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LETTERS FROM THE FIELD

THE PATACON PLAN: A COMPLEMENTARY CURRENCY FOR BUENOS AIRES ECONOMIC DEVELOPMENT

Agustin Mario

Universidad Nacional de Moreno

amario@unm.edu.ar

ABSTRACT

The province of Buenos Aires (PBA) has a population of more than 18 million inhabitants, around 40 percent of the national total. However, it receives only about 20 percent of the tax revenue shared with the provinces - which, in addition, as we said, will be reduced as a result of the cut in federal public spending-. The phrase "I'm going to leave them without money" recently made known by President Milei regarding the provincial governors, illustrates the seriousness of the situation, which is expected to be especially acute in the province of Buenos Aires.

An alternative to avoid the social outbreak to which the national government's economic policy leads the Argentinian economy is to implement a complementary currency. The Patacon Plan presented here would provide financial independence to the PBA -since it does not imply any need for financing in a currency of which it is a user-. The Patacon would operate continuously in a small, open economy, with multiple other currencies trading around it simultaneously. More importantly, it would allow the PBA to act counter-cyclically, increasing the deficit when employment declines, and vice versa; that is, functioning as an automatic stabilizer, maintaining full employment and a currency of stable value.

KEYWORDS

Complementary Currency, Patacon-Subnational Government, Buenos Aires, Argentina

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1. INTRODUCTION

An economy with unemployment is not subject to a trade-off between alternative uses of resources. Contrary to textbooks that define economics as the discipline that studies the allocation of scarce resources, when there are unemployed (unused) resources, it is possible to produce more without this implying giving up anything in exchange. In short, unemployment is a real cost, evidence of wasted resources, neither more nor less than an economic inefficiency. The opportunity cost of using unemployed resources is zero (Mosler, 1993).

However, mainstream economic theory considers that the money required to take advantage of these unemployed resources is scarce (Mosler, 1993 & 2010). Along these lines, in Argentina, the new president recently said, referring to public finances, that “there is no money” and that the goal of zero deficit is “not negotiable”.

Due to a tax structure that strongly depends on the economic cycle, the proposed reduction in public spending by the new Argentinian government will most likely not eliminate the deficit, but instead will increase unemployment.

Furthermore, unlike the national government -which is the issuer of pesos-, subnational governments are users of pesos and, as such, do have financial restrictions (Mosler & Forstater, 2005). In this case, the usual analogy with a household is applicable: they must collect or borrow pesos before they can spend them. Therefore, they are incapable of acting counter cyclically to support demand.

The province of Buenos Aires (PBA) has a population of more than 18 million inhabitants, around 40 percent of the national total. However, it receives only about 20 percent of the tax revenue shared with the provinces -which, in addition, as we said, will be reduced as a result of the cut in federal public spending-. The phrase “I’m going to leave them without money”¹ recently made known by President Milei regarding the provincial governors, illustrates the seriousness of the situation, which is expected to be especially acute in the province of Buenos Aires.

An alternative to avoid the social outbreak to which the national government’s economic policy is very likely to lead us to is to implement a complementary currency, sustaining full employment and price stability (Mosler, 1997a). Buenos Aires already issued a tax-backed bond called Patacon in 2001 as an emergency response to the financial limits imposed by the currency board, a fixed exchange rate regime adopted by Argentina between 1991 and 2002. However, unlike our proposal, this first Patacon was valued at par with the peso in payment of taxes. Moreover, there was no price-rule for public spending (i.e., no price constrained spending to anchor the value of the currency)³.

2. PROGRAM OUTLINE

The program is based on previous proposals by Warren Mosler (Mosler, 1997, 2001a, 2001b, 2004, 2011) and myself (Mario, 2014).

- i) The government of the province of Buenos Aires (hereinafter, the PBA) will impose a tax liability for all residence owners to provide four hours of basic labor per week, payable only in a newly created alternative currency called Patacon (in plural Patacones) -the suggested weekly obligation represents about 10 percent of a typical work week-⁴
- ii) The PBA will fund corresponding jobs in the area of public services to anyone willing and able to work⁵
- iii) The PBA will issue Patacones in exchange for labor time⁶
- iv) Residence owners will be in compliance with the tax liability by submitting Patacones to the PBA

The direct effect of the tax obligation is the creation of an immediate need for Patacones by residence owners (Mosler & Forstater, 1999; Mosler, 2021). This incents them to either apply for a job with the PBA to directly earn the needed Patacones; or offer goods and services to others in exchange for the needed Patacones.

Approved employers (provincial and/or municipal government offices, universities, schools and, in general, non-profit organizations) would be provided with Patacones to hire workers, as long as they meet basic health, safety and responsibility standards⁷.

3. IMPLICATIONS

-Spending comes first

When the PBA spends pesos, it is severely limited, as it must first either collect them via taxes or borrow them. This can be both politically and economically difficult. With the Patacon system, however, 'government' spends Patacon first, and then collects it.

The Patacon is a (simple) case of a public monopoly: the PBA can't collect any Patacones in proceeds until AFTER it spends them for basic labor hours worked, as no one has any to begin with (Bell, 2000). Additionally, it cannot collect more than it has paid out. In fact, as the PBA's Patacon fiscal deficit is exactly equal to the Patacones saved by the public, a 'balanced budget,' with Patacon revenues equal to its spending, is the theoretical and practical limit. Almost certainly, however, the PBA will run a deficit in the first period, as some Patacones are lost or hoarded for future use. Any surplus in later periods will be limited by the quantity of Patacones issued in previous periods (Mosler, 1993; Mosler & Forstater, 1999 & 2005; Mosler, 2021).

-No financial constraints

Unlike peso spending, PBA spending of Patacon is not constrained by revenue. The PBA's spending on basic labor is in no way dependent on its receipts. As homeowners pay their Patacon-tax, the PBA may either stockpile the Patacones for future use or simply destroy them and issue new ones in future payment. It is limited only by the number of workers desiring to hold program jobs. Spending is 'market determined' in that workers obtain the number of Patacones corresponding to the hours they are willing to work. The government can expect to spend AT LEAST as many Patacones as the private sector needs to pay its taxes. The government will likely be able to spend more Patacones, at the prices it wishes to pay, than exactly the amount needed for tax payments, as any Patacones desired to be held by the public as, say, pocket cash must be left over after taxes are paid (in the normal course of events the PBA will necessarily spend more Patacones than it collects, as workers can earn as many Patacones from the PBA as they are willing to work for) (Mosler, 1993 & 1997; Mosler & Forstater, 2005).

Patacon revenues maintain the incentive for work in the program; they do not fund public sector operations. Similarly, the role of the Patacones is to induce employment in the public sector. In other words, the PBA does not impose Patacon requirements in order to ensure that Patacones flow into its coffers, but rather to ensure that labor flows into the public sector. That is, in contrast to the conventional view peddled by politicians, the PBA does not tax to collect Patacones so it can spend them. It taxes so that the private sector will need Patacones, and therefore be willing sellers of real goods and services in exchange for needed Patacones (Mosler, 2021).

-Automatic full employment: unemployment is eliminated

In order to effectively anchor the new currency unit, I further propose that the PBA first set a wage that it will pay to anyone willing to work in the program. The effect of this government commitment would be essentially to eliminate involuntary unemployment and establish a minimum wage without any further legislation or intrusion into the private sector. This also effectively sets a value for the Patacon in terms of labor time. The market can be left to base all other pricing decisions when purchasing or selling other goods and services on the alternative universally available means of obtaining the Patacon -selling labor time- (Mitchell, 1998; Mosler, 1997; Mosler & Silipo, 2017; Wray, 1998).

There will be homeowners unwilling to work in the program in exchange for Patacones. Perhaps they will prefer to obtain the Patacones by buying them from those people who have already sold their time. Private transactions denominated in Patacones will thus develop. The unemployed will quickly realize that they can buy food (or other goods and services) in the private market in exchange for Patacones and so will show up at PBA offices to work: residents will

desire to be employed in exchange for Patacones because they either have a requirement to submit them, or because they will see that real goods and services being offered for sale in exchange for Patacones by others who need them.

In other words, anyone willing and able to work for Patacones will be given employment by the PBA. Only if the PBA limited its total Patacon spending to anything less than what the public wanted to earn to be able to both pay the required tax of 4 Patacones per week and save Patacones as they may desire would workers be unable to find employment. The result would be unemployment.

-No government debt and no payment of interest

What about interest rates? With this system, the PBA doesn't have to pay interest, even when it spends more than it taxes. Notice that the PBA does not have to borrow in order to spend more than it taxes, as it simply issues currency, or credits someone's bank account, when that person wishes to sell something in exchange for Patacones (Fullwiler, 2010; Mosler & Forstater, 2005).

I have failed to identify any public purposes that may be served by having the PBA pay interest on Patacon savings, so a zero interest rate policy is recommended.

If the PBA should desire higher interest rates for any reason, it always has the option of offering to pay a desired base rate of interest on excess bank deposits held at the central bank.

It should be noted that, for example, if the PBA offered bonds that pay a rate of 100 per cent per year -as the national government currently does-, the public would have an alternative source of income (interest income) to providing hours of work to the PBA, which could reduce the labor offered by the public destined to obtain Patacones to pay taxes (Mosler, 2021). Those with savings would get free Patacones, potentially devaluing the Patacon if no one anymore needed to work in the program to pay taxes.

-The (absolute) value of a Patacon and relative prices

Since residences need Patacones to fulfill the obligation, the PBA can dictate the terms in which it exchanges its currency (exogenous pricing) (Mosler & Forstater, 1999; Armstrong & Mosler, 2020). In this case, the absolute value of the Patacon is set equal to one hour of basic labor.

The relative -or market- value of the Patacon, that is, what agents would pay for the Patacon instead of selling their time to the PBA, is necessarily a function of the prices paid by the PBA when it spends (Mosler, 2021; Tcherneva, 2002). For example, if the PBA starts paying 2 Patacones/hour, making it easier to obtain a Patacon, the absolute value of the Patacon would fall to $\frac{1}{2}$ hour of basic labor and, if relative prices do not change, the Patacon would be exchanged for half of pesos.

Since agents can always choose to work in exchange for Patacones, there is pressure for the exchange rate (Patacon/Peso) to return to the wage parity: the ratio between wages in Patacones and wages in pesos.

Each agent will be willing to exchange Patacones for pesos at the rate at which they are indifferent between working for Patacones or pesos. If the wage in pesos is less (or if it is zero, in the case of the unemployed) than the amount of pesos that must be given to obtain a Patacon (the exchange rate of pesos per Patacon), it is preferable to sell the time to the PBA. On the contrary, if the wage in pesos is greater than the exchange rate of pesos for Patacones, it is preferable to buy Patacones to pay the tax. Of course, this depends on the wage of each agent in pesos and Patacones, but, at least on average, the exchange rate should return to wage parity -otherwise, there will be "arbitrage gains"-9.

The value of the Patacon is therefore independent of the quantity issued or received by the PBA, providing that the PBA only issues Patacones for basic labor and does not refuse to hire anyone willing and able to work. Nor does it depend on whether the PBA runs a deficit, a balanced budget, or a surplus in a particular period. As long as workers must work for an hour to obtain a receipt for one hour's work, the value will remain equal to one hour of labor. It will be internally stable without foreign exchange reserves and independent of international trade balances.

The key is that there is price stability as long as the PBA doesn't spend so much at market prices that no workers apply for the basic job. In other words, there is price stability as long as the PBA doesn't spend more Patacones than the taxpayers determine they want. And, because the PBA always requires that at the margin labor is necessary to get needed Patacones, the value of the Patacon is equal to the value of the labor time of the person who has to work at the basic program job to get the Patacones.

Ultimately the value of the Patacon would be established by what it can buy -basic labor-. And improving the value of those workers through education, health care, etc. would serve to improve the value of the Patacon in the long run.

-Evaluating performance

The requirement imposed should be determined by the needs of the government for goods and services balanced against the costs of removing the labor from the private sector. Program success would be assessed by careful evaluation of the actual accomplishments of the goods and services provided, and by the impact that program employment had on the workers themselves. The success of the program must be evaluated by the additional goods and services provided (Mosler, 1993 & 2010). In particular, 4.9 million Buenos Aires households (EPH, 1st semester of 2023) working 4 hours a week, will provide 19.6 million hours of weekly labor to serve the community (themselves included)

If goods and services needs are met, yet new workers continue to show up for work at PBA offices, the PBA may reduce the requirement. Conversely, if not enough labor is induced into the public sector, the requirement can be increased.

4. EXPANDING THE PBA'S USE PATACONES

This analysis has been limited to basic labor. However, it is likely that shortly after the program is initiated, many other goods and services will be offered by businesses and individuals in exchange for Patacones. This will be a function of the number of Patacones residence owners, at some rate of exchange, would rather trade something for than do the actual program's tasks themselves. These people may be fully employed at other occupations, or simply prefer other types of work than the public service positions available or have the independent means to purchase their Patacon requirement.

At this point the PBA will have the option of purchasing these other goods and services with Patacones. As before, spending will be operationally limited only by what is offered in exchange Patacones. However, this additional Patacon spending does reduce the need of residence owners to obtain Patacones through selling basic labor. This in turn will reduce the amount of basic labor they offer to the PBA. Therefore, Patacon spending by the PBA beyond that of basic labor should be limited so as to make sure a credible number of workers must still seek program employment.

It should also be anticipated that another class of government worker will be desirable. These will be individuals who have special skills (e.g., doctors, lawyers, accountants, engineers, teachers, etc.) needed by the PBA, but who earn more than the value of one Patacon per hour in the private sector. To attract these individuals to the public sector may require that they be paid "market wages" which exceed one Patacon per hour. For the same reason as in the previous example, government spending of Patacones on these individuals will reduce the total number of hours worked by those paid the stated rate of one Patacon per hour.

In summary, the PBA begins with the hiring of workers who will receive one Patacon per hour. As the program develops, the PBA will spend Patacones on other things, with a careful eye on the degree that such other spending is reducing the volume (in hours worked) of basic labor. If the volume of program work is considered too high, other Patacon spending can be increased and/or the residency requirement of 4 Patacones per week reduced. Conversely, if the volume of basic labor time is considered too low, other Patacon spending can be reduced or the residency requirement can be increased. At all times, however, the government is not restricted from offering employment paid in Patacon to anyone willing and able to work.

Here I will introduce a bit of arithmetic to illustrate how the PBA will get the real goods and services it needs to properly run the province. Let's assume, as we did above, that tax collection totals 23.6 million Patacones per week. The PBA can expect to be able to spend at least that amount since property owners have no other way to obtain Patacones. If the PBA offers one Patacon per hour as the minimum wage, and spends nothing else, it can be reasonably sure that at least 590,000 workers would apply for the program -assuming they work 40 hours per week-. Well, perhaps the PBA does not want 590 thousand basic workers but it does want other things that will be offered for sale by the public (as an alternative way to obtain Patacones to pay taxes). Let's say the PBA spends 23 million Patacones per week at market prices, buying the other things it really needs, including specialized labor and materials for the legal system, defense, education, health care and other public services¹⁰. The public now needs only 600 thousand more Patacones per week to pay their taxes, so a minimum of only 15 thousand basic workers -assuming they work 40 hours per week- can be relied upon to apply for the program. Of course, there will be a desire in the public for cash in circulation and other activities that cause a desire for net savings. This is generally a substantial amount. Suppose it involves a desire to obtain another million Patacones per week. This will be evidenced by another 25 thousand basic workers applying to the program, for a total of 40 thousand.

5. AUTOMATIC STABILIZATION

With large numbers of workers being paid in Patacones, private markets will develop. Patacones in private hands will be used by individuals to hire workers previously employed in the program. A drop in program's work hours means that the PBA will then be issuing fewer Patacones. This reduces the excess Patacones in the hands of the private sector (to the point where the ratio of private sector to public sector workers stabilizes), thereby limiting private sector employment. There will always be full employment, but the mix between private sector and public sector employment will vary, as there will always be workers going from private to public employment, and vice versa. The plan provides a continuous automatic stabilizer to ensure equilibrium of demand and supply of Patacones (Mosler, 1997; Mosler & Silipo, 2017).

The system works as a stabilizing force: a deviation from equilibrium sets in motion forces to restore the equilibrium, not to exacerbate it. For example, a drop in private-sector output that reduces private sector employment automatically increases public-sector employment. That puts more Patacones in the hands of workers to spend in the private sector, which in turn raises private-sector employment. Everyone willing and able to work is working, either in the private sector or the public sector. There are never any unemployed workers.

6. ENFORCEMENT

The driving force behind the Patacon Plan is the requirement that residence owners submit Patacones to the PBA (if the PBA ends the Patacon tax liability, the Patacon will have no further value). This requirement is only as good as the enforcement process. If the Patacones are not paid, the PBA must have the right to sell the property and thereby attempt to collect the delinquent payments. The PBA need not even know who the owner is.

This may seem harsh, but in practice the requirement is rather modest. Remember, a job is always available, and any property owner needs only work four hours per week for the PBA to receive the needed Patacones. Anyone unwilling to do at least that much for his community should receive little sympathy.

It is also expected that the government would establish an exception policy for those unable to work. For example, there will be exemptions for people who are disabled, aged, or suffering some other hardship.

7. CONCLUSION

The (coercive¹¹) imposition of a tax liability payable only in Patacones would generate a demand for the provincial currency and, thus, would allow private resources (labor and, in general, goods and services) to be mobilized to the public sector (provision of public goods and services).

As we saw, the program can be expanded, with the PBA purchasing other goods and services in addition to basic labor. For example, considering the limits analyzed, a social safety net could be created, with an income in Patacones for children and adolescents, and the elderly.

The Patacon Plan presented here would provide financial independence to the PBA -since it does not imply any need for financing in a currency of which it is a user, such as pesos, dollars, etc.-. The Patacon would operate continuously in a small, open economy, with multiple other currencies trading around it simultaneously -with no need for capital controls or trade restrictions-. More importantly, it would allow the PBA to act counter-cyclically, increasing the deficit when employment declines, and vice versa; that is, functioning as an automatic stabilizer, maintaining full employment and a currency of stable value.

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ENDNOTES

1 See, for example, https://www.clarin.com/politica/javier-milei-redobla-gobernadores-ley-omnibus-voy-dejar-peso_0_PWCVMZ9Bfj.html. When asked explicitly, governor Kicillof did not rule out the possibility of issuing a complementary currency, although it does not seem his first choice, at least for now (see, for example, https://www.clarin.com/politica/axel-kicillof-descarto-provincia-buenos-aires-cree-moneda-propia_0_gwkN15JCIQ.html).

2 There is a vast literature on complementary currencies in Argentina. See, for example, Orzi (2019) and/or Gómez (2019), and the references therein contained. In fact, as can be seen in this literature, many (or even most) experiences do not involve a political authority (i.e., the state). This, however, does not refute the MMT (Modern Money Theory) claim that "taxes drive money": tax liabilities are a sufficient condition to drive a currency (not a necessary one). In a very interesting article, Théret (2018) goes through the history of provincial complementary currencies in Argentina. Surprisingly, there have been provincial monies from 1867 all the way to 2003, with the exception of the fifty-year period between 1934 and 1983. He goes on to identify four "waves" of provincial complementary currencies and hypothesize about the reasons for such a long lasting regularity. The Argentine experience is meant to serve as a lesson for improving the Euro system. However, as the author makes clear, every complementary currency was denominated in the national unit of account. This is, undoubtedly, the main difference with the proposal presented here.

3 The province of La Rioja has recently adopted a bond, similar to the 2001 Buenos Aires Patacon. In fact, Buenos Aires is the only province that can legally issue currency as per the San José de Flores Pact of 1859, allowed as part of the so-called pre-existing pacts (considering the Banco Provincia, the province's public bank and the oldest in the country, issued currency between 1822 and 1888).

4 Sales taxes and other transactions taxes tend to discourage people from exchanging goods and services with each other, and require enormous record keeping and enforcement costs; this is a viable plan in which the new currency is supported without any additional income tax, sales tax, or any other transaction tax that could diminish the economic welfare of the community. Instead, I propose a property tax. Of course, since land is immobile, in one way or another everyone would pay a property tax, either directly by owners of landed property or in the form of higher rents (the first

condition applies to all homeowners including those of rental units). For simplicity, in this case, it can be thought of as a reform to the current real estate tax, which would now be payable in Patacones.

5 Note the phrase “willing and able to work”. This means there will be exceptions made for those that cannot or should not work. The requirement above caused residents to seek employment that pays them the Patacones needed to satisfy their requirement. And by offering employment to anyone seeking it, those who own residences will readily be able to sell their time and earn the Patacones necessary to preserve ownership of their property.

6 Denominations of 1, 5 and 10 hours are suggested. Additionally, Patacones could be subdivided, perhaps into 6-minute coins. Although a minimum of cash is probably necessary, the Patacon could be eminently digital (i.e., purely electronic). For example, the Cuenta DNI could add a balance in Patacones.

7 The legal framework could be that of current educational internships, without the duration limits (<https://www.argentina.gob.ar/justicia/derechofacil/leysimple/pasantias-educativas>). The objective is not to replace activities currently carried out by the government, but, as in any buffer stock policy, to maintain the quality of the stored item.

8 Even when an agent is not subject to the tax liability, he could accept/demand Patacones because he knows that someone else needs them. In general, the public deficit is limited by the desire of the rest of the economy to save. This includes, of course, the external sector of the PBA: the province's imports will be limited by “foreigners” savings desires in Patacones plus exports.

9 For this arbitrage process to operate there must be some degree of substitutability between those who work in exchange for Patacones in the program and those who work in exchange for pesos; the greater this degree of substitutability, the greater the capacity of the minimum wage in Patacones to function as an anchor for all wages and, therefore, for the prices of the economy.

10 Of course, this is in addition to the spending in pesos, with the funds it will continue to receive as co-participation.

11 Mainstream economists accept the classical dichotomy and contend that money is merely a numeraire. Money is a “veil” that improves transaction efficiency while leaving quantities produced and relative prices unchanged -the so-called neutrality of money- (Armstrong, 2015). However, neutrality is obviated by coercive taxation.