



ThinkTwice 2014 in Frankfurt am Main

Euro

Fundamental Reforms instead of Fix Packs

Arne Pfeilsticker
PP Germany, Coordinator Working Group Economics



Disclaimer

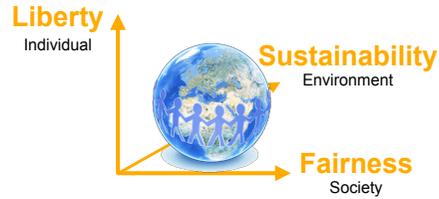
- The German Pirates are characterized by a diversity of opinions.
- My presentation is a contribution to this discussion of diversity and not an official position of the Pirate Party of Germany.
- The ideas had already been presented and discussed in working groups and at various conferences such as the EuWiKon.
- Our diversity is our asset and we should appreciate it - even sometimes you really have to love your pirates - in order to bear them.



Contents

- After what kind of monetary system we looking for?
- Analysis
- Fundamental Reforms: Cooperative Currency Infrastructure
- What about Bitcoins?

From the Manifesto of the German Pirate Party:
The Pirate's concept of the economic order is one of liberty, fairness and sustainability.

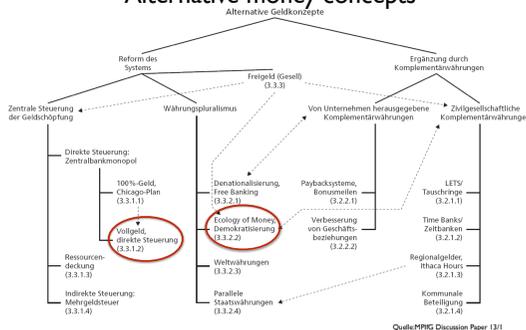


We do not regard these values as opposites, – where more liberty necessarily means less fairness or sustainability – but dimensions. The more we get of these core values, the greater our prosperity.

What consequences follow for a monetary system?

- The financial system must serve the people and the real economy in the long term and are not subordinated to the short-term interests of the financial markets.
- A sustainable financial system ensures that damage to the community and systemic crises do not occur.

Diskussion paper by Philipp Degens: Alternative money concepts



With this overview, I would like to point out that there are different concepts of money and monetary systems. In my proposal, I will take up several of these ideas and contribute own ideas, too.

This paper of Philipp Degens reviews the literature on selected alternative concepts of money.

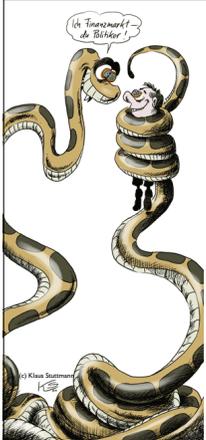
But let me start with one of my favorite quotes.

"GIVE me control of a nation's money supply, and I care not who makes its laws."

— Mayer Amschel Rothschild, founder of the Rothschild banking dynasty

7

And this quote from our Chancellor Merkel seems to confirm the view of Amschel Rothschild.

A cartoon illustration of a man standing on a large, coiled snake. The snake is yellow and black, and the man is wearing a suit and glasses. A speech bubble above the man says "Ich Finanzmarkt - der Bittler".

Marktkonforme Demokratie

Kanzlerin Merkel:
"Wir leben ja in einer Demokratie und das ist eine parlamentarische Demokratie und deshalb ist das Budgetrecht ein Kernrecht des Parlaments und insofern werden wir Wege finden, wie die parlamentarische Mitbestimmung so gestaltet wird, dass sie trotzdem auch marktkonform ist."

8

Here is the translation into English.

A cartoon illustration of a man standing on a large, coiled snake. The snake is yellow and black, and the man is wearing a suit and glasses. A speech bubble above the man says "I financial market - you politician!".

A market-compliant democracy

Chancellor Merkel:
"We live in a democracy and this is a parliamentary democracy and therefore the budget law is a core right of Parliament and thus we will find ways to parliamentary participation is designed so that it is nevertheless also market-compliant."

9

Democracy-Compliant Financial Markets

... and we pirates
will find ways how
financial markets
can be made
**democracy
compliant.**



10

But before we can turn around the tables, we need to know and understand how and why the financial markets control us.

I will now point out four key points we have to deal with.

Analysis

11

In the following key points will be illustrated. The details of the analysis can be found on the wiki pages of the working group money order (AG Geldordnung und Finanzpolitik).

Especially, I would also recommend the various panel discussions with experts.

I. Key point

12

Too big to fail.

<http://www.tagesspiegel.de/wirtschaft/too-big-to-fail-mega-banken-maechtiger-denn-je-too-big-to-fail-mega-banken-maechtiger-denn-je6043280.html>

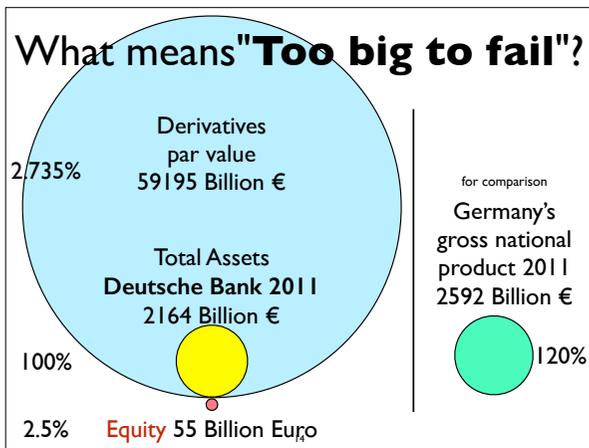
13

The financial crisis 2007 - 2008 brought a startling truth to light: When it comes down to it, then the laws of the market do not apply to financial corporations. The lenders were not held liable for their bad investments. Instead kicked the taxpayer and the creditor got away very lightly.

The justification of the politicians responsible for this fall against the market economy culminated always in the same formula: "too big to fail".

We have to rescue banks because they are too big to go bankrupt. The damage that would be caused by the failure of a systemically important bank, is beyond imagination.

In plain English: the hundreds of billions are a bargain compared to what would otherwise come to us taxpayers.



"Too big to fail" means that individual banks have reached a size that could wreak havoc in the event of bankruptcy.

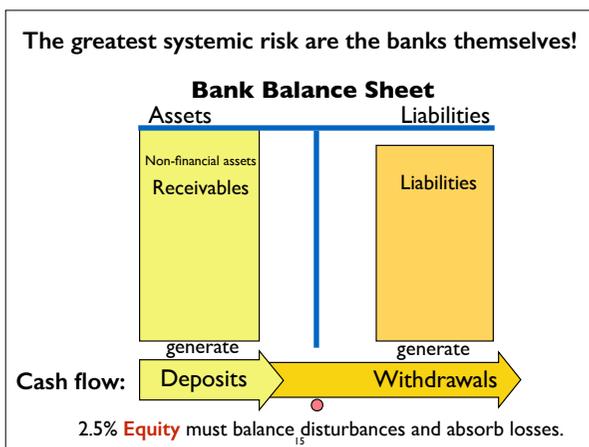
It would probably be an exaggeration to say: "If the German bank falls, then falls Germany." – But it goes in this direction.

The "life insurance" and the blackmail potential against the politicians of these so-called systemically important banks is: "If we go down, then you go with me."

In this position, it is tempting to speculate relatively relaxed.

The areas of circles are to each other in the correct ratio.

Also the little red dot that represents the equity, was deliberately placed below the total assets and derivatives. It illustrates the risk that represent the banks in our monetary system.

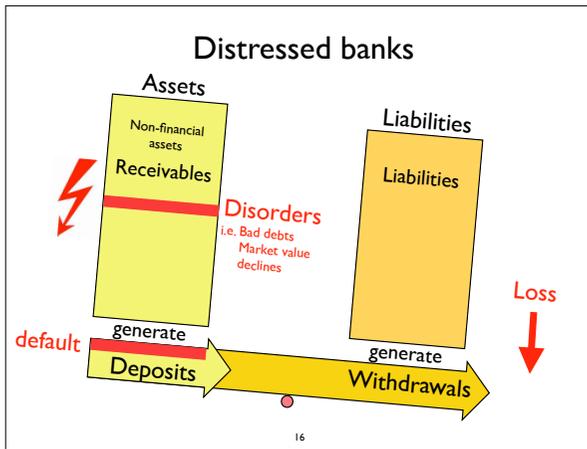


The greatest systemic risk does not go out of the real economy, but by the banking sector itself.

The asset side of a bank's balance sheet consists mainly of receivables. These receivables generate a stream of deposits.

The liabilities side of a bank's balance sheet consists of about 97% of liabilities. These liabilities generate a stream of withdrawals.

These cash flows must be continuously balanced.



When it comes to disturbances on the demand side, it will sooner or later lead to a loss of deposits.

Claims against individuals, companies or states can fail and have to be written off.

The liabilities of the Bank exist however as before.

The resulting losses must be absorbed from equity.

In normal times, bad debts are spread evenly. These risks the banks can calculate.

Additional bad debts of a few percent can bring in times of crisis, many banks in financial difficulties.

The illustrated system risk by the banks is just one risk among several, to which I will not go into due to time constraints.

2. Key point

17

Too interconnected to fail



Why can the interconnectedness of the banking sector become a problem?
Should not it be more likely that interconnections stabilize the overall system?

Too interconnected to fail

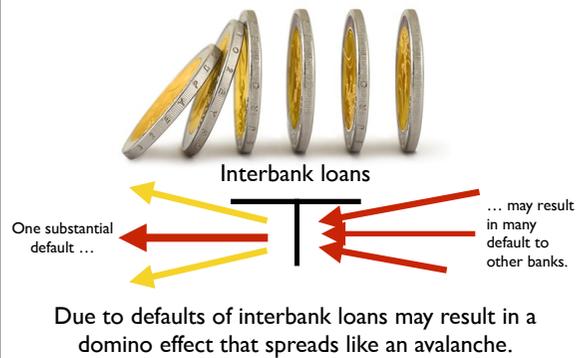
(As seen by cartoonists.)



The idea is not too bad, but the situation is somewhat more complicated.

19

Too interconnected to fail

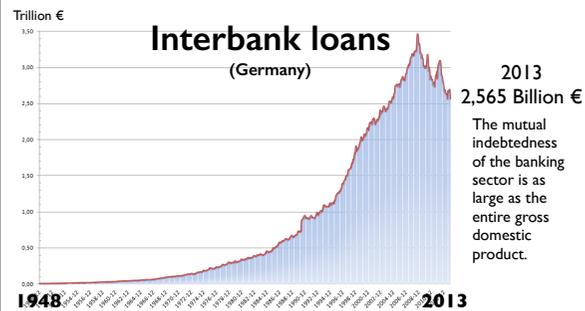


20

Interbank loans can be found on both sides of the balance sheet. On the asset side are the loans to other banks. On the liabilities side are the loans from other banks.

The banks are so intertwined with each other that if a bank stumbles others may lose balance. If a bank crashes, the entire banking sector can be drawn back into the depths.

Too interconnected to fail



21

3. Key point

22

The real secret of banking: **The creation of money by merchant banks**

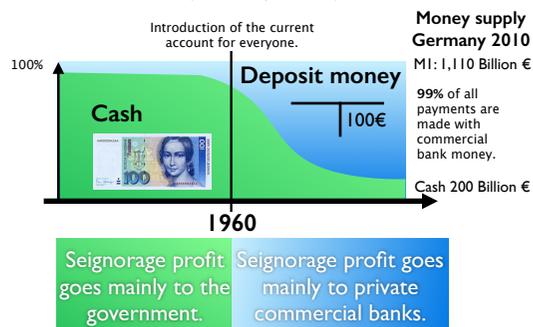
99% of people think that our money is made by the Central Bank.

But in value terms, 99% of all payments are made with money that have been made by merchant banks - and not by central banks.

23

Development of the deposit money

(Schematic representation)



24

The introduction of the current account for everyone has led to a severe change in our monetary system.

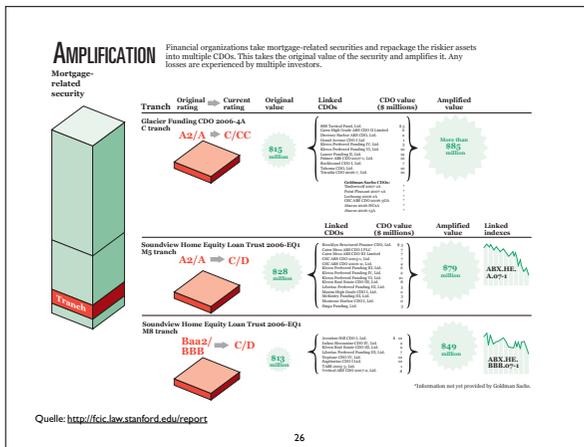
The introduction of computers has transferred the creation of money and the money creation profit from the central bank to the commercial banks. Nowadays 99% of all payments are made with commercial bank money.



Synthetic financial market products arise mainly by the fact that bad financial market products are packed in mathematical gold foil. Then it is hoped that as long as possible no one notices that there are not gold nuggets.

The financial crisis 2007/2008 would have never done the known damage if only the subprime loans would burst. The damage and the chain reaction came about by the synthetic financial products that have been built on these mortgages.

The technical details can very well read in "The Financial Crisis Inquiry Report" by the U.S. government. There are also excellent presentations of how these financial products are structured and how they work.



In "The Financial Crisis Inquiry Report" concrete examples are shown, such as were made from a package of subprime mortgage loans worth 15 million dollars worth of CDOs \$ 85 million.

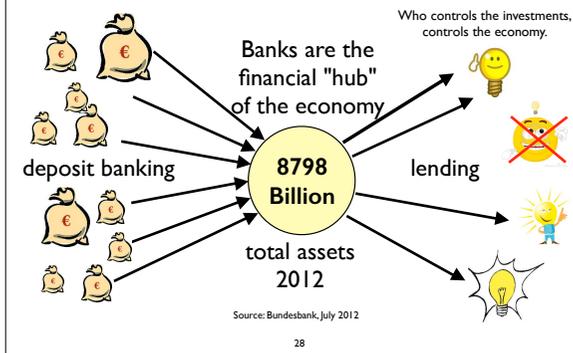
This trick has been used however not just once, but in the report has been reported chains with 40 stations.

This means that the unsaleable remnants of these so-called structured finance products has been swept together and repackaged in mathematical gold foil and sold for a profit again.

The bad thing about these inflated financial market products is that the profits to be obtained thereby, just so you can buy goods and services in the real economy, such as the hard earned gains in the real economy.

4. Key point

The power of banks



The power of banks is based in their position and function in the economy.

They concentrate not only assets of nearly € 9 trillion, but they decide to almost the same extent who will get loans and who won't.

Due to the obligations of the debtor, banks also know very well the weaknesses of their debtors. They use this knowledge specifically to their own advantage.

Banks control by lending the investment in the economy.

Investments are the ideas for the future. And who controls those ideas, controls to a considerable extent the development of the economy.

Fundamental Reforms

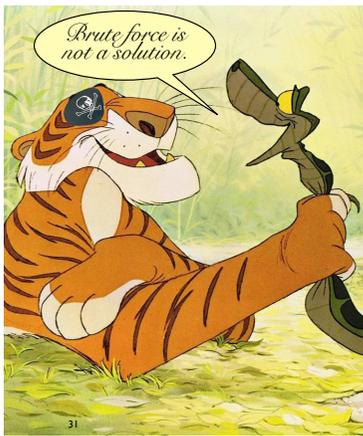
29

Fix Packs

- The architecture of our monetary systems remains untouched in most proposals to deal with financial crises.
- I call these proposals therefore fix packs.
- The basic architecture of our monetary systems is already over 100 years old. So it came from a time in which you had not the slightest idea and concept of computer.
- This raises the question: „Do we have to accept the old structure and live with the problems?“

30

... or are there any other ideas to get the banking problems under control?



Violence is no solution? –

Where she is right, she's right.

Or is it? – At least one problem would be solved!

But I am convinced that there is much more pirate like and more effective solution.

Yes! Cooperative Currency Infrastructure (CCI)

32

On the following slides, I will only discuss the basic ideas. The drafted proposal can be found on the wiki pages of the working group.

To make good policy, one must deal with the details of the problems. And this is precisely the task of the working groups.

Why Currency Infrastructure and not monetary system?

The term currency infrastructure was chosen based on the concept of transport infrastructure.

Infrastructure Architecture

- An infrastructure consists of a more or less complex and huge system with simple as possible user interfaces.
- An Infrastructure architecture provides the user with maximum freedom at the lowest possible cost.
- Example: The transport infrastructure with the user interface car or a public transport ticket.

33

CCI from a user perspective

- It looks and works like an online banking system with enhanced functionality.
- All payments can be made anonymously.
- All non-cash payments can be traced in case of fraud.
- Automatic escrow processing of online payments. (If the goods are not delivered, the payment can be recalled.)
- Everyone has a block of free accounts that he never loses.
- Basic services are free of charge. Additional services are much cheaper than today.

34

CCI from a user perspective (continuation)

- Real time transaction processing.
- No IBAN and BIC bickering. Payments are made to account aliases or contract numbers.
- Support functions to make banking as easy and safe as possible.
- Bank transactions can only be performed with standardized and fair contracts.

35

Key feature: Standardized and Fair Contracts (SFC)

- Standards have resulted in the technical area to considerable simplifications and synergy effects.
- These ideas are applied here to contracts.
- SFCs are not only templates for contracts, but expert programs that supports the entire process.
- This intends to make financial transactions much easier, safer and fairer.
- The support of the entire process results in substantial additional synergies.

36

CCI-Organization

- Consists of independent statutory bodies.
- Builds and runs the currency infrastructure
- Governments, companies and private persons are equally represented on the board.
- The 3 board members are elected by their group members.
- Each board member has its own area of responsibility and is controlled by the other two.

37

CCI-Tasks & Services

- Money creation
- Provisioning of money accounts
 - No money accounts outside CCI (Vollgeld)
- Real-time processing of payments
- Standardized and fair contract templates.
- Online trading platform for financial markets
- Rating services
- Monetary policy

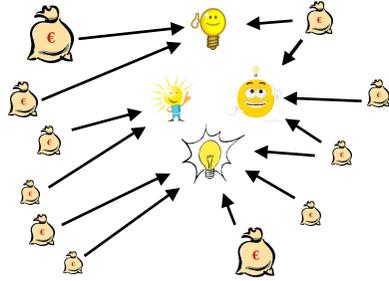
38

The role of banks

- Banks can offer services as before.
- Banks only lose their exclusive privileges to:
 1. receive deposits
 2. lend money
 3. create money
 4. manage assets
- Financial service providers need a super credit rating and a running proof of concept and success.

39

The Banks we are



The financial market functions foster direct transactions between users. Crowd-funding oder other kind of financing are supported.

40

Privacy Policy

- User master data are kept strictly separated from the rest of the data.
- Each user may deposit his encrypted master data at a trustee of his confidence.
- All payments are made on account aliases, such as an email address.
- Only at the very moment in which the payment is posted in the system, the connection between the account number and the account alias is decrypted.
- No one, not even the user himself knows his own root account number.
- CCI-Account numbers are a kind of IP addresses.

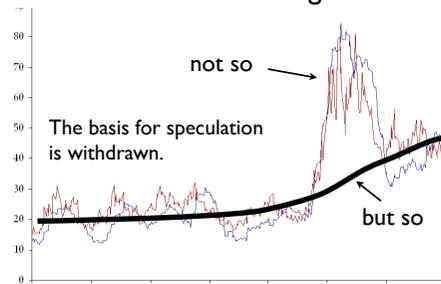
41

Transparency

- Any payment may be traced in case of fraud.
- Compliance with the tax laws is supported.
- CCI's software is open source.
- Work processes and decisions are transparent to the public.
- The anonymized data can and should be evaluated for economic statistics.

42

Stable financial markets through deceleration



Financial markets are to be held around the clock in a 4-hour intervals.
In an interval the offers and demands are collected and settled to a previously known floating mean.

43

Discrepancies between supply and demand are taken into account in the future course of calculation.

This rule change is painful for speculators and makes investors happy. Stability in the financial markets – Fully unthinkable in the current system.

Solved Problems

44

~~To big to fail.~~

- Banks are in the new system, a kind of heater on electric locomotives.
- All standard banking transactions can be made cheaper and faster without banks.
- Creditors and debtors can share the charges and interest income of the banks.
- The banking sector loses by the loss of current accounts, interbank loans and money creation 50% of the bank's balance sheet.
- Bank runs are excluded because banks do not have any more customer current accounts.
- In CCI current account balances are as safe as cash.

45

Too interconnected to fail

Interbank loans



- All interbank linkages, such as capital and loans are taxed.
- Interbank loans will become the exception.
- Banks can and should borrow from non-banks, or CCI.
- If a bank goes bankrupt, then no other banks are affected.

46

The creation of money by banks

- The total money creation lies exclusively with the CCI.
- Derivatives are a kind of money-creation on a higher level.
- Each stage of the derivatization are taxed at the interest rate of money creation.
- The taxation will cause derivatives largely disappear.
- As a result traditional loans to the real economy will become among the most profitable forms of investment.

47

The power of banks

- Banks will no longer be the financial hub of the economy.
- The entire real economy can finance cheaper directly from non-banks.
- Credit insurance get a legitimate role now.

48

What about Bitcoins?

- Some pirates think that Bitcoins are the money of the future, and Bitcoins and pirates are just a perfect match.
- Many consider the anonymity, the decentralized approach and the elimination of governments and the banking sector as the decisive advantages.
- On closer consideration, however, one must realize that Bitcoins:
 1. are a waste of resources,
 2. the good properties can be realized better and
 3. the disadvantages can be avoided.

Pros and Cons

Characteristics	Eurosystem	Bitcoins	Cooperative Currency Infrastructure
Money creation	Decentralized by all banks	Decentralized by miners	Centralized by CCI only
Kind of money	credit money	commodity money	credit money (Vollgeld)
Total amount of money	no limit	21 Mill. BTC	no limit
Production costs	cash: low non-cash: very low	very high	cash: low non-cash: zero
Seignorage profit goes to	governments / com. banks	miners	public / public sector
Transaction costs	low	high	almost zero
Transaction time	real time - 2 days	10 - 60 minutes	real time

Vollgeld, that means all money is central bank money.

Pros and Cons

Characteristics	Eurosystem	Bitcoins	Cooperative Currency Infrastructure
overall system security	high	mediocre	high
anonymous payments	cash yes / current account no	yes	yes
Prevention of money laundering	fair	none	very high
Protection against fraud	fair	low	very high
risk of loss	cash yes / c. account no	yes	cash yes / c. account no
price volatility	midium	high	very low

Pros and Cons

Characteristics	Eurosystem	Bitcoins	Cooperative Currency Infrastructure
Support of tax compliance	midium	none	good
Influence of financial sector	very high	low	low
Economic Statistics	low	none	very good
monetary policy	yes	no	yes
Accounting costs	low	high	very low
Additional synergies	low	none	high
Scalability	good	very poor	very good

52

More Information

- **Arbeitskreis Geldordnung 2.0:** http://wiki.piratenpartei.de/AG_Geldordnung_und_Finanzpolitik/Arbeitskreise_und_Teams/AK_Geldordnung_2_0

- **Währungsinfrastruktur in öffentlicher Hand**

Here you can find the detailed description and the current updates:

http://wiki.piratenpartei.de/AG_Geldordnung_und_Finanzpolitik/GFO_2.0/EPMS

Any criticism and comments are always welcome:

Arne.Pfeilsticker@piratenpartei-hessen.de

Everyone is welcome to participate!

53