Optimal monetary policy. Conditions for quantitative easing to be successful. Cogrips Policy. Example: Greece. Preliminary report.

According to Cogrips models, for an increase in the money supply to successfully lead to increased production, certain prerequisites must be fulfilled. Specifically, it is not enough to simply introduce fresh money (e.g., through quantitative easing); it needs to be combined with policies aimed at boosting the purchasing power of the general population, especially those with a high propensity to consume. This targeted increase in private demand is essential because general public consumption does not always effectively translate into economic stimulation.

Moreover, the focus must be on ensuring that the increase in demand does not "vanish" in bureaucracy or inefficient public and private sectors. Therefore, a combination of moderate quantitative easing and grassroots policies that elevate the disposable income of the general public is essential. This approach ensures the money supply translates into effective demand and ultimately increased production. In Greece, the lack of the prerequisites identified in Cogrips models—such as efficient demand management and a well-structured increase in the purchasing power of the general population— leads to adverse outcomes when the money supply is increased.

Here's why printing more money would likely cause inflation and corruption in Greece:

1. Inflation without Effective Demand Management: When the money supply is expanded without an accompanying rise in real output, the economy tends to experience inflation. This happens because more money is chasing the same amount of goods and services, driving up prices. In Greece, where economic structures and production capacities are weak, increasing the money supply would not stimulate proportional production increases. This results in demand-pull inflation —prices rise simply because more money is available, but there isn't an increase in the goods and services being produced.

2. Corruption and Bureaucracy Capture: In Greece, a top-heavy bureaucracy (as described by Cogrips models) means that a significant portion of newly created money will likely be captured by the authorities and elites rather than reaching the general population. This is a phenomenon known as bureaucratic capture, where resources, including newly printed money, are funneled toward government officials and influential private bureaucracy through corruption, mismanagement, or inefficiencies. Instead of supporting increased production or benefiting the general public, this influx of money enriches the bureaucracy and political elites, leaving less for public investment or consumption that could drive growth. This bureaucratic absorption of wealth means that the distribution of GDP becomes more unequal: the elites and authorities get more, while the ordinary people receive less.

3. Crowding Out Productive Investment: When the authorities absorb a disproportionate share of the money supply, funds that could have gone to productive investments in businesses, infrastructure, or green initiatives instead get used inefficiently within bureaucratic systems. In Greece, this could mean higher spending on non[1]essential public sector salaries or misdirected investments that don't stimulate economic activity. The lack of productive investment worsens the long-term growth potential, trapping the economy in stagnation.

4. Erosion of Public Trust and Economic Stability: Persistent corruption and a highly centralized bureaucracy discourage both local and foreign investments. Investors are less likely to engage in an economy where much of the new capital is captured by corrupt officials or wasted by inefficiencies. This creates a vicious cycle where inflation spirals and productive capacity shrinks, leading to further economic instability and inequality.

Summary: Without the key conditions for effective demand management in place, printing more money in Greece would cause inflation to rise, erode purchasing power, and worsen inequality. The bulk of the newly created money would flow toward authorities and elites, increasing corruption and reinforcing the inefficient bureaucratic system, leaving the general population with a smaller share of the country's GDP. This dynamic exacerbates the very problems of economic inequality and low productivity that the country is struggling to overcome.

To ensure that printing more money leads to real investment and increased production output, rather than inflation and corruption, Greece could adopt the following Cogrips policies. These policies focus on decentralization, equitable wealth distribution, and demand-side management, all of which are essential for channeling new money into productive sectors.

1. Decentralized Planning and Horizontal Organization: • Policy Example: Shift from top-heavy, centralized governance to decentralized economic planning, where decisions are made at the local level. This would reduce the control of the central bureaucracy and allow for more democratic, grassroots decision-making. • Practical Application: Local municipalities and regions could take control of budget allocation for infrastructure, green energy, and industrial projects. This would ensure that funds are directed toward productive investments that meet the specific needs of local communities, rather than being captured by national bureaucrats. • Impact: By reducing bureaucracy, you prevent money from being siphoned off by corrupt officials, ensuring that it reaches the projects and investments that will boost production.

2. Direct Fiscal Transfers to the People (Quantitative Easing for the People): • Policy Example: Instead of channeling money into government programs or banks (which might end up in corrupt hands), the money supply increase should directly target the general population. This could be done through direct cash transfers or tax cuts for the lower and middle classes. • Practical Application: Implement a system of tax rebates or direct cash payments to citizens, especially those in the lower-income brackets, where marginal propensity to consume is higher. This would stimulate consumer

demand for goods and services, encouraging businesses to ramp up production in response to the increased demand. • Impact: When people have more disposable income, they spend it, and this increased demand directly supports local businesses and industries, leading to higher production and employment without causing runaway inflation.

3. Increased Investment in Green and Sustainable Industries: • Policy Example: Use newly created money to invest in green industries and infrastructure that have long-term sustainability benefits. This can include renewable energy, public transportation, and eco-friendly manufacturing. • Practical Application: Channel a portion of the money supply into public-private partnerships that develop renewable energy projects, such as solar or wind farms, while creating green jobs. Offer subsidies or low-interest loans for companies that invest in energy-efficient technologies or sustainable agriculture. • Impact: This encourages investment in sectors that increase production capacity over time, as well as boosting employment. Sustainable industries also lower the risk of economic bubbles and inflation since they are long-term investments rather than short-term speculative ventures.

4. Strengthening Labor Unions and Workforce Participation: • Policy Example: Strengthen labor unions and enhance worker participation in corporate governance. This ensures that the benefits of economic growth are equitably distributed among workers, rather than being captured by a small elite. • Practical Application: Implement policies that require large companies to allow for employee representation on corporate boards and establish minimum wage laws that ensure a living wage for all workers. Also, encourage collective bargaining so that workers can negotiate fair wages and working conditions, increasing their share of the economic pie. • Impact: By giving workers more power and better wages, you ensure that any increased money supply leads to higher consumer spending and economic activity, which drives production, rather than fueling inflationary pressures.

5. Tackling Income Inequality through Progressive Taxation: • Policy Example: Implement progressive taxation to reduce income inequality and redistribute wealth from the wealthy (who tend to save more) to the lower-income population (who spend more of their income). • Practical Application: Increase taxes on higher-income earners and wealth accumulation while offering tax breaks and subsidies to lower-income households and small businesses. This would ensure that wealth is more evenly spread across the population, helping to boost demand and production. • Impact: A progressive tax system would curb the excess accumulation of wealth at the top, reducing corruption risks while ensuring more equitable distribution of wealth and productive investments in the economy.

6. Targeted Subsidies for Productive Sectors: • Policy Example: Provide targeted subsidies for sectors that have high growth potential and can contribute to increased production capacity. This should focus on industries like technology, tourism, agriculture, and manufacturing. • Practical Application: Offer subsidies to small and medium-sized enterprises (SMEs) involved in value-adding production, such as local manufacturing or high-tech startups. These subsidies could be in the form of lower taxes, grants for innovation, or low-interest loans to foster productivity. • Impact:

This ensures that new money goes directly into productive enterprises that expand output, rather than into speculative financial markets or non-productive sectors, which can lead to inflation.

7. Combating Bureaucratic Waste and Corruption: • Policy Example: Establish strong anti-corruption frameworks and oversight mechanisms to ensure that government spending and investment decisions are transparent and efficiently managed. • Practical Application: Implement independent oversight bodies to monitor the use of public funds, particularly the newly created money. Ensure that public procurement processes are transparent and competitive, and that any misuse of funds is swiftly punished. • Impact: Reducing corruption means that more of the money supply will be used for productive purposes, such as infrastructure and business investment, rather than being funneled into private pockets or wasted on non-productive expenditures.

8. Adjusting Exchange Rates to Enhance Competitiveness: • Policy Example: Maintain a competitive exchange rate to support exports, while managing inflation pressures. A well-managed currency ensures that the new money does not lead to inflation by making imports prohibitively expensive. • Practical Application: Use a managed float or currency interventions to keep the exchange rate at a level that supports export competitiveness. This ensures that increased production output from industries can be sold abroad, increasing the overall output without causing domestic price spikes. • Impact: A competitive exchange rate will make Greek exports more attractive, increasing production in the tradable sector and reducing inflationary pressures that could arise from an over-reliance on imports.

Summary: To fulfill the prerequisites for printing more money without triggering inflation or corruption, Greece must implement Cogrips-style policies that decentralize economic decision-making, redistribute wealth, and ensure that newly created money goes directly toward productive investments in the real economy. These policies would prevent the money from being captured by corrupt elites or lost in inefficient bureaucracy and instead direct it to areas that boost production, employment, and sustainable growth