The State sovereignty on its currency is the existing condition of long-run financial stability

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*Emeritus Professor University of Franche-Comté, Besançon, France.

Abstract: In a first part, I shall prove that what is deemed financial instability is ultimately caused by arbitrary constraints imposed on the State long-run economic policy in terms with the destroying obsession of "balanced budget". In a second part, I will explain that those constraints aim at abolishing the State sovereignty on its currency with thereby leading the State to renounce its normal role, the architect of the future out of its expenditures. In a third part, in guise of conclusion, I shall prove that restoring the role of the State is the "Sine qua non" of true dynamic entrepreneurial animal spirits.

Key words : financial crises and instability, State, balanced budget, long run stability, dynamic entrepreneurial animal spirits.

"High-Tech Rule" leads to a systematic effort to cut the need for labour and wages, while bestowing unchecked power to the banking sector more and more only interested into pure financial speculation (Koo, 2009).
Herein lies the cause of the so-called great financial crisis of 2007-2008 : In search of unlimited profits, banks granted loans to pure speculators financing loans to poor household that could never be repaid and out of power of money creation built a Babel Tower of trading operations. We were very far from Post-Keynesianism dallying with Hyman Minsky theory of financial instability (Parguez, 2003).
The collapse became enshrined into private expectations : the dual substitution killed "ab ove" audacious bets on the future. Nobody wishes any more borrowing to invest in the future, while banks were more and more reluctant to grant loans not allowing minimizing aggregate demand out of shrinking labour costs.

Introduction : the threat of financial crisis as the cause of vanishing animal spirits.

In the end of the second decennial stage of the XXIst century, what is haunting potential dynamic true investors out of their bold wagers on the future is the threat of a financial collapse of their wager. Such a threat, embodied into the so-called great financial crisis of 2007-2008 is freezing animal spirits and explain the deadly metamorphosis of capitalism which is the substitution of unproductive activities rooted into the debasement of culture (the so-called High-Tech Sector of which the worse avatar are social networks, video-games, a world of virtuality) and pure financial speculation thanks to the new High-Tech for genuine productive inventions creating a long-run growth of social net wealth.
What transformed the crisis into a systemic crisis worsening the dire state of society is the absurd reaction of the State, or rather of policy-makers.

The State reaction : back to the twenties of the last century.

I shall emphasize the paramount role of fiscal policy striving to attain budget balance (if not surplus) and the disastrous role of monetary policy.

Fiscal policy and the mystical horror of deficits.
Everywhere, but in Japan and China (Koo 2009), the cornerstone of going back to a normal State was permanent efforts to restore full balanced budgets out of savage cuts in expenditures and rise in taxation. Such a policy was not rooted in a sound analysis of facts and was deprived of any theoretical foundations. It was pure ideology if not witchcraft economics rooted into an erie vision of the State. According to the then prevailing conventional wisdom, when the State runs deficits, it absorbs private savings, which squeezes productive investment and generate a cumulative growth of State debts more and more fragile.

Fighting the fly from productive wagers on the future should require drastic efforts to neutralize the destabilizing role of the State. None of the ruling policy-makers understood that long- run policies of deflation would have a strong negative impact on aggregate demand which would prevent any new burst of daring entrepreneurial spirits. There was more to come, long-run squeeze everywhere generated unwanted deficits out of the collapse of receipts and the rise in the so-called "social treatment of unemployment" whatever. The State lost any credibility.

A monetary policy subsidizing the most speculative banks.
It was dubbed "quantitative easing" and restored a weird version of Friedman and Patinkin "Parachute Theory of Money". Henceforth, independent de jure (Eurozone) or de facto (USA) the central bank flooded private banks with State money (or reserves) through the acquisition of all their "bad assets". Banks became able to sell to the central bank their most rotten assets at face value, they were at a sudden awash with amazing book-profits. According to the conventional folly of the time, what were the most rotten assets…public debt!
What was the problem ignored by the neo-friedmanians : Yes, banks registered a wonderful restoration of their worth but they were adamantly rejecting any recycling of their net-worth into productive expenditures. Young bold entrepreneurs to be never had access to banks loans or rather to the central bank creation of money.
What did banks managers? They recycled State money into more dangerous speculative activities, directly or through the intermediary of the so-called investment funds like Goldman Sachs. Being certain that the central bank would henceforth validate their most unsound activities, banks lost any interest in the real economy.

What is to be done to restore entrepreneurial spirit in the long run?
Bestowing on the State, as the center of actions, full sovereignty on its currency.

When there exists a true State enshrining sovereignty it must enjoy full sovereignty on its currency. It means that the State is perfectly endorsing the law of circulation.

-On one side, it has to spend at the start of the monetary circuit to undertake its long-run program of spending for the future, on the other side it is imposing tax liabilities to be paid ex post by the private sector on its gross income.

-It is tantamount to the twin fundamental propositions that must be the core of a theory of money germane to a dynamic system:

A.When the State spends, it is creating money free of any liability. It is true that the banking branch of the State, the central bank accumulates claims on the spending branch, the treasury. It is a pure fictitious debt, one cannot be indebtwed to oneself.

B.When they are paid, taxes withdraw money from the private sector, they cancel a share of the money initially created by the State.

But what about the "State deficit" haunting the ruling policy-makers and orthodox economists whatever whose role is to provide their masters of the required arguments?

Herein is the <u>core</u> of the solution to restore a dynamic private sector:

A-The so-called deficit is already financed without any emission of liabilities to the private sector.

B-Since we are in search of a State very friendly to the restoration of entrepreneurial spirit, the State must be the better of first resort, the one which may take the most audacious wagers on the far-future, the one which may be the architect of a bright future, being able to affront the absolute unknowability of the future and thereby able to ignore the anguish of failures. What is thereby the outcome of this effort : a growing net investment of the State into the future providing society with both tangible and non tangible capital, especially in education, culture, research, future-targeting universities.
Herein is what must be doomed the "good deficit" free of debt recreating an agonizing society enslaved to its past (or rather imaginary past).

C-The reconstruction of Society is thereby, initially at least, entirely financed by the creation of State money debt-free.

D-Such a program is to be undertaken in the most decentralized way as Keynes himself had in mind. It is not the least restoration of authoritarian like planning. Universities may play a crucial role; now that they free from the yoke of providing servants to the ruling sector. Public services are part of this salvation of the future, by preventing any rationing in health care, learning,etc…
Needless to say that as the bettor of first resort, the State is to be the employer of first resort in a stage of capitalism having jettisoned any target of true full-employment.

The dynamic impact on the private sector : towards a golden age of entrepreneurial spirits.

The recycling of net creation of money.
The whole amount of net creation of money is an equal increase in private deposits in banks. Thereby, it is automatically recycled into private consumption and investment. Here at last happens the time for the emergences of a new generation of young entrepreneurs free from the speculative spirit of banks. Since the State create money at zero rate of interest (the true natural rate), recycling expenditures provide new entrepreneurs with a fixed and minimum rate of interest just high enough to cover wages paid by banks.

The resurgence of a sound lending activity by banks
Banks are henceforth ready to grant long-term loans to genuine "innovators". The State commitment to the future leads to the sale of State bonds to banks which recover their aspect of the soundest assets. Banks acquire the certainty that their sole option is to fund new entrepreneurs in fields not initially expected by the State. The era of financiarization has ended for ever. Banks know both they will never be saved again by "quantitative easing" and that there are no more any demand for speculation on nothingness.

In guise of conclusion :
Such a salvation system is not the least the road to protectionism, to the contrary. The accelerated emergence of dynamic entrepreneurs could generate a surplus relative to an agonizing economy lost in their fanatical commitment, like France, Spain, even Germany. I do think that some flexible exchange-rate is required to prevent a foreign-exchange constraint on the central bank.

Finally, restoring the role of State is the sole road to abolish serfdom and enslavement to financial markets deprived of any wisdom.

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