banks order rulers of euro-land to impose the new bonfires, harsh programs of austerity destroying what remains of the real economy? It raises a question : could euroland ever recover from the plague and could it fall into the abyss? Could it be saved by the euro-bonds, could this innovation be more efficient that the decrees of the Avignon council?
What make sense of this comparison is that the first plague started in a Genoan emporium on the black sea, while the second started not very far in Greece! There is indeed a difference : The panic of the mid XIVe century was not man- made , the panic of this second decade of the XXIe century is purely man made. What they just have in common is folly, the demise of reason, and the cruelty of rulers.

At the inception, the public debt plague is the outcome of the systematic destruction of the anchor role of the State within the European monetary union.

I The fundamental existential condition of a dynamic capitalist economy: the monetary anchor role of the State. Relying mainly on my previous[1] work, I shall be brief for the sake of discussion.

1. / State expenditures generate a mere electronic transfer from the treasury to banking accounts of sellers of services or commodities to the State.
Thereby, they determine an instantaneous money creation denominated in the State currency units which materializes in banks balance-sheet as an equal increase in liabilities. Since the earstwhile rules of double accounting have been extended to the State, in banks asset-side the rise in liabilities is balanced by a pure fictitious or conventional pseudo-claim on the Treasury.

P1 In truth, banks have not granted a loan to the State, the State has borrowed nothing to banks.

[1] Especially Parguez (1998) The expected failure of the European economic union. A false money against the real economy *Eastern economic review, winter* p. 63 76. I prefer to speak of public debt instead of sovereign debt since member States have surrendered their monetary sovereignty.

In the central bank balance-sheet to meet antique accounting rules, banks new assets appear as liabilities or reserves and those reserves are balanced by a pure fictitious or conventional claim on the Treasury.

P2 Thereby, one could say that finally banks act as pure intermediary. State expenditures are financed by the bank of the State, a pure branch of the State the Central Bank.

2./ When taxes whatever including social contributions are paid by the private sector, the inverse rules apply.

P3 There is an equal decrease in banks liabilities and in assets or reserves.

P4 In the Central Bank balance-sheet there is an equal cancellation of reserves and pseudo-debt of the Treasury.

P5 Finally, tax revenue generates an equal destruction of money.

3./ Now, let us assume that Ex Ante expenditures are greater than Ex Post tax revenue : Herein lies the deficit.

P6 In their balance-sheet banks accumulate an equal increase in reserves created by the Central Bank balanced in their liabilities-side by the net savings of the private sector generated by the deficit.
In the balance-sheet of the Central Bank, the rise in reserves is balanced by a rise in the fictitious claim on the treasury.

The process could stop there. Nothing obliges the treasury to go further and sell bonds bearing interest to the private sector.

<u>Thereby the core proposition</u>

P7 Nothing is more absurd than to believe that the State is obliged to issue bonds to finance its deficit which is already financed. Herein lies the crucial difference between the modern State animating a dynamic economy and States of the Malthusian trap era of the first black plague.

4./ Now, let us assume that the treasury decide to sell bonds bearing interest to absorb a share of banks excess reserves. This operation is a pure substitution in banks assets of State bonds for State money. The State has borrowed nothing to banks, but its own money it has previously "given" to banks . Finally, selling bonds to banks means that the State will pay interest on its own money gifted to banks.

Hence

P8 State bonds in banks assets are not a true debt of the State since the State borrowed nothing to banks. It is a pure fictitious debt which should be included into banks capital since the substitution is a cornucopia of dividends for banks stockholders.
Thereby the State is perfectly free to determine both the quantity of new bonds and their price or rate of interest. It is thereby free to decree that finally a share of its fictitious debt towards the central bank is to be transformed into bonds.

P9 To believe that the acquisition of bonds by the Central Bank is "monetization" is absurd! since it does not lead to a new creation of money.

5./ Why public bonds shared between banks and net savers must be the last resort anchor when the State plays its animating role ?

5-1 It plays this role when it frees itself from any exogeneous limit in both its expenditures and deficit and when its sole purpose is the very long run growth of planned public stock of public or social capital out of the growth of public planned investment of which the counterpart is planned deficit.
The purpose of this commitment towards society is to allow the people to enjoy the maximum level of welfare allowed by the full use of global capacity created by State investment always moving upwards.

5-2 Thereby the so-called public debt becomes the most wanted asset endowed with the highest certain value.

For three reasons:

P10 On one side, it is the mere financial counterpart or reflect of the long rise in real wealth of society. It enshrines a real growth of welfare. Its value is independent of whimsical expectations of the so-called "financial markets".

P11 On the other side it is backed by an equal rise of net savings, especially net profits raising the permanent flow of profits for productive corporations.

P12 At last, there cannot be any problem for the reimbursement of those pseudo-debts which, as proven , are the anchor of banks capital. When the bonds are matured, to prevent an equal drop in bank capital , the State must just replace them by new bonds which maintains the permanent flow of dividends for stockholders.
In other words, since banks have not granted loans to the State, they are not to be reimbursed were this logical proposition ignored, the State would transfer them money at zero interest, which would generate a dramatic drop in banks stockholders income. To protect it, the State would have again to substitute new bonds for reserves, or new bonds for old bonds.

P12 is the ultimate proof that as long as the State plays its role and as long as erstwhile conventions, a legacy of a remote Malthusian or agrarian past, do not close the mind of economists, politicians and rating agents, the so-called public debt cannot generate a black plague. It is the ultimate proof that the State is master of both the issue of bonds and their rate of interest. Were it doubting the safety of banks managers and stockholders, better to minimize the issue of bonds or to abstain of "selling" them to the private sector. It would neutralize the whimsical bonds market.

<u>II Thereby how could we explain the new black plague appearing in Greece?</u>

It is the lethal outcome of the systematic destruction on the anchor role of the State for the sake of imposing the euro-system enshrining a medieval ignorance of basic economy principles of the dynamic capitalist system, and thereby the substitution of a mix of inquisitorial ideology and folly for sound economic laws.

The systematic destruction of the anchor role of the State generated the transmogrification of the public debt into a rats-plague disease. As I proved, herein was since the start the supreme purpose of what became the euro-straitjacket reflecting the accelerated decadence of European capitalism towards a pure parasite- feudal rentier system.

The metamorphosis started with no return with the Mitterrand austerity or destruction plan of 1983. It had nothing to do with either Reaganism or Thatcherism.
It is embodied into three core propositions or principles that were the existential conditions of euro as the new gold standard.

P 13 The major principle was the absolute negation of any positive role for the State which became dealt with as a mere parasitical or non productive corporation. It means that on one side any effort to raise welfare had to be jettisoned, on the other side the long-run decline of welfare (including true employment) and the downwards shift of the global capacity frontier became supreme goals.
How to meet the new imposed poverty dogma? By a long-run decline in State planned investment which should become zero or negative. How to succeed, by imposing a long-run decline in the public expenditures thanks to the prohibition of planned deficits. The impact was indeed a collapse of the real economy. Euro -rulers were not too much worried by the rising effective inflation, a proof that in the modern economy if Phillips curve there is , it is the inverse of the text-book one.

P 14 As public investment vanished including investment in human capital, private productive expenditures collapsed which generated more loss of welfare. Indeed the outcome was rising <u>bad</u> imposed <u>deficits</u> whatever the rise in taxation. Herein lie the true seed of the plague :

- Together, the euro rules imposed an absolute privatization of public finance.
Thereby any connexion with the Central Bank endowed with quasi-imperial power was abolished.

- The State when it ran a forced deficit let banks with on their asset side an increase in liquidity bearing no interest balanced by accumulation of net savings of the private sector. Now, being dealt with as a failed private corporation, the State had to strive to convert all its liquid debt to banks into bonds bearing the interest fixed by banks themselves. Again by the very logic of privatisation, all the objective rules were forgotten or jettisoned.

P 15 The hard logic of the system transformed treasury net transfer into true banks loans. Thereby bonds were transmogrified into a true loan of banks to the State. Since bonds no more embodied any real creation of value, their value became purely speculative depending on banks animal spirits. Bankers and their Guide, the rating agencies, took care of two major rules:

- The bets on the certainty of being "reimbursed" for loans they had never truly granted.

- The rate of interest they could hope when they will sell their bonds to other more optimistic and greedy banks or other financial institutions. The more they bet on the demand for their bonds by those new players attracted by the interest forced on the State, the more they valued their bonds.

- Since bonds could no more be included into capital being deprived of real value and issued by the most dubious "corporations". The State became obliged to affect a share of their current expenditures, they had otherwise to shrink, to "reimbursement".

Meanwhile, in the context of the dismantling of the State, all the remaining positive effect of the deficit became forgotten. To understand the euro-system one must sadly remember that the fundamental identity explaining the creation of net saving by the State either became forgotten with all national accounting or had not the least positive impact. As I explained the whole relationships of the dynamic capitalist economy became denied: multipliers became <u>negative.</u>

P 16 At last, the monetary union explictly rejected any economic union. Thereby , the "market value" of bonds varied strongly between the States leading to two disasters for the future:

- Interest on bonds were more and more divergent.
- The all-powerful Central Bank was powerless on interest on bonds . Finally the emperor was naked like in Andersen tale. Fiscal policy and monetary policy are both privatized, banks fix long run interest rates, the ECB plays no role at all contrary to what happens in the USA in the Federal Reserve System.

The black plague appears in Greece, the poorest member, in the aftermath of the reversal of expectations of banks on the value of private assets. It revealed the sheer absurdity of the euro system and the pure folly worth of the Avignon council, of European elites.
For reasons I explained, the Greek government was forced to run large deficits , a large share of which being good one. The counterpart was an enormous creation of net savings mainly for net exporters, France and essentially Germany in the form of net profits galore. But for the sake of privatization dogma, all those deficits were decreed "bad" and Greece was forced to absorb banks tremendous rise in liquidity by auctioning bonds at interest rates decreed by banks, French and Germans. Privatisation dogma transformed their substitution into a genuine borrowing to private banks to be reimbursed at will.
The sharp reversal of banks expectations led to panic : So enormous was the debt, so high were interest rates, so strong was the violation of the squeeze of expenditures, that the Greek government would never be able to meet its commitments, henceforth the market value of its pseudo-debt started to collapse. Thereby the value of assets became more and more inferior to liabilities, the aggregate net savings . Now, the plague ruled, banks holding Greek bonds or pseudo-debt were possessed by the devil of bankrupcy. They could not resist the temptation of imposing outrageous rates on their assets in Greek bonds, henceforth their stockholders could be awash with dividends as rents.
What spread the plague was the reaction of the French and German governments ruling de facto the euroland and the panic or total misunderstanding of the Greek government.

Stage 1

Everybody was aware that under the draconian iron heel of the system, Greece could never pay back its pseudo-debt, having lost any sovereignty on the currency. The Greek government had options :

A/ To stay within the zone and comply with the iron-heel without crying for help from the euro-rulers. it means that to save its people welfare it would be obliged to cancel a large share of its psendo-debt and refuse usury rates.
Was this option possible? Could banks close government accounts and thereby Greece would have been without banking system and thereby of currency since government had no more account at the Central Bank. Taking care of the folly blinding any reason, banks could have at least drastically rationed government ability to spend until capitulation. In any case, Greece would have been excommunicated and expelled from the euro-system. An option which horrified the government who was an harsh supporter of the iron -heel system.

B/ Thereby the Greek government had to beg for help. Herein lies the seeds of the ultimate plan of salvation not of Greece but of the euro, the Euro Bonds!

Stage 2

- First , no help could be directly provided by the ECB, or rather the ruling couple, the German and French Central Banks. They were adamantly invoking the prohibition of buying State bonds. The "ECB" dogma is to play no part in the State financing.

- Next, salvation required the intermediation of France and Germany without involving the ECB. Both were only interested in containing the plague to protect the net worth of their banks. Both rejected any kind of solidarity, willing to ignore that Greek horrendous deficits had led their exporting corporations awash with net profits and their banks stockholders (their major corporations) awash with dividends.
They acted like the Avignon council, afraid of doubts over the value of their own pseudo-debt to their banks. thereby a weird system, some Meduse raft was imagined in haste:

- Each State issue new bonds sold to their private banks.
- Proceeds were then borrowed by Greece.
- which started to meet again its pseudo-debt
- Finally, in banks balance-sheet German and French bonds were substituted for Greek bonds while in the Greek treasury new French and German bonds were substituted for former Greek bonds.

But the Meduse raft was worth of the council of frightened pope and cardinals.

- The bondfires were horrendous destruction plans of the Greek society which achieved the collapse of the economy, while generating more bad deficits that required more sales of bonds.

- Now, French and German public debt had been raised. The plague spread all over Europe, doubts on the value of Spanish, Portuguese, Italian, Irish could no more be contained, while French and German bondsvalue themselves became bad assets.

- New bondfires were decreed in the form of destruction austerity which destroyed what remained of the real economy, caused more bad deficits generating more destruction policies. The whole euro-banking system could die, all logic being ignored.

Stage 3

Now the euro bank bonds appear on the front stage embodying apparently a minimum of solidarity. To be efficient, the mechanism should allow to get rid of the core principles of the euro system and finally abolish it. Thereby I completely disagree with some fashionable opinion according to which the ECB (which means the ruling members of this oligarchy of central banks), because it can buy public bonds in the so called second market, is in charge of fiscal policy. It is indeed completely wrong since it is still forbidden for the ECB to acquire directly State bonds. Intervention on the second market were never forbidden since they do nothing to soften the strait jacket imposed on the States. It only aims at trying to save banks net worth.

C/ First solution : By decree of the european council wealthiest State whose debt is still rather well rated, create a pool , a special fund managed by the European Investment Bank (EIB), issuing euro-bonds sold to the ECB, technically to the respective central banks at zero or quasi zero rates.
Proceeds from euro creation by the ECB will be borrowed at quasi zero rates by Greece, Spain , etc... which could cancel enough share of their debt to reverse private banks expectations.

The success depends on three conditions.

First condition : No bonfire. No more destruction plans imposed on Greece and its poor comrades. All existing destruction plans should be stopped.

Second condition : Proceeds of this acquisition of euro bonds should not be included into public debt, borrowing should be purely conventional.

Third condition : what about the future?
The technique is to fail if it only deals with past never to be reimbursed debt. It must free the future, allowing all member States to change the course of their policy and play again their anchor role. It means that the principle of privatisation of public finance should be jettisoned. Euro bonds must be issued by all member States to allow the reconstruction of Eurodom economy and society by public investments bypassing the still frightened private banks. The counterpart of these bonds is the accelerated growth of the stock of public capital including of course its crucial component; human capital.

Proceeds will be transferred to all member States and especially to poorest States to reconstruct their real economy devastated by addiction to punitive austerity imposed by France and Germany alike.

Could this solution be accepted? I have to express my strong doubts since it violates the hidden supreme purpose of the "union". Instead of an hyper-capitalist system which is dying it could achieve a new mode of production what could be deemed social-capitalism. How could this evolution be accepted by Germany and especially by France which are more than ever starting the race to "Austerity" or "Rigor Mortis";

D/ Second solution : Bonds are sold to financial markets which means private banks with just some vague promise of "support" by the ECB. Failure is certain. None of the conditions of success will be met.

Finally the so-called financial crisis is caused by the deep structural mutation of European capitalism. As the State is rejected which causes the collapse of welfare, private capitalism flies from the real economy .
Thereby , the system is doomed. What should do Greece, Spain... get rid of the euro which is "consubstantial" with an anti-welfare, anti -modern capitalist economy.

P 17 Doing so, they will cancel their debt which is pure nothingness, issue a new currency, rely on their Central Bank. Yes, their currency is to be depreciated but would the impact be worse than the destruction plans imposed by France and Germany.
To believe that it would impose on the sinning countries a moneyless soviet economy is preposterous. After all, the euro value could collapse sooner!

Ultimately I fully disagree with those who argue that excommunication of Greece, Spain...... will demonetize the economy and impose some stalinian economy with full exclusion from international trade and capital markets.
They rely on Kalecki to postulate that the collapse of the drachma will send back Greece to some Mycenian era. They forget that the cruelty of the austerity imposed on Greece is already sending Greece to inferno. The Greek people are so much rationed that their fate is worth of the worse Stalinian era.
Yes, They reject austerity but they forget that austerity is the sine qua non of being still tolerated in Eurodom. Rationing worth of war times or excommunication. In any case, being master again of its currency, the Greek government , assuming that outraged banks close their shops, could at last construct or reconstruct the economy out of planned investment without the intermediary of private banks. Transfers will be operated through its account at the Central Bank- Germany and other exporters will have no choice but to accept payments in drachma. Greece could stay a major source of net profits. As I wrote, the emperor being at last exposed naked , the overvaluation of the euro could not survive.
May be , by rejection, the iron heel of an absurd system of a decadent rentier capitalism, Greece will once again save the future like a long time ago in the Thermopyles.
Finally those last resort defenders of the faith in the euro cannot understand that bonfires are the ultimate anchor of the Eurodom: Eurodom rulers will never accept a Vatican II council.

The more the country is destroyed, the more negative its rate of growth, the greater the collapse of welfare, the higher should be the fictitious value of its pseudo-debt.
It is enshrining folly and the death of capitalism into a new law!
In this turnpike to serfdom, the outcome is to be a catastrophe.
If a proof was required, the austerity plan to be imposed with no debate by the French government, I just learnt its content, abolish any hopes in the salvation through euro-bonds.
Meanwhile the heirs of Mitterrand, the French socialists want to pay back all the pseudo-debt whatever the collapse of welfare for now and the future, this folly, the pure syndrom of the plague, <u>generates[2] a true Jerome Bosch painting.</u>

[2] Reading both the speech of the French Prime Minister and the declarations of the future leader of the socialist party presenting the so-called salvation plan of the value of the French debt, is truly frightening. It is a pure early

Conclusion

Back to Avignon and Malthus since the dismantling or hate of the State, its privatization shared by the whole eurodom rulers is the cornerstone of Eurodom, what would banks do with what has been robbed to the people, invest the spoils in private assets never issued for real value generating expenditures. Henceforth, while destroying the real base of the economy and depriving public bonds of any real value, forced "reimbursement" of what were never borrowed will generate a new wave of hyper-speculation and capital gains plus dividends to former productive corporations motivating them to abandon without remorse the real economy! As for wished reimbursement before terms decreed by Germany and France for their own debt one can only cry before such a folly of the ruling elite!!! It is no more the turnpike to slavery, It is the race to death video game transmogrified into real darkness. Finally, the loss of value of private assets, the collapse of the "financial markets" will be the twilight of the gods of Eurodom Walhalla.
No shrewd financial innovations can save what cannot be saved because it does not want to be saved. Herein lies the final proposition.

medieval dogma of sacrificial lamb or goat Eurodom is to become an ubiquitous bonfire to pray the holy spirit to inspire banks animal ones!