--- Theoretical considerations on growth imperatives in a monetary economy ---

If an ongoing growth is considered impossible or undesirable, the growth dependence of man-made structures such as social security systems has to be carefully revised. In the post-growth debate, the monetary system based on credit money combined with positive interest rates is often criticized and accused of causing a growth imperative, which we define as the state of an economy, where growth appears necessary in order to guarantee socio-economic stability. Our contribution revises this argument.

In the literature, the impact of degrowth on financial instutitions is still underrepresented, though tremendous instabilities may avoid a planned shrinking of economic activity (Tokic 2012). Most authors consider debt- or interest-free money as a solution (Daly 2010, Kallis et al. 2012). But it has to be stated that markets arose simultanously and interlinked with the existence of credit and money and this emergence was directly coupled with the existence of positive interest rates (Graeber 2011). Interest and debt are from this perspective not an artificial supplement to existing money, but rather an integrated part of any existing market economy. This challenges the existing proposals for enabling a degrowing monetary economy.

A modern economy can never rely on a commodity playing the role of money, but has to be based on a token currency (Graziani 1989). This means that the value of the money is guaranteed by social agreement or/and enforcement. Today, money and debt are created via balance sheet extension and this process arises endogenously from economic activity. This leads to the rejection of economic theories where money supply is given as an external parameter. Therefore, only approaches in the tradition of monetary keynesianism are suitable for our analysis of a monetary economy (Keen 2011). We investigate a simplified version of our current monetary system using a stock-flow consistent system dynamics model of credit money creation, use and redemption. We show that the simplified interrelation between credit money with positive interest rates and a growth imperative does not hold, but that additional assumptions have to be considered. We distinguish between different behaviours of debtors and creditors and examine in each case the trend evolution of debts, deposits and the GDP. Creditors can decide whether they spend their money on consumption, keep it as hard cash or book money, bonds, or if they invest it in businesses. Hence, the dynamic depends on the saving ratio that is positively correlated with income. The portfolio decisions are shaped by the liquidity preference that exists because of fundamental uncertainty in the markets (Keynes 1936). Integrating empirical data from economics, we identify dominant scenarios and conclude why positive growth rates are crucial for the stability of the investigated monetary system. (Freydorf et al. 2012)

A second approach investigates the ability of the central bank to deal with a non-growing economy. In the current state of monetary policy, the main instrument of central banks is the fixing of the discount rate. We argue that this rate cannot be set independently of the financial markets but only in interaction with it and the liquidity preference of the market actors. We derive that the central bank is caught in a dilemma destabilizing the economy in case of low growth rates and low interest rates: their instruments lose effectiveness at the zero lower bound and the economy will either be trapped in uncontrolled stagnation or in boom-bust-cycles. Additionally, in the case of positive interest rate and zero growth, the positive interest-rate-growth differential will lead to an increasing debt-to-GDP ratio. (Kimmich et al. 2012, Wenzlaff et al. forthcoming)

The contribution provides an insight into the critical points of a non-growing monetary economy and should help to identify policy options how these destabilising effects could be overcome in order to achieve an economically sustainable degrowth.

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