

A PLAN FOR MONETARY, FINANCIAL, ECONOMIC AND SOCIAL STABILIZATION OF GREECE

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IN SEARCH OF A NATURAL PARAMETER FOR A NATIONAL ECONOMY

According to a map of rising prices-Inflation Around the World published in the New York Times of July 7, 1974, Greece was indicated as the country with the highest rate of inflation (33.4%) in Europe. On the other hand, it is true that the whole world is going through a period of inflationary pressures and it is only a matter of degree when we compare one country with another. But that does not change the fact that the Greek people, as of this moment, are suffering the negative consequences of inflation more than any other nation in Europe.

Why do we have an inflation all around the world? Since the Big Depression and especially after World War II all governments have applied everywhere monetary, fiscal and income policies with foreign exchange controls and regulation of foreign trade and capital movements. What are the results? The very existence of inflation all over the world suggests first a common cause and then the implication that there must be something fundamentally wrong in the approach used so far.

Any system composed of many parts-in the physical as well as in the social universe- in order to reach and maintain a position of stable equilibrium, requires a natural (concrete) parameter which holds the component parts together. The natural parameter can be defined in terms of a consistent framework, where a central force is acting and coordinating all other possible actions and reactions within definite limits. Mathematically it can be expressed as a real (not just assumed) constant. In the physical universe at the macro-level, the Sun provides the natural parameter or the stable framework where the force of gravitation holds in harmony all other planets belonging to the solar system in which we live. At the micro-level, again there is a natural parameter which securely holds the atomic structure of the stable elements or the cells of living creatures. The rocket with a multitude of

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self-regulating mechanisms, which helped man's landing on the moon, also had a natural parameter in the form of a consistent framework that actually held the parts together and made possible a smooth flight to the point of destination.

A position of stable equilibrium is characterized by the condition of that unique system where its major force and the other possible actions and reactions have an inherent tendency to converge toward one and the same point, so that disturbances within the system are reduced to simple, temporary adjustments of finite nature. In other words, in a system of stable equilibrium there is no chance for cumulative fluctuations of indefinite nature, which usually characterize major disequilibria.

The relationship between micro - and macro - analysis in a system of stable equilibrium is determined by the double rule of consistency. This rule requires that the component parts of such a system must be first consistent in themselves (stable structure), and second must be simultaneously related to each other in a consistent manner (stable functioning). In the physical universe we can more easily detect the working of the double rule of consistency because the natural parameter is given. There are, of course, exceptions to the rule, but as the French say: «Les exceptions confirment la règle!» The exceptions occur because the physical universe is not entirely pure but rather mixed, i.e. composed of stable and unstable elements and forces. Yet the mixture is such that the stable elements and forces prevail to a very large extent (probably over 90%). Thus the rule of consistency holds also in the same high proportion.

In human societies, as they developed over centuries, the natural parameter in the form of a stable framework is not given as in the physical universe. Nevertheless hidden in human nature and in the myriad social relationships, with the aid of modern scientific tools of analysis we can trace a natural parameter embedded in those individual and social actions or forces which, if prevailing, inherently lead to what the American sociologist Talcott Parsons called «social coherence» or equilibrium as opposed to «social coercion» or disequilibrium. In other words, the problem of stable equilibrium in human societies, up to a point is similar to that in the physical universe in the sense that we need to identify first the natural parameter (a major rule or institution), consistent both with human nature (at the micro-level) and social life (at the macro-level) and then reinforce it through suitable institutions and laws which are appropriate to the given parameter.

As far as a national economy and its finances are concerned, Leon Walras was the first economist who clearly saw the necessity of a natural parameter in the form of «Numéraire» (or 100%-backed currency) to hold the parts together and to reduce all possible disruptions to a minimum of tolerable, natural fluctuations. Walras was the first who in an explicit manner formulated the law of stable general equilibrium in 1874. In order to have general equilibrium, he insisted, we must organize a system of free markets, where monopoly forces are reduced to

zero at the limit and thus competition reaches its maximum, plus a monetary and financial system where all prices (for consumer goods as well as for capital goods) and implicitly all sources of income, including capital formation (voluntary savings), are expressed only in terms of numeraire.

Before the economic storm of 1929 the natural parameter of numeraire under the external guise of «Modern Gold Standard» in practice through the issue of monetized bankcredit, was diluted up to the incredible proportion of 90 per cent, so that the very imperfect free markets could not hold together and the end result was an inevitable economic and financial disequilibrium. Following the Big Depression, one country after another unwisely eliminated the natural parameter of numeraire from domestic transactions but kept it for international purposes. Finally with the failure of the Bretton Woods Agreement, specifically with the suspension of the convertibility of the US dollar in August 1971, numeraire has been driven out of international markets, too.

The shifting from numeraire to anti-numeraire has created a vacuum lodged in an artificial framework of innumerable government controls and regulations which, however, neither at the national nor at the international level can hold the parts together. The problems of chronic inflation, persistent unemployment, chronic deficits in the balance of payments and gross social inequities in the distribution of national income are not due to the lack of refined statistics or better quantitative estimates, as some economists believe, but rather to the unstable framework of the monetary and financial system of today, incapable of supporting a normal functioning of free markets.

For four decades now the view has prevailed that a modern government with the help of professional advice would be able to calculate and maintain at all times an equilibrium supply of antinumeraire in form of paper money and monetized bankcredit. This appeared in the end to be more wishful thinking than scientific truth, and the best proof for it lies in the existence of inflation and other problems unresolved the world over. Here lies also the explanation for that statement made before, namely, of «something fundamentally wrong» in the approach used today in the study of inflation based on the belief or assumption that the government is able to perform such a task of maintaining an equilibrium supply of anti-numeraire, whereas in reality it cannot, as economic history has proved again and again during the last four decades.

A comprehensive plan follows showing how Greece can overcome the ill effects of inflation, unemployment, social inequities in the distribution of national income and chronic deficits in the balance of payments through the introduction of a natural parameter in the form of 100% numeraire-currency and other necessary reforms, all required by the double rule of consistency for the purpose of establishing conditions of stable equilibrium.

II. DIAGNOSIS:

From the socio-economic point of view, Greece is suffering the negative consequences of five disruptive elements:

1. A first layer of inflation created by the overissue of paper money and pure bankdeposits through the Central Bank of Greece.
2. A second layer of inflation due to the monetization of credit through the private banking system (domestic and foreign).
3. In the rural areas the Greek economy is exposed to an invisible deflationary pressure as a result of the fact that much of the inflated supply of money is concentrated in urban areas where pure speculations in commodities, services and securities are more suitable and more profitable. Thus Greek agriculture, being deprived of sufficient real-capital formation, is forced to remain undeveloped, with hidden unemployment of both human and natural resources.
4. During the seven years of political dictatorship and economic controls a vast and unproductive bureaucracy has developed. The superimposed layer of bureaucracy is chewing off a significant portion of the national income, without contributing to its growth. In addition the same unproductive bureaucracy, through its web of unnecessary controls and regulations, impedes a normal growth of the national economy.
5. Finally, Greece, like other capitalist countries, is faced with a social problem evidenced by the significant number of a sort of second-class citizens who do not fully participate in the economic development of the country. The forces of inflation fostered through the causes mentioned above are automatically eroding the already meager income of those who are at the bottom of the scale. The inherited social conditions and the faulty functioning of the present system are perpetuating poverty and second-class citizenship. And this in turn, inevitably nurtures social and political unrest.

III. FIVE REFORMS TO BE UNDERTAKEN.

Assuming that the above diagnosis is correct, which I believe it is, to restore a free and stable economy compatible with a free, democratic type of society and form of government in Greece, there is need for at least five basic reforms to be conducted in a systematic, scientific way so that no other problems may arise. They are:

1. A reform of the monetary system and the Central Bank of Greece so that the forces of inflation may be cut off at their primary source;
2. A reform of the private banking system (domestic and foreign banks) so that the monetization of bankcredit, as a secondary source of inflation may also be cut off at its origin:
3. A reform of the financial system so that agriculture, like industry and trade,

- may also benefit from suitable conditions of its own real capital formation;
4. A reform of the government administrative apparatus so that the portion of unnecessary and unproductive bureaucracy be dispensed with immediately, of course with a fair indemnization to those who will be laid off and channeled into the productive sectors of the economy; and, if desirable,
 5. A social reform of reasonable proportions which will be a stimulus rather than aburden for the national economy.

One good question could be raised: How should these reforms be conducted—gradually or simultaneously? This plan was conceived with the basic thought that since the five reforms in question are so intimately interrelated, it is imperative to have them implemented at the same time. Otherwise other problems may be created as a result of inconsistencies among the different parts or institutions of the economy, and this, in the end, may foreclose any chance of success.

IV. RECOMMENDATIONS: *A Consistent Body of Measures and Policies Oriented at Conditions of Stable Equilibrium*

All the measures and policies included in this plan were conceived and must be judged in conjunction with the realization and maintenance of conditions of stable general equilibrium, whereby among other things four major goals are to be achieved at the same time and without creating other problems:

- (a) price stability;
- (b) full employment;
- (c) a maximum of social justice in the distribution of national income; and
- (d) a balance of payments in order.

Part One: A Monetary Reform to Drain Off the Existing Inflation

1. The introduction of a new, heavier Drachma to clean instantaneously on a given D-day the existing inflation to its bottom. There is no other known method to deal more effectively with this issue.
2. How heavy should the new Drachma be in order to eradicate the on-going inflation? The answer depends upon three factors:
 - (a) The total supply of money in circulation on D-day, composed of outstanding banknotes and bankdeposits of the Central Bank of Greece, plus the aggregate amount of bankdeposits in the private banking system (domestic and foreign) which are not covered in official money but in earning assets (loans and investments);
 - (b) The total volume of gold and convertible-in-gold foreign exchange if the Greek Government decides to have numeraire-currency in form of gold; and

(c) The par value of the new Drachma, which could be equal to 0.0272838 gram of fine gold, that is, the one registered with the International Monetary Fund. This being a technical problem, another parity could be chosen with the adequate adjustment.

This plan is suggesting that Greece may be better off to switch to a pure silver standard, which can be made as stable as a pure gold standard, if all other conditions for stable equilibrium are satisfied. In that case all gold reserves and foreign exchange have to be converted into silver.

3. By combining 2.(b) and 2.(c) we can calculate the supply of numeraire-currency in new Drachmas, which will replace the old, inflated supply of Drachmas.
4. The total supply of old Drachmas as indicated under 2 (a) over the new supply of numeraire-currency obtained under 3 gives the ratio between old and new money. Let us assume a ratio of 10:1, even though in the actual case the real figure may be different.
5. Other measures to be taken simultaneously:
 - (a) In order to avoid other serious difficulties on the same D-day all current prices, incomes, banking accounts, debts and any other sort of claims (domestic or foreign) including taxes must be reduced in the same proportion of 10:1;
 - (b) If there are any prices or incomes, fixed or controlled by the Greek Government, during the month prior to this reform such prices and incomes should be recalculated to correspond to their equilibrium level as defined later in this plan. But being expressed in old Drachmas, on D-day they too should be reduced in the same proportion of 10:1;
 - (c) Foreign exchange rates shall be adjusted in the same proportion, assuming that at least for one month prior to this reform they were allowed to fluctuate freely with one restraint: pure speculations in the foreign exchange market (nominal transactions speculating on future fluctuations) shall be prohibited as conducive to more disequilibrium.

In one statement, the purpose of introducing a new, heavier Drachma is purely technical, i.e. to clean the financial house thoroughly but accomplished so equitably that nobody will lose or gain anything. Indeed, the real incomes or assets of the people are absolutely the same as before the reform, with one additional quality - namely, they are now expressed in terms of a new, stable currency.

Part Two : A Monetary, Banking and Financial Reform Consistent with and Conducive to Price Stability and Full Employment

The most important thing is what will happen after D-day once the old inflation has been wiped out through the new, heavier Drachma. There will be a new system, for convenience called «Social Liberalism» (to distinguish it from both Capitalism

and Socialism) which is constructed in accordance with conditions of stable equilibrium. The new regime of Social Liberalism includes a natural parameter in form of 100% numeraire-currency with a monetary circulation flexible enough to adapt to the real needs of the economy plus a number of self-regulating mechanisms which initially are put in motion by the Greek Government's new reforms. Immediately thereafter, however, these invisible mechanisms will start to work moved by self-propelling forces of organized free markets. Needless to say the self-regulating mechanisms are socially the least expensive and most efficient tools that can be used to resolve our four basic problems.

1. An Independent Central Bank

The Central Bank of Greece shall receive by law an independent status. This means in practice that the issue of money is separated both from the public budget, including the national debt, and the financial condition of private banks.

2. The Natural Parameter of Numeraire

The cardinal condition for the realization and maintenance of equilibrium prices (as demonstrated by Leon Walras) lies in a natural parameter of numeraire-currency, for which there is no substitute, embedded in a system of really free markets where nonopoly forces are reduced to zero at the limit. Numeraire means commodity money, i.e. inherent value as a common denominator between money and all other commodities, a quality needed for any reliable and objective monetary standard used to measure exchange values, current incomes, including assets and liabilities of any sort.

On D-day when old inflated Drachmas are replaced by new, 100% covered Drachmas, the Greek monetary system will satisfy the requirement of a natural parameter.

3. Free Convertibility of the Drachma at Home and Abroad

On D-day the Central Bank of Greece shall announce publicly that the new Drachma is freely convertible in gold or silver (depending on which was selected to serve as numeraire) both at home and in international markets. No problems can be expected from this decision since on that day and thereafter all new Drachmas will be fully covered.

4. Any New Issue of Official Money Shall be Numeraire

Any new official Drachmas put into circulation after D-day shall be 100% covered and thus no problems will arise.

5. *The Natural Law of the Equilibrium Supply of Numeraire*

The concept of «natural law» in this context means a rule derived from the nature of things and which can be predicted by a very high degree of probability, as for instance, 90% or above. We have to remember that numeraire is a natural parameter, i.e. the only constant magnitude in the system but related to all other variables (prices and incomes) which may fluctuate, but being kept under control, in orderly fashion by the unique force located in the parameter. There is here in action a sort of law of gravitation in economic and financial affairs whenever numeraire is used which leads to stable equilibrium.

Let us take a look at how this invisible law of gravitation in economics and finance will work in practice. The supply of new Drachmas in circulation will be determined by the real needs of the economy, guided by the natural parameter of numeraire in conjunction with the other consistent elements and forces in the system. Whenever a significant number of Greek people will feel that there is too much money in circulation (a period of relatively higher prices), they have the option to invest new or old capital exclusively in the production of other commodities and services, thus leaving the supply of numeraire unchanged. They could even reduce the supply of numeraire, if they conclude this to be in their own interest, by importing more foreign goods and paying for them in numeraire. In both cases the supply of commodities and services will increase, whereas the supply of money remains either constant or declines. In this way an inflation with too much numeraire in the new system is impossible by definition.

On the other hand, if at another time the people are more than satisfied with the current supply of goods and services (a period of lower prices) and they feel somehow that the supply of numeraire is not sufficient, then again they have an option to invest new or old capital in the exploitation of gold or to produce more goods and services for export, and thus import more gold. In both cases, the supply of numeraire will increase automatically and so a deflation due to conditions of too little numeraire in the new system is again impossible by definition.

The automatic increase or decrease in the supply of numeraire follows the real needs of the economy but without allowing the development of genuine inflations or deflations. This may be called the «Natural Law of the Equilibrium Supply of Numeraire» which supports a normal functioning of a system of free markets and in the end helps to fulfill the goal of price stability. Actually this is also the system where the famous Marshallian Demand and Supply curves are really true and valid.

6. *The Natural Law of Full Employment*

The production of the commodity selected to serve as numeraire implies the mobilization of an equal amount of the factors of production (human and natural resources) exactly as during the process of producing any other goods or

services. Thus the aggregate volume of employment and real income in an economy under stable equilibrium conditions can never shrink but rather will either increase or remain at the same level, depending upon the existing conditions.

Whenever, for instance there is not enough employment in the non-monetary sector of the economy (a period of lower prices), then more employment can be generated by investing new or old capital into the production of more numeraire (if the country has gold or silver mines) or into the production of those goods and services which can be exported against convertible foreign exchange. In both cases more employment and more real income are automatically created in the economy and thus «involuntary unemployment»—as defined by Lord Keynes—is impossible by definition in the new system.

At any other time should conditions develop so that there appears to be too much employment in either of the two sectors, the new system has the flexibility and the mechanism to allow shifting of employment and real income from one sector into another without additional problems. Indeed, as mentioned earlier, the aggregate volume of employment and real income in an economy with stable equilibrium conditions never shrinks but always either rises or remains at the same level.

In conclusion, the natural parameter of numeraire embedded into a system of free markets and an adequate financial structure (as shown later in this plan) can create natural conditions for full employment in the short- and long-run, without any direct government intervention or using special monetary or fiscal policies designed for this purpose, methods which have proved inefficient in recent decades. This may be called the «Natural Law of Full Employment» that Lord Keynes was looking for but could not find since his system of thinking lacked the natural parameter of numeraire, the missing factor which makes any economic and financial system inherently unstable.

One special problem remains to be investigated, namely, the consequences of the new system of full employment in regard to organized labor, specifically the right to strike and the collective bargaining process. As long as equilibrium prices prevail and an equitable distribution of national income is secured, of course, the right to strike and the collective power of bargaining cannot be used in the same way as in present capitalist system where social inequities and monopolies exist.

7. *The Mechanism to Monetize Other Regional Commodities in Form of «Commercial Commodity Drachmas»*

In order to dissipate completely the fear shared by many contemporary economists that eventually there may not be enough gold or silver to support a normal, balanced economic development and also to give in fact even more flexibility to the new system of numeraire, this plan recommends that the Central Bank of Greece initiate a study of how to give to the Greek people as soon as

possible the right to monetize or demonetize a certain durable commodity representative for a given district. For this purpose, the whole country must be divided into four or five monetary districts.

The Central Bank of Greece shall organize the necessary facilities so that upon delivery at certain public warehouses in each district of a standardized commodity an equal value (minus a small discount) in banknotes be issued. A small discount shall be charged in such transactions to defray warehousing and administrative costs. The special issue of banknotes covered in regional commodities is called here «Commercial Commodity Drachmas». Commercial Drachmas shall be declared freely convertible in their respective commodity.

This novel institution will be of great help to the Greek people in rural areas. Whenever the prices of their products seem to be depressed, the people have a chance to monetize a part or the whole production of the special commodity in the district. In addition to increasing the supply of money, the issue of new commercial Drachmas represents real capital formation for the district. On the other hand, when the prices seem to be rising, the people are free to convert banknotes denominated in commercial Drachmas into the respective commodity and sell it at a profit.

In addition to producing more real income and employment through any new issue of commercial Drachmas, the privilege to monetize and demonetize a regional commodity may exert a favorable impact on stabilization of prices and incomes in the respective district. This will resolve the problem mentioned under Diagnosis (point II. 3). The rural areas will now have their own source of capital formation and will participate with their own decisions on how the supply of money in circulation should change to correspond to the real needs of the economy. In this way the rural sector of the Greek economy will be liberated from the past deflationary pressure, resulting from city concentration of banking and finance.

There will be an additional problem for the Central Bank of Greece, namely, to skillfully manage the discount rate at the public warehouses so that the commercial Drachma is at par or close to the official numeraire-Drachma. This task is not difficult so long as the convertibility of the two forms of money (both 100% covered) is preserved, each one restricted to its own backing in order to avoid the Gresham law.

All in All, free monetization and demonetization of regional commodities will encourage and support a balanced economic development throughout the country. And this is the best method, and at no extra cost to the government, to fight hidden unemployment and poverty in rural areas.

8. A Banking Reform Consistent with Price Stability

(1) Private banks are useful and productive to the extent that they provide services to the public by being intermediary financial institutions between those who are prudent and save (a natural source of capital formation) and others who

ingeniously put available capital to work in productive investments. Unfortunately, modern banks go beyond this intermediary function and monetize credit in form of pure bankdeposits without any direct guidance or restraint with reference to the volume of real income in the economy. The result is that monetization of bankcredit leads inevitably to inflation.

The natural parameter of numeraire as a cornerstone of a stable financial system requires, however, a neutral structure of banking which does not create money. This means that private banks (domestic and foreign) in order to be attuned to equilibrium conditions should conduct their business within the strict limits of the existing supply of money provided by the Central Bank, which in turn must be consistent with the level of real income in the economy. The goal of price stability requires, therefore, that monetization of bankcredit in form of pure bankdeposits, or any other form, must be prohibited by law, as otherwise the problem of inflation becomes insoluble. This conclusion, by the way, is not something new or unforeseeable. During the 19th century and following the R. Peel Act of 1844 in England, private banks everywhere were prohibited to monetize bankcredit in form of banknotes for the same reason of being inflationary. In fact, the old problem of banknotes issued earlier by private banks, in competition to each other and in order to gain an extra profit, is in principle the same as today's creation of bankdeposits by the same banks and for the same purpose. On this issue, the Government of Greece and other European countries are rather late in correcting an old evil in a new guise.

(2) How should the private banking in Greece be restructured in order to become natural and consistent with the major goal of price stability?

F i r s t, a new banking law should clearly state that monetization of credit in form of bankdeposits or any other form, by private banks (domestic and foreign) and all credit and financial institutions, is illegal under heavy penalties, because it is inflationary and creates social and economic problems.

S e c o n d, the transactions in the money markets, where the funds must be kept immediately available, should be separated from the transactions in the capital markets, where the funds are committed for a longer period of time. This is a new rule of separation between money markets and capital markets, derived from the law of general equilibrium which requires a separate equilibrium rate of interest for each of the two markets. If the capital markets, *f. i.*, are not separated from the money market, then in practice it is impossible to have that set of equilibrium rates of capital interest which mediate an equilibrium between new investments and voluntary savings. The same is true for the money market in the sense that if it is not separated from the capital markets, then in practice it is impossible to reach that rate of money interest which is consistent with an equilibrium level of liquidity determined by that part of real income which people have decided to spend for current consumption.

T h i r d, as a result of the new rule of separation mentioned in the previous

paragraph, the banking business of every unit (domestic or foreign) must be divided into two independent sections:

Department A will encompass all transactions dealing in liquid funds which usually appear in form of Demand Deposits or Deposit Trust Accounts, subject to the privilege of being used without notice by drawing a check or drafting a payment order in any form. Since liquid funds tied in such accounts have to be immediately available on call, banks should be required by law to keep these accounts 100% covered in official money at all times.

Often there is some apprehension among economists when the system of 100 per cent reserves is mentioned on the ground that those funds blocked were idle. This is not true at all. The liquid funds of the public put into the banking system as demand deposits and covered 100 per cent do not represent idle funds as long as the public can dispose of them freely. On the contrary, the function of such reserves is active since they assure stability of the banking system and an equilibrium level of liquidity in the economy.

Department B dealing in savings (funds committed for different periods of time) shall be free to look for the best possible form of investment and lending of available capital derived from collected savings or their own funds. The new banking law must specifically indicate that a bank may not grant a loan or engage in an investment transaction unless the bank possesses the whole amount of the capital involved. As far as the use of checks or other credit instruments are concerned, only Department A can deal in such matters.

With the new system, the banks may not gain as much profit as today, but they will be able to earn a supporting income according to the services provided to the public just like any other business and most importantly, without creating inflation and social problems in the economy. With the issue of commercial Drachmas private banks may extend their business into rural areas and thus capture a new source of income without creating problems for the rest of the community.

(3) Private banks (domestic and foreign) should not be allowed to join other kinds of businesses in order to create holding companies and thus avoid the provisions of the new banking law. The already existing bank holding companies shall be included under the rules of the new law. The purpose of such a measure is to eliminate the old evil of modern banks financing mergers or market strategy, both leading to undue concentration of economic and financial power respectively to monopoly prices and extra profits.

(4) The organization of credit for private and public purposes can be developed efficiently with the help of banks and other credit institutions but without its monetization since that is inflationary. This means that the volume of credit used over a period of time must be restricted within the limits of the existing real income in the economy over the same period. In other words, credit granted by individuals or institutions in the new system of stable equilibrium at any time has

to be backed by an equal amount of real income. This is real and non-inflationary credit which does not change the supply of money in circulation.

9. A Reform of Public Budget and Finances Consistent with Stable Equilibrium

(1) In the new monetary and financial law a provision must be included whereby it should be indicated explicitly that the administration of the public budget and finances is separated from the issue of official money.

(2) A reminder to any present or future Minister of Finance shall be added in the same law—namely, that monetization of credit to cover deficits in the budget or any other public expenditure is illegal and therefore prohibited as being harmful to the national economy because such a practice would produce inflation and other social inequities.

(3) The basic financial rule to conduct government business shall be: First income (from its own resources or from borrowing) and then spending. This rule is derived from the concept of stable equilibrium and in application will support stability and unify the whole body of study of finance, private and public.

(4) As long as the new financial system based on numeraire is safe from inflationary or deflationary pressures, it will be easy for the Greek Government to follow strictly a fiscal policy of balanced budget. Of course, the Government may borrow as much as needed and possible, but in this case government-borrowing will not change the supply of money in circulation since monetization of public credit is prohibited.

(5) With a new stable framework of both private and public finances, it is recommended further that the public budget be programmed and voted upon every four or five years, i.e., for a whole legislative period. Government activity can then be planned and conducted in a more rational and effective way, thus increasing efficiency or the social productivity of the taxpayer's money.

(6) The Investment Budget of the Greek Government, as separate from the regular budget, can be continued with one qualification: The price of the products or services where government funds are used must be calculated as equilibrium prices, according to the new «Code of Ethics in Business». The servicing of national debt (domestic and foreign) used for investment purposes, shall be included as an integral part of equilibrium prices. The companies involved in such funding (public, semi-public or private) shall pay taxes like any other business. National monopolies of any sort shall be declared autonomous companies and be put under the same rule of equilibrium prices, where adequate taxes are added.

(7) The present progressive system of income taxation has not achieved its original goal of reducing the number of rich people and has failed to create conditions for a more equitable distribution of national income. For this reason, it is proposed here that the Greek Government initiate an immediate study for the introduction of a unique tax on the annual gross national product, f.i., 15% and no direct income tax or other charges at all for those who have an income below a

certain minimum considered legitimate for the Greek standard of living. All indirect taxes should also be abolished. The unique tax of 15% shall be paid concurrently with wages and the other sources of private income so that the Government may keep pace in its finances with the rest of the economy. This reform will definitely simplify the fiscal apparatus in Greece.

The quest for more equity in paying taxes can be achieved by other means, f.i. by reducing taxes on property or even eliminating it altogether for those who have an income below the minimum determined by the standard of living as mentioned above, and by keeping temporarily higher taxes on property of the more affluent. Also a Code of Ethics in Business plus a social reform attached to this plan would create more social equity in the distribution of national income.

(8) Once the new system of stable equilibrium has been introduced, the Greek Government should proceed with an operation of weeding out any unproductive bureaucracy associated with the many controls of foreign exchange and regulations of foreign trade, capital movements and other sections of the domestic economy introduced before but under the new conditions becoming obsolete.

In order to avoid human hardships and possible social unrest, it is recommended that the Greek Government pay all employees laid off during this cleaning operation at least 6 months' salary without requiring them to perform any counter-service. They should be free to seek new positions, and the Government must help in every way possible to incur their successful resettlement in the private sector of the economy.

10. The Stable Equilibrium Mechanism of the Balance of Payments

(1) Under a 100 per cent Numeraire-Currency System and with a stable structure in banking and finances (private and public), Greece will have no problem with the balance of international payments. The familiar mechanism of the gold (numeraire) points will secure a balance of payments in equilibrium and stable foreign exchange rates, leaving the possibility of only simple, temporary fluctuations of natural adjustments.

(2) Since no internal inflation or deflation is possible in the new system, the additional mechanism of the price-specie relationship together with the interest rates mechanism will provide conditions for a fast and, in most cases, mild adjustment process so that the internal value of the Drachma will be equal or close to its external value. This is the visible sign that the balance of payments of a given country is in stable equilibrium.

(3) Suppose that the whole free world remains under a regime of paper-money and monetized bankcredit, i.e. under a system of «anti-numeraire»! Would this mean that Greece cannot proceed with this plan for monetary, financial and economic stabilization? The answer is, definitely Not! A regime of stable equilibrium conditions in Greece will not, and cannot, be disturbed by an outside financial system in disequilibrium. Greece with the new system will enjoy the fruits of price-

stability and full employment, whereas the rest of the world will be drifting from open to hidden inflation or deflation and all other known economic and social disturbances.

(4) Would the new system bring Greece in conflict with the International Monetary Fund? The answer is again emphatically, No! Greece's membership in the I.M.F. will not be weakened but on the contrary strengthened by delivering the proof that stability of a national currency at home and in international markets can be achieved and maintained through a reasonable experiment by adopting a 100 per cent numeraire-currency together with other reforms oriented toward conditions of stable equilibrium.

Finally, Greece, after all her other political troubles, may give the free world a living example of financial and economic stability so that other countries may follow her experiment, and so prompt the International Monetary Fund itself to reorganization in the same direction of establishing conditions of stable equilibrium at the national and international levels.

Part Three : The Attachment of a Reasonable Social Reform and the Introduction of a Code of Ethics in Business (Law of OMENIA)

1. The Problem of Social Inequities Inherited from the Past

Greece, like other capitalist countries, has inherited from the past social inequities which have been perpetuated from one generation to another. Similar conditions in the present continue to add new inequities or to increase those inherited. Here reference is made only to those social inequities which are associated with a reduction in the real income of a significantly large number of people who happen to have already a low level of income. That is how in modern times social problems are created!

The economic, social and political conditions or vehicles by which social inequities are initiated are known: Inflation which cheap paper - money and monetized bankcredit reduces the real income of the many; so does monopoly prices of land or other factors of production including business, overtaxation (direct or indirect) and arbitrary manipulation of prices, wages and other incomes by the government or powerful trade unions. The ultimate solution to the problem of social inequities can be divided in two parts: First, to compensate the poor in a reasonable and peaceful way for some of the inherited social inequities which now constitute a heavy burden for the present generation; second, to take all the necessary measures so that the main causes, just mentioned, which produce social inequities be eradicated with no chance of repetition in the future.

2. A Reasonable Social Reform for Past Inequities

As far as the past is concerned, there is no way to correct completely all

social injustices for the obvious reason that it is impossible to calculate economically such inequities for each individual involved. What can be done, and if successful could become a social landmark of human progress in modern times, refers to social reform of reasonable proportions, which can be attached to the operation of exchanging old, inflated Drachmas for new, stable Drachmas.

How can such a social reform be conducted peacefully without creating other disturbances in the economy? It is the task of the Greek Government to explain to the people first that a social reform of this type is necessary, and that it is better for the future of the entire nation to take an additional sacrifice now (by those who can afford it) in order to have social peace tomorrow. This is the best way and the best social investment to exterminate the seeds of social unrest and political agitation for revolution.

Once the Greek Government has made the cause of a limited social reform plausible, then on D - day when old money is exchanged for new money, a certain portion, f.i. a graduated scale of 5 to 20 per cent of any sum in excess of a certain minimum level of cash and savings (again measured by the average standard of living and obviously not associated with social inequities) shall be temporarily blocked in a special «Fund for Social Peace and Reform». Meanwhile, during the process of exchange of old money, statistical information should be collected to show, on an individual basis, the exact number of those people who are really poor (below the above specified minimum) and possess rather small cash balances and little savings, if at all. Knowing the exact amount of money accumulated in the «Fund for Social Peace and Reform» and also the exact number of poor people, it is possible to calculate how much financial help could be granted to these disadvantaged citizens.

To reinforce the constructive character of this social reform, a requirement may be attached whereby the recipients of such financial aid may use it only for productive purposes, that is, for buying a home or an additional piece of land with more or better capital equipment in the country, or establishing any sort of lucrative business, or sending children to professional schools or institutions of higher learning. After this reform is completed, no welfare payments should be given to persons capable of working.

This social reform undoubtedly requires a sacrifice on the part of the more affluent who are able to afford it, but this sacrifice is socially most beneficial and economically very productive, since the money from the «Fund for Social Peace and Reform» will be converted into real capital and used immediately in the economy to increase productivity. In the final analysis, therefore, this social reform will strengthen the moral fiber of the Greek society and the foundation of the Greek economy.

3. *A Code of Ethics in Business (the Law of OMENIA) as a Support of Social and Economic Justice in the Future*

As far as the future is concerned, and to be sure that the kind of social ine-

quities known in the past and present will not recur, this plan is recommending the introduction of a constitutional law in the form of a permanent «Code of Ethics in Business», here also called the «Law of Omenia». The term «omenia» is an intranslatable expression from the Romanian language, and it means in principle to be humane to the highest degree in all relationships of life and in business, to be fair at all times and under any circumstances so that no social problems are created for one's fellowmen.

The Law of Omenia or the Code of Ethics in Business shall require that all business transactions of any nature and regardless of the amount or size of the firm involved be concluded at equilibrium or fair prices. Equilibrium prices in turn shall be calculated in good faith, respecting the spirit of the law, to make up for the cost of production or reproduction to which a normal rate of profit (representing the opportunity cost for managerial services) was added. More specifically, equilibrium prices shall be calculated in such a way as to include only the real payments made (or imputed) for the factors of production (labor, land and buildings, capital, management) actually used, plus government taxes in any form.

The Law of Omenia in business does not mean in any way an arbitrary government interference reminiscent of unnecessary controls and regulations of the past. In the new system business will be free to develop according to the needs of the people but under the basic condition of fairness to all parties involved, i.e. not producing social problems. Indeed, in a free and stable society of tomorrow as envisioned in this plan, the institution of free enterprise in recognized as indispensable instrument of economic progress, as long and so far as it satisfies the law of stable general equilibrium. And the Walrasian law of general equilibrium says that in a system of free markets with numeraire, the prices for both consumer goods and capital goods will be equal to the least cost of production as defined above. In an equilibrium price, therefore, there is no chance for extra profit or surplus value in the sense of Marx. The Law of Omenia or a Code of Ethics in business, in the final analysis, supports the realization of equilibrium prices and thus it becomes a legitimate and necessary institution in any free, just and stable society and economy of tomorrow.

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V. FINAL REMARKS : A New Message

We are living in a time of confusion and frustration, almost everywhere in the world, with rare exceptions. We have reached a critical point indicating a crossroad in modern history. The whole free world is financially drifting in diverse directions as a result, among other things, of the disequilibrium forces unleashed by the last crisis of the international monetary system after the suspension of the

convertibility of the American Dollar in August 1971. The natural parameter of numeraire has been eased out of both national economies and the international financial community, and consequently the dikes of inflation are broken everywhere, with no solution in sight.

The whole free world now at an impasse is impatiently waiting to see somewhere an example of «*stabilité sur le vif*», as the French say. This comprehensive plan offers Greece the tools and the reforms with adequate policies to provide such an example of clean and sound stability for the short and the long - run.

The Greek Government under a new democratic leadership is facing a historic challenge to unite the country and to give every citizen a fair opportunity to participate in a unique experiment of proving that it is possible to have a new, better society based on freedom, social justice, full employment, price stability, social peace and a balance of payments in equilibrium. It is a new road called «*Social Liberalism*», leaving behind both Capitalism and Socialism as being inadequate and insufficient to resolve the major problems of our time.

On this new road, an equitable and self-supporting «*economic miracle*» in Greece lies in the realm of the possible, correcting the now obvious deficiencies of an earlier «*economic miracle*» in West Germany and Japan after World War II. Greece, the cradle of «*demokratia politica*» may thus become also the birthplace of a new era of genuine «*demokratia economica*». The rest of the world can then look at eternal Elladha and sense a new message and an example of how to regain confidence in the virtues and blessings of a free and stable society and economy - a confidence lost in recent decades.