A 5% correction by the ECB can fund the Thyssen plan

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Abstract

This paper investigates proposals by European Commissioner Thyssen, to provide more support for European citizens in times of need. These proposals offer great potential – but it is not clear how they would be paid for. At the time of writing, the Greek economy is under severe financial stress, and at risk of default; other Eurozone countries also face severe financial difficulties. This paper suggests Commissioner Thyssen's ideas are a nucleus around which solutions can be built. The details of such plans are complicated: if Greece is to be rescued from the threat of default, it requires ingenuity by a number of Europeans. A key question is how to pay for implementation of Commissioner Thyssen's ideas; this paper argues the case for the European Central Bank (ECB) funding the first phase of this vision for a new Europe.

Introduction

Countries in the Eurozone experienced a roller-coaster ride in recent decades: after creation of the Euro currency, most countries achieved impressive economic growth, aided by improved ability to trade within Europe, before the 2008 global financial crisis. However, any Eurozone country has limited choices – for example, Greece cannot print money to raise inflation and make repaying debts easier. The global financial crisis around 2008 was associated with the USA sub-prime housing market, financial instruments such as 'Collateralized Debt Obligations', and failure of Lehman Brothers bank; this caused major problems for commercial banks in Europe. European governments were forced to support commercial banks – incurring debts for taxpayers, and leading to austerity. Many European countries made large reductions in the number of civil servants since 2008, causing unemployment; Gross Domestic Product (GDP) fell in many countries. In recent months, the Greek government has been at risk of default on debts to IMF; negotiations with various organisations have been taking place, but IMF seems impatient for a solution (Hiscott, 2015). Whatever the cause(s) of the current financial problems, it seems clear that European Union institutions need to help the Eurozone through the current crisis. In addition to problems for governments, there are problems for citizens. Unemployed people in "peripheral" European countries such as Portugal, Italy, Ireland, Greece and Spain (often referred to as 'PIIGS') are paying a heavy price for mistakes made by private banks in USA and Europe.

Commissioner Marianne Thyssen recommends the EU create a system to support Europeans in distress: "Unemployment remains intolerably high. We still have over 23.5 million fellow European citizens who remain without a job, 4.7 million of which are young people. The crisis has brought the EU further away from its social inclusion targets, with little signs of improvement so far. Today, about one in four Europeans is at risk of poverty or exclusion. Unfortunately, many European citizens do not yet feel the effects of the economic recovery. Today, we have looked at how we can best address our current employment and social challenges and support an inclusive economic recovery. The aim is to achieve upward social convergence and to bring concrete results to the European citizens. This means that job creation will continue to be our number one priority" (Thyssen, 2015d). Where would the money come from? The ECB may hold the answer to resolving the Greek government's current problems: "All of a sudden, the wonders of unconventional monetary activism are back in the spotlight, with Mario Draghi, president of the European Central Bank, cast in the role of knight in shining armour, riding to the rescue of the beleaguered Eurozone" (Warner, 2015). Quantitative Easing (QE) has been used by ECB, but far less in Eurozone than by economic rivals such as USA.

Juncker (2014) advised Thyssen to be proactive in seeking solutions; there are various ways Marianne Thyssen's abstract ideas can be turned into specific plans. Possible solutions which Thyssen and her team could pioneer include using renewable energy for Greece's recovery; payments made to Greek and other Mediterranean country governments in recognition of costs incurred by migrants arriving from north Africa; altering 'Common Agricultural Policy' rules, reflecting the need for hot countries (such as Greece and Spain) to deal with effects of global warming; or raising education levels in Eurozone countries to match international competitors such as USA.

Literature review

Some popular media have given the impression that Greece's problems are due to overspending by previous Greek governments – for example: "The weak southern countries, members of the so-called Club Med, have always been seen as problem cases. They have lived beyond their means and neglected the need to be competitive, they have built up -- partly in full view, partly cleverly hidden -- enormous mountains of debt" (Der Spiegel, 2010). This is controversial: Zartaloudis (2014: 161) denies media claims that the Greek civil service was profligate, stating that the Greek public sector was similar in size to most European countries.

It can be argued that most economists now blame poverty in southern European countries on the global economic crisis which began in USA around 2008: the failure of USA-based Lehman Brothers bank put European banks at risk of bankruptcy. There seemed little choice for many countries: to protect household savings, and the economy, banks were provided with large loans/guarantees by the government. This caused huge debts for many European countries, and it seemed some countries such as Spain could not sustain this level of debt – the commercial banking sector was only prepared to lend to such countries at very high interest-rates. As Juncker et al. (2015: 2) expressed it, "It originated in the U.S. subprime market and spread rapidly across the globally interconnected financial system, including to European banks and other financial institutions […] as banks that had become too systemic to fail got into financial difficulties and turned to their sovereign for help, the stability of the banking system could only be guaranteed to the detriment of the public finances of the countries concerned and at the cost of increased financial fragmentation". Batini et al. (2012: 40) wrote "In Europe, especially in countries where sovereign debts have increased sharply due to bank bailouts, a crisis of confidence has emerged […] While the sovereign debt increases have been most pronounced in only a few euro zone countries (notably in Greece, Ireland and Portugal, and more recently Spain and Italy), they have become a perceived problem for the area as a whole because of the potentially severe contagion effects".

Government debt could become excessive: Reinhart & Rogoff (2010) claimed that if government debt exceeded 90% of GDP, this tends to slow down economic growth: "Our analysis is based on new data on forty-four countries spanning about two hundred years. […] Our main findings are: First, the relationship between government debt and real GDP growth is weak for debt/GDP ratios below a threshold of 90 percent of GDP. Above 90 percent, median growth rates fall by one percent, and average growth falls considerably more". Juncker et al. (2015: 3) state "The fiscal rules meant to contain excessive public deficits (the so-called "Stability and Growth Pact") were often not respected and not implemented". But many economists claim SGP rules can cause problems (Karagounis et al., 2015) – for example, after German reunification, Germany broke SGP rules to support former East Germany's recovery. In response to the post-2008 crisis, institutions such as the European Central Bank (ECB) provided help to countries in financial stress, but with strings attached – the 'Troika' (European Commission; European Central Bank; and International Monetary Fund, IMF) imposed austerity on Greece, limiting government spending.

Some Eurozone countries seem to be victims of their own success. For example, Spain had a successful financial sector before 2008 – Spanish banks are large relative to the Spanish economy IMF (2012:10); but the global financial crisis around 2008 caused huge losses, which the Spanish government resolved – making Spanish taxpayers vulnerable to costs associated with supporting Spanish banks, from bank failures in UK, France and Germany IMF (2012: 31; 37). IMF estimated that Spanish banks "will require some $46 billion in fresh capital. But the problem starts with how the bailout will be implemented. Rather than inject money from the euro zone's bailout fund directly into Spanish banks, the E.U. rescue will take the form of loans funneled through Spain's government bank-repair vehicle, called the Fund for Orderly Bank Restructuring, or Frob, which will then use that financing to recapitalize the banks. That means the Spanish government will ultimately be on the hook for paying the bailout loans back" (Schuman, 2012). Hence, Spanish citizens have reason to be grateful for EU support since 2008; but EU could have shared the cost of avoiding bank failures between all Eurozone countries, on the grounds that failure of a Spanish bank would have destroyed savings by that bank's customers in other EU countries.

Some economists claim financial support risks 'moral hazard': ECB support may encourage inappropriate behaviour – a future government might be tempted to overspend, assuming that any debts would be paid by other Europeans. Hence, any solution to the current crisis should avoid being too generous to Greece. A second consideration is that if only Greek people were helped, other countries may feel unfairly treated. One way to resolve both of these issues is to treat every Eurozone country in the same way: giving Greece enough support to survive the current threat, but giving every other Eurozone country equivalent help (taking account of each country's population) – this should not encourage any government to be irresponsible in future, because it would make that country worse off.

Institutions such as ECB need to seek a complicated balance, between too much or too little austerity. Austerity has caused severe hardship in several Eurozone countries – for example, Kokkevi et al. (2014: 12) report that in Greece, "increases in parental unemployment and related consequences such as change of residence, reduction in private tutoring, cutting down on holidays, and difficulties in affording food, are among the most visible outcomes indicative of the worsening of families' economic situation". Previous research underestimated the damage to an economy caused by government spending cuts, especially among households which cannot borrow (Figari et al., 2015). There have been increased health problems in Greece as a result of austerity: "Alternative responses to the crisis would have allowed Greece to pursue difficult structural reforms, while preventing devastating social consequences. […] Although the Greek health-care system had serious inefficiencies before the crisis, the scale and speed of imposed change have constrained the capacity of the public health system to respond to the needs of the population […] The people of Greece deserve better" (Kentikelenis et al., 2014: 751-2). Other problems associated with Greece's financial problems include mental health problems, and increased number of suicides (Kokkevi et al., 2014: 6).

Low inflation is another risk. Some economists suggest deflation may explain much of Japan's poor economic performance in recent decades: if consumers expect prices to fall, they may delay purchases. Contessi & Li (2014:

14-5) wrote “The euro area is facing the biggest danger of creeping disinflation […] it also aggravates the real cost of repaying outstanding public and private debt, which is normally fixed in nominal terms and not indexed to inflation. Unfortunately, the large debt levels reached after the global financial crisis have not been worked out yet”. Mersch (2015), an ECB executive, seems to accept that ECB is partly to blame for the Eurozone’s current crisis: “a criticism that is sometimes levelled at us is that we spend too much time talking about policies which are outside our mandate – namely structural reforms and euro area governance – and too little time focusing on actually delivering that mandate, i.e. returning inflation from its current low levels back towards below, but close to 2%”.

‘Austrian school’ economist Don Boudreaux (cited in Cochran, 2013) claimed “Nothing in economic theory argues against the possibility of a relatively rapid restoration of employment […] The freer the market, the more rapid such restoration will be”; this suggests agencies such as ECB need not intervene. But implementation of ‘Quantitative Easing’ (QE) in the Eurozone in 2015 suggests the ECB now accepts it would take too long for free-market capitalism to solve Europe’s problems. In the Eurozone’s current fragile state, Keynesian economists tend to support active monetary policy such as QE, but also recommend active fiscal policy (e.g. more government spending): for every Euro injected by an organisation such as ECB, Keynesians expect national income to increase by more than 1 Euro – known as the ‘multiplier effect’. Blanchard & Leigh (2013: 19) studied European economies, and found the multiplier became “substantially above 1” early in the global crisis since 2008. Similarly, “Nowadays it is broadly agreed that the short term effects of fiscal consolidation measures are more severe than originally thought, with fiscal multipliers ranging between 0.9 and 1.7” (Figari et al., 2015: 14). Under President Obama’s administration, USA implemented Keynesian fiscal policies, which appeared to have helped the US economy recover. Juncker et al. (2015: 7) wrote “The euro area has not recovered from the crisis in the same way as the U.S.”. Policies recommended by Commissioner Thyssen (discussed below) would generally be supported by Keynesians, as a form of fiscal injection and hence a way to escape recession or depression.

Sayek, Taskin & Giannone (2014) state “the euro periphery crises are composed of unique country experiences; hence, it will not be resolved with a ‘one-size-fits-all’ set of econmomic policies”. Ardagna & Caselli (2012: 20) claimed “the 27 heads of state can only meet infrequently and for a few hours […] domestic political considerations are paramount in EU bailouts […] If the EU is bent on continuing to take the lead in future bailouts it should give careful considerations to ways to limit the pernicious effects of these frictions”. One possible approach to Greece’s current problems is referred to in this paper as the ‘Thyssen plan’, described in Thyssen (2015a), Thyssen (2015b) and Thyssen (2015c): these statements are not detailed, but suggest a ‘safety net’ can be provided by EU institutions to help any EU country in crisis. In June 2015, she claimed “our social protection systems need to remain sustainable for the future. I believe that upwards social convergence is the key to achieve this. We can encourage gradual convergence by establishing minimum standards, expressed in benchmarks. These can cover for example the duration and level of unemployment benefits, minimum income or access to child care or basic health care” (Thyssen, 2015d). In particular, “Greek workers are going through a difficult period and we must use all the tools we have at our disposal to provide assistance” (Thyssen, 2015a). “The European Commission accompanies Member States in this effort through multilateral surveillance, the exchange of good practices, awareness raising and a substantial funding effort, as beyond YEI funding, the European Social Fund will directly support youth employment measures worth close to 6 billion euros. We now need to make this actually happen on the ground and reach the young people it is meant to support” (Thyssen, 2015c: 2). However, “When questioned on the implementation of a guaranteed minimum income, Thyssen declared herself personally in favour of the idea, but admitted that the Commission possessed very limited powers to act” (Robert, 2014). Hence, Thyssen’s ideas need to be accompanied by a funding method; this paper explains one possible approach, associated with ECB.

Data and methods

Analysis in this paper is generally limited to countries which now use the Euro. The European Commission pays for ‘Eurobarometer’ (EB) surveys in all EU countries since early 1970s; in recent years, there have been about six surveys per year. A typical Eurobarometer survey interviews about a thousand randomly-chosen people; the sample is nationally representative of each country studied (including rural & urban respondents, and people in all regions of the country). This document analyses ‘standard’ Eurobarometer surveys from 2009, up to EB 82.4 (December 2014). Until early 2015, raw data were available from www.gesis.org/en/Eurobarometer/data-access/ .

To assess corruption, three measures reported by Transparency International (2015) are shown in Table 2 below. The first of these is BF (SGI), the ‘Bertelsmann Foundation Sustainable Governance Indicators 2014’, in which experts assess “To what extent are public officeholders prevented from abusing their position for private interests? [...] auditing of state spending; regulation of party financing; citizen and media access to information; accountability of officeholders (asset declarations, conflict of interest rules, codes of conduct); transparent public procurement systems; and effective prosecution of corruption”. The second measure of corruption is WEF, the World Economic Forum ‘Executive Opinion Survey’ 2014: respondents were asked “In your country, how common is it for firms to make undocumented extra payments or bribes connected with the following”, and “In your country, how common is diversion of public funds to companies, individuals or groups due to corruption?” The third measure used in this paper is GI, the Global Insight ‘Country Risk Ratings’, which assess corruption from petty bribe-paying to higher-level political corruption, assigning scores based on experts’ assessment of corruption in each country (as it affects businesses). For all three corruption measures, a high score implies most corruption; a low score implies least corruption.

For the counterfactual study of Greek government revenue, it is assumed that if inflation had been maintained at just below 2% in recent years, the quarterly price index would follow this formula:

$$P_n = P_o\,(1 + 1.0199^{(n/4)})$$

P_o is the price level in the reference period, i.e. March 2013; and n is the number of quarters since then. The price index is from Eurostat (2015d). Greek government revenue data from Hellenic Statistical Authority (2015) is used, because it is more recent than Eurostat data.

Results

Greece experienced a large drop in average incomes since 2008 (IMF, 2015). We can imagine how falling incomes cause problems – for example, if a family chose to buy or rent a house around 2008, the family might be unable to afford to continue paying that rent or mortgage after their income fell. We can assess how many families have been affected by such changes using Eurobarometer surveys, shown in Table 1 (these are the most recent Eurobarometer data available at the time of writing).

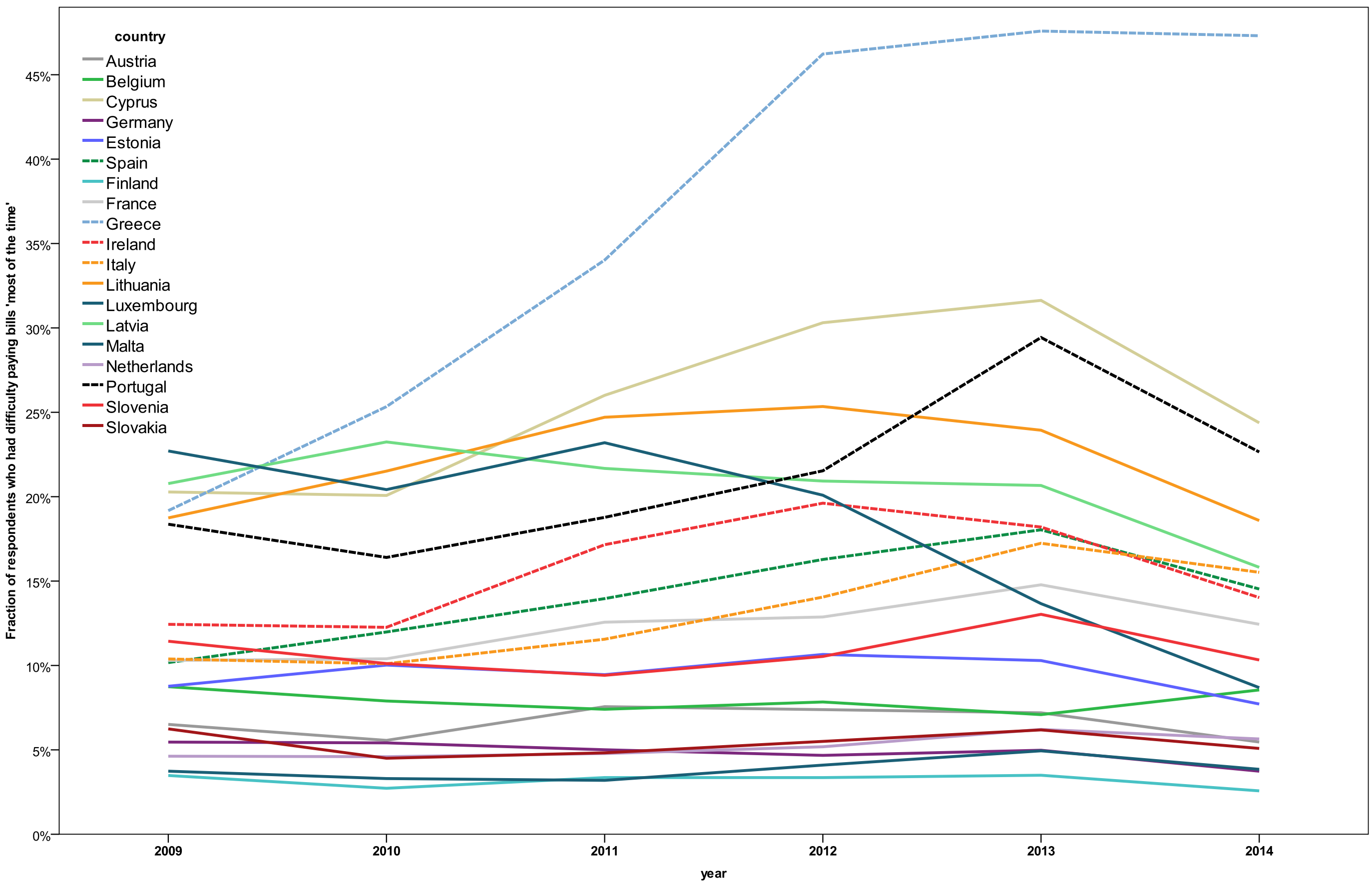
Table 1: difficulty in paying bills, by country (December 2014).

Country	**most of the time**	**from time to time**	**never or almost never**	**Total**	*number of households interviewed*
Greece	48%	40%	12%	100%	*1007*
Cyprus	25%	29%	46%	100%	*497*
Portugal	19%	46%	35%	100%	*993*
Lithuania	15%	32%	54%	100%	*1003*
Spain	13%	22%	65%	100%	*1008*
Italy	13%	45%	42%	100%	*964*
Latvia	12%	33%	55%	100%	*990*
France	11%	22%	67%	100%	*992*
Ireland	11%	40%	48%	100%	*988*
Belgium	8%	19%	73%	100%	*1001*
Slovenia	8%	28%	65%	100%	*1030*
Malta	7%	25%	67%	100%	*500*
Estonia	7%	20%	74%	100%	*993*
Austria	5%	24%	70%	100%	*1005*
Netherlands	5%	12%	83%	100%	*1011*
Slovakia	3%	26%	71%	100%	*1010*
Germany	2%	15%	82%	100%	*1526*
Luxembourg	2%	11%	87%	100%	*491*
Finland	2%	12%	86%	100%	*1006*

Source: European Commission (2014b)

Table 1 reports the fraction of respondents who reported difficulty in paying bills (in the year before interview); rows are sorted in descending order, by the ‘most of the time’ column. Greece is at the top of the table: almost half of Greek households interviewed (48%) had difficulty paying bills ‘most of the time’. Poverty in Greece is far more widespread than the next country, Cyprus. In Greece, another 40% of households had difficulty ‘from time to time’. Figari et al. (2015: 14) “consider liquidity constrained households to be those who declare themselves as not having the capacity to face unexpected financial expenses”; Table 1 indicates that about 88% (48% + 40%) could be seen as ‘liquidity constrained’.

Chart 1: difficulty paying bills, 2009 to 2014: Eurozone countries



Source: European Commission (2014b), and earlier Eurobarometer surveys.

Table 1 reports the most recent data available; Chart 1 shows the historical context since 2009 – the 'PIIGS' countries are shown as dotted lines. In Chart 1, there seems to be a reduction of difficulty in paying bills from 2013 to 2014, for most Eurozone countries; but overall progress since 2009 is slow. Greece stands out as having far more problems than other countries; and the Greek trend is increasing poverty since 2009. This suggests EU institutions should consider providing support for Greece.

Table 2: Three measures of corruption, by country

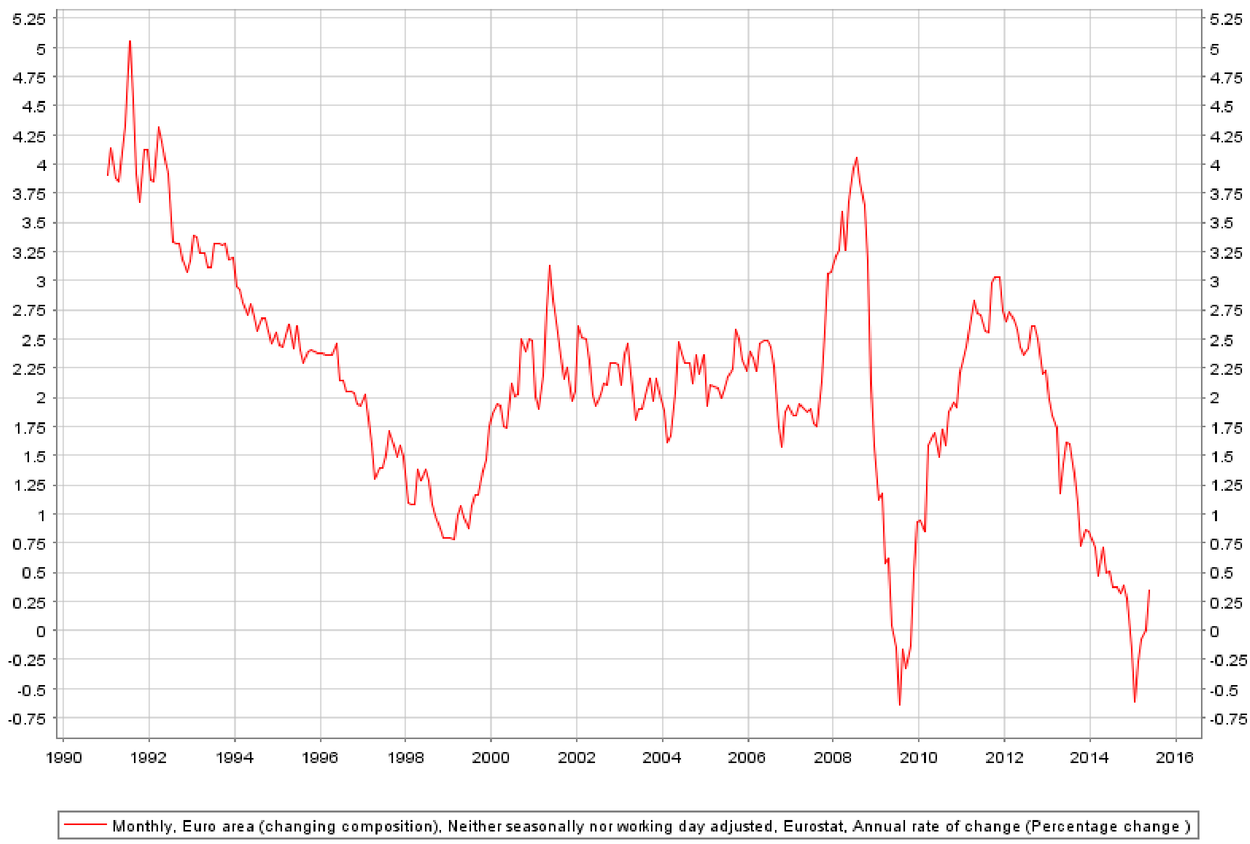
country	BF (SGI) Sustainable Governance Indicators	WEF Executive Opinion Survey	GI Country Risk Ratings
Finland	89	94	83
Luxembourg	81	90	83
Estonia	81	77	63
Austria	81	71	73
Ireland	73	87	73
Netherlands	73	82	83
Belgium	73	79	73
Germany	73	75	73
Portugal	73	67	73
Latvia	73	58	52
Lithuania	65	55	63
France	57	67	73
Slovenia	57	56	73
Spain	57	48	63
Greece	57	44	63
Slovakia	57	36	63
Cyprus	49	65	63
Malta	49	50	63
Italy	49	42	42

Source: Transparency International (2015)

Table 2 reports data corruption in Eurozone countries, using three measures from 'Corruption Perceptions Index 2014', sorted by the author: countries which seem most corrupt (in columns BF and WEF) are at the bottom of the Table. Greece is low in the table, but it is not the most corrupt. There may be a complicated relationship between poverty in Table 1, and corruption in Table 2: corruption may ***cause*** poverty, by preventing economic growth; but corruption may also be an ***effect*** of poverty, if low-paid civil servants are more likely to be tempted by bribes.

Odendahl (2015) wrote "without a healthy dose of inflation, it is much harder for households, firms and governments to reduce their debt burdens"; but "For a long time now, the ECB has fallen woefully short of meeting its mandated inflation target" (Warner, 2015). ECB (2015c) that report inflation, measured by 'Harmonised Index of Consumer Prices' (HICP), is 0.3% at the time of writing. "On 1 January 1999, the euro was introduced and the Eurosystem, comprising the ECB and the national central banks of the euro-area Member States, took over responsibility for monetary policy in the new euro area" (European Commission, 2015). ECB (2015b) state "The primary objective of the ECB's monetary policy is to maintain price stability. The ECB aims at inflation rates of below, but close to, 2% over the medium term". How well did ECB maintain inflation at appropriate rates? Chart 2 allows us to assess this.

Chart 2: Eurozone 'Indices of Consumer Prices'



Source: ECB (2015c)

From Chart 2, inflation fell below the target (about 2%) in early 2013. Rates in January, February, and March 2013 were 2%, 1.8%, and 1.7% respectively, so we could consider them 'close' to 2%. From January 1999 to April 2013, inflation averaged 2.06% per year (author's analysis of data from ECB, 2015c); hence, there seems no reason to criticise ECB's role in controlling inflation before April 2013. However, in April 2013, inflation fell to 1.2%, and remained well below 2% since then (even becoming minus 0.6% in January 2015); from April 2013 to May 2015, the average inflation-rate was 0.58 %. In the 26 months from April 2013 to May 2015, inflation should have averaged just under 2%: this paper assumes inflation should have been 1.99%. This difference (1.99 minus 0.58), for 26 months, indicates there should have been an extra 4.85% inflation since 2013. No inflation data is available for June 2015, so this figure of 4.85 should be rounded up slightly – hence, the figure of 5% is used in the title of this paper.

To illustrate how insufficient inflation can be a problem, consider a counterfactual exercise: Table 3 considers what Greek government revenue would have been, if ECB had kept EU inflation at the expected rate of 1.99% per year.

Table 3: actual and counterfactual Greek government revenue, in Millions of Euros.

Date	**2013q1**	**2013q2**	**2013q3**	**2013q4**	**2014q1**	**2014q2**	**2014q3**	**2014q4**
HICP price level (entire Eurozone)	*138.8*	*139.0*	*139.1*	*139.3*	*139.5*	*139.7*	*139.6*	*139.1*
counterfactual: price level if inflation had been 1.99% after March 2013	*138.8*	*139.5*	*140.2*	*140.9*	*141.6*	*142.3*	*143.0*	*143.7*
Actual Greek government revenue	17,619	19,996	24,300	25,205	17,921	21,331	20,901	21,862
Counterfactual Greek government revenue, if inflation had been 1.99%	17,619	20,066	24,488	25,488	18,186	21,722	21,405	22,580
Effect of 1.99% inflation: counterfactual minus actual revenue	0	70	188	283	265	391	504	718

Source: government revenue from Hellenic Statistical Authority (2015); HICP price index from Eurostat (2015d).

Extra revenues on the bottom row of Table 3 (0 to 718 Million Euros higher in 2014 quarter 4) add up to 2419 Billion Euros for 2013 and 2014 (2015 data is not yet available). This paper does not attempt to estimate what Greek government <u>expenditure</u> would have been, in this counterfactual exercise; but in recent years, Greek governments have attempted to freeze civil servants' wages, so government expenditure might not have changed much if inflation had been higher. Hence, it seems likely that the Greek government would have had sufficient extra money to pay the 1.5 Billion Euros which Greece is due to pay to IMF on 30th June 2015. As far as I am aware, there is no suggestion that ECB deliberately made life difficult for Greece; but Greece is in difficulties, and ECB can resolve this problem – as explained below.

A possible solution

This paper advocates the ECB provides more support for Eurozone countries in crisis. This has been suggested before – for example, Warner (2015) wrote "Only one thing is certain about the apparently open-ended programme of quantitative easing promised yesterday after months of ECB infighting; though quite a bit more ambitious than expected, in itself it won't do the job, or anything close". Gaffey (2015) wrote "QE is designed to be a neutral policy which benefits each member equally, since the rate at which bonds are bought varies according to each country's GDP share", but "Greece has not been included in the bond-buying scheme, in which the ECB have committed to ploughing around €1.1 trillion into the Eurozone economy by buying €60 billion-worth of sovereign assets each month until September 2016".

Many economists claim the ECB should carry out Quantitative Easing in a different way: rather than purchasing assets, the 60 Billion Euros per month could be used to finance Eurozone governments, or pay direct to individual citizens – called 'QE for the people' (Jourdan, 2015). This paper suggests ECB creates enough money to increase inflation by 4.85%, and carries out two forms of 'QE for the people': some money to reduce government debt, and the remainder used by Marianne Thyssen to create jobs in the Eurozone. Warner (2015) rejects printing money directly – stating it "would amount to outright debasement of the coinage"; this paper argues such debasement is desirable, if used carefully: it can enable inflation to return to the ECB target. This is similar to the comment by Odendahl (2015): "ECB does have the power to make a commitment that is purely focused on inflation (and hence firmly in line with its mandate). The ECB should announce that it aims to reach 2 per cent inflation on average over the next five years (an approach called ‘price-level targeting’). It might sound innocuous, but the word 'average' makes all the difference: since inflation is currently low and likely to remain low for a while, the ECB would commit to overshooting on inflation in the future. In other words, such a target would require the ECB to tolerate a mild boom in the eurozone to get the 3 per cent inflation necessary to reach a 2 per cent average over five years”.

This paper does not recommend literally printing banknotes, because private banks would then create more money. The ‘monetary base’ is the value of notes & coins (in circulation, or in banks). The ‘money supply’ is the total quantity of money in the system – including notes & coins, but also other types of money such as bank loans. The size of the money supply is given by this formula:

$$\text{Money supply} = \frac{\{C_p + 1\}}{\{C_p + C_b\}} * [\text{monetary base}]$$

Here, C_b is the ‘required reserve ratio’: the central bank forces commercial banks to keep a minimum ratio of cash reserves to deposits. Bank customers want some cash for day-to-day spending (such as bus fares); but many transactions (such as mortgage payments) are predictable, so some money can be kept in deposit accounts to earn interest. People have a ‘liquidity preference’ – the extent to which they want money ready to spend: this is C_p in the above equation.

The ‘quantity theory of money’ equation $MV = P_yT$ implies that if there is no change in the velocity of circulation (V) or total volume of transactions (T), then an increase in the money supply (M) tends to cause a proportionate increase in the general level of prices P_y (Kahn, 1984: 27). Hence, increasing prices by 4.85% would require ECB to generate a 4.85% increase in the money supply. At the end of April 2015, ECB (2015a) report the value of M1 in Eurozone as 6,192 Billion Euros; an increase of 4.85% would be 300.6 Billion Euros.

There is general agreement among economists that conventional QE has little or no effect on inflation. If ECB redirect their planned 60 Billion Euros per month of QE into this ‘QE for the people’, it would take about 5 months to spend 300.6 Billion Euros, and restore Eurozone inflation to where it should have been.

This paper suggests the appropriate beneficiaries of this proposed new ECB policy would be Eurozone countries (rather than EU countries outside the Eurozone). The approach suggested in this paper is to distribute ECB money in proportion to each country’s population, as shown in Table 4 below.

Table 4: Suggested distribution of extra ECB spending, by country

country	Population on 1 January 2014	extra spending: Euro Billions
Austria	8,506,889	7.6
Belgium	11,203,992	10.0
Cyprus	858,000	0.8
Germany	80,767,463	72.0
Estonia	1,315,819	1.2
Greece	10,903,704	9.7
Spain	46,512,199	41.4
Finland	5,451,270	4.9
France	65,835,579	58.6
Ireland	4,605,501	4.1
Italy	60,782,668	54.1
Lithuania	2,943,472	2.6
Luxembourg	549,680	0.5
Latvia	2,001,468	1.8
Malta	425,384	0.4
Netherlands	16,829,289	15.0
Portugal	10,427,301	9.3
Slovenia	2,061,085	1.8
Slovakia	5,415,949	4.8
Total	337,396,712	300.6

Source: population data from EUROSTAT; and author's calculations

To prevent Greek exit from the Eurozone, it seems appropriate for the ECB to send at least 1.5 Billion Euros to Greece in the next few days, out of the 9.7 Billion Euros which should be available for Greece (according to the above Table 4). Hence, Greece (and other Eurozone countries) would gain in at least three ways from this temporary 'QE for the people':

- An immediate 1.5 Billion Euros solves Greece's short-term risk of default;
- The remaining (9.7 minus 1.5 =) 8.2 Million Euros will create jobs in Greece, via the Thyssen plan;
- Slightly higher inflation will reduce the real value of Greece's debts.

Economists often use the expression "there is no such thing as a free lunch", and we need to be aware that some people would be worse off by this proposed ECB policy. The real value of savings in current accounts would be reduced by about 4.85%, as inflation rises; this would tend to reduce the real value of savings for rich people (but perhaps less harmful than a Greek default would be).

Possible implementations of Thyssen's approach

Marianne Thyssen (2015b) said "with more and more Member States introducing benefits for long term care in their social security systems – a trend which the Commission encourages in view of the aging of the population – it seems fairly obvious that those benefits need to be covered explicitly in the EU Coordination rules". In her use of the word "obvious", Commissioner Thyssen might seem out-of-step with mainstream economics: "The standard economic model of human behavior includes three unrealistic traits – unbounded rationality, unbounded willpower, and unbounded selfishness" (Thaler & Mullainathan, 2008). Similarly, Becker (1974: 9) wrote "The approach taken here follows the economists' usual analysis of choice and assumes that a person commits an offense if the expected utility to him exceeds the utility he could get by using his time and other resources at other activities": Becker suggests selfishness and crime are normal. Gizzi (2015) suggested German Chancellor Angela Merkel, and IMF Managing Director Christine Lagarde, have been too generous to Greece; Kroet (2015) claimed Ms Thyssen is "Too good a person to be a politician". To assess this, consider attitude data: Eurobarometer surveys asked '*Would you be prepared to pay more for groceries or other products from developing countries to support people living in these countries (e.g. for Fair-Trade products)?'* Evidence reported in European Commission (2014b; and earlier Eurobarometer surveys from 2009) supports Ms Thyssen's view: many Europeans are altruistic – for example, 71% of Germans interviewed would pay more for Fair Trade goods. Commissioner Thyssen is not out-of-step with European values.

If funding can be obtained, there are many ways in which Ms Thyssen and her team could improve the well-being of Europeans. One approach would be to provide more jobs; an alternative would be to improve education-levels of citizens, to make people more employable.

If we wish to increase the number of jobs, renewable energy offers great potential. Chancellor Angela Merkel has a problem, because her government's intends to escape from Germany's reliance on nuclear power: "stalled projects, including her government's attempt to impose penalties on old, highly polluting coal plants, have put Germany's 2020 goal of cutting greenhouse gas emissions by 40 percent compared to 1990 at risk" (Copley, 2015). "Aware it was on course to miss the 2020 target, the government approved a climate package last December to put it back on track. This included plans to force coal operators to slash their emissions by at least 22 million tonnes by 2020 [...] But a coal levy aimed at achieving those cuts, proposed by Sigmar Gabriel, economy minister and leader of Merkel's junior coalition partner, the Social Democrats (SPD), led to protests by coal miners last month and a backlash from the industry. […] A final decision has been delayed until the summer, and risks undermining Merkel's efforts to convince others that it is possible to cut CO2 emissions and grow the economy". A possible solution for Germany's energy problem is for solar panels to be installed in Greece, and connected to Germany via a 'smart grid' via the 'Energy Union'.

Another way Thyssen and her team could support Europeans is via tertiary education (associated with universities). "Population with tertiary education is defined as those having completed the highest level of education, by age group. This includes both theoretical programmes leading to advanced research or high skill professions such as medicine and more vocational programmes leading to the labour market" (OECD, 2015). In 2013, among people aged between 25 and 34 years of age, 67% of people in South Korea had tertiary education – compared with only 37% of Greeks (OECD, 2015). Korean education may explain why shipbuilding moved from Greece to Korea in recent decades (Nallu, 2014). Educating people in Greece and other Eurozone countries could promote economic development.

Discussion

New ideas may resolve Greece's current situation; Marianne Thyssen seems well-placed to help. She claimed "it is unacceptable that today more than every fifth young person on the labour market cannot find a job" (Protothema, 2015).

It is argued above that the current Eurozone crisis has two aspects: a 'stock' problem, that governments such as Greece owe a lot of money to creditors; and a 'flow' problem, that household incomes are too low. The stock of money deposited in Greek banks fell by around 100 Billion Euros since 2009 (Mitsopoulos & Pelagidis, 2015: 91-2); this left the Greek banking sector vulnerable. Another stock problem is Greek government debt, reported as 177%

of GDP in 2014 (Eurostat, 2015c). But to understand Greece's financial problems, we also need to consider flows: specifically, the flow of income into Greek households (keeping Greek people housed & fed, etc.). This paper suggests Commissioner Thyssen's ideas could help resolve the flow problems – by helping more Greek people find jobs. But these schemes need to be paid for – a suitable approach would be for some ECB money allocated for QE to be diverted into schemes such as education/training & job creation. The 'stock' problem of high levels of Greek government debt can also be solved by using money from the same ECB intervention.

Europeans seem unimpressed with recent performance of the ECB. Trust in ECB fell from 53% in Eurobarometer 67 (2007), to 34% in the most recently-reported Eurobarometer (European Commission, 2014a: 105). This paper suggests a route for ECB to regain the trust of Eurozone citizens.

To summarise this paper, there seems widespread agreement that inflation in Eurozone countries should have been higher since early 2013. This seems to have caused various problems: counterfactual analysis in this paper suggests Greece would have been able to pay its debt to IMF (due at the end of June 2015) easily, if inflation had been just below 2% as planned. A relatively painless way to resolve this issue is for ECB to allocate some of the money it would have spent on QE, into direct payments called 'QE for the people'. By distributing these payments between Eurozone countries, it should be possible to reduce government debts dramatically – and at the same time, to fund a recovery plan advocated by Commissioner Thyssen. There is no need for a Greek default on payments due to IMF.

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