AN EU DILEMMA - EURO BETWEEN A MEANS AND AN AIM IN ITSELF

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Abstract

This short paper is dealing with an EU dilemma ever since the enactment of the EU Treatise of Maastricht: is the single currency (euro) a means or an aim per se? Despite almost two decades since euro was launched/issued by the ECB, the dramatic events evolved during that period – especially the burst and consequences of the Great Financial Recession – have made the mentioned dilemma be still actual. A SWOT analysis will raise both pros and cons regarding the role of euro (research in progress). After the 'experiment' of unconventional monetary policies, it is high time for a radical improvement of the European monetary union, within an ample debate concerning the international monetary and financial – primarily banking – system.

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As long as the forms of money had an intrinsic worth (traditional examples – gold & silver), their economic role reflected the exchange value of the material, they were made of, which gave money a kind of 'objectivity'. Once paper money was issued and socially accepted, the de-materialization of money has swiftly unfolded. That historic innovation has been strikingly ambivalent: on the one hand, it has eased the exchange of goods and services, equally reducing the cost of printing money, and, on the other hand, it has opened a Pandora's box by offering almost freely a quasi-monopoly to the banking institutions on money creation and circulation, which provoked a rapid proliferation of credit money based on various types of debt. Correlating different sources of information, one could appreciate 'global debt' (that is world-wide) as representing the huge sum of about 500 trillion USD (mid-2018). Lakshman Achuthan, co-founder of ECRI (*Economic Cycle Research Institute* – based in New York), has considered that the total debt of the US, Eurozone, Japan and China increased over ten times as much as their combined GDP growth in the last period (2017/18).

Nowadays money has not become only highly dematerialized (except the marginal role of monetary gold), but the currencies are more and more *virtual,* offering an almost ideal environment for monetary and financial speculative transactions. This is how the so-called crypto-currencies have appeared and which are extremely difficult to monitor and supervise. However a central bank digital currency is still an option to consider.

This rather strange conjuncture represents both a very dangerous challenge for the world economy and a special opportunity to rethink and restructure the international monetary system.

1.As regards the serious perils confronting the world economy, I have repeatedly emphasized the *deepening scission between the nominal and real facets of the economic activity and social life* (starting with early 1990s). It is well known that this grave anomaly was explosively amplified due to the neoliberal offensive, launched at the beginning of the 1980s and perversely expressing the interests of oligopolistic and monopolistic financial capital. On this background, the de-regulation of the international financial system took aberrant forms. The 1990s represented the climax of the so-called financial *deregulation and forced privatization.* The most conspicuous case consisted in the Gramm-Leach-Bliley Act enacted in USA in 1999, by which the last provisions of the Banking Act of 1933 were repealed. Taking into consideration the hard lessons of the Great Depression, The Glass-Steagall legislation had enforced a separation between commercial and investment banking, preventing investment banks and securities firms from taking deposits and commercial Federal Reserve member banks from dealing in non-governmental securities for customers or investing in non-investment grade sectors for themselves. At the same time, commercial banking institutions were not allowed to underwrite and distribute non-government securities or to affiliate with securities firms/companies. Repealing the last valid provisions of the Banking Act of 1933 was the final blow given to the barriers raised in the 1930s against unlimited financial speculative

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operations. Almost simultaneously with this new financial environment, there were conceived the 'killing' instruments necessary for huge speculative investment profits – the famous *financial derivatives.* Thus the road to the Great Financial Recession (GFR) had been fully prepared.

It is only natural to analyze the *euro* evolution in the context of the world developments we have just reviewed. The international role of the EU currency has been dwindling under the shocks of GFR consequences and more recently due to the Brexit process and the increasing tensions in the US – EU trade relations. If a historical analysis of the *euro* would be done, one should remember that the birth of the single currency had to follow a rather forced route: the monetary/nominal indicators were awarded the leading role vis-à-vis the real economy, which was a detour from the normal evolution of mankind's economic activity. From the beginning, the EU single currency was conceived mainly in political 'laboratories', dominated by the developed western European states. Despite diplomatic declarations, in practice, *euro* has been considered more an end in itself than a means to facilitate an organic integration by reducing the discrepancies among member countries.

This bias was obvious even from the Maastricht Treaty (enacted in 1993) which laid the foundation for the European monetary union (EMU): the so-called 'Maastricht criteria' for adopting *euro* were exclusively nominal or quasi-nominal – inflation rate, interest rate, Government budget deficit, public debt, exchange rate. Even nowadays there is no direct indicator of the real economy envisaged as a criterion for entering the Eurozone (only collaterally they are taken into consideration in some periodical evaluations). However, the level of economic development should be of utmost importance, especially GDP per capita, degree of productivity and competitiveness. Otherwise a single currency could deepen and not alleviate the development gaps, by stimulating capital & natural resources flows, qualified labour and brain drains from emergent economies to the most advanced EU member states. Referring to the case of Romania, our country's GDP per capita is presently about 63% (2017) of the EU average and productivity level is likewise. Moreover, according to the European Commission's *Final Report – Economic challenges of lagging regions* (2017), `the two economies with the lowest level of *total factor productivity* continue to be Bulgaria and Romania.' Supposing we could accomplish the Maastricht criteria (which happened for a couple of semesters), adopting *euro* would not be clearly beneficial *unless real economy indicators (mainly GDP/capita and labour productivity) will be as near as possible to the EU averages.*

Nevertheless, *euro* could still be useful if its role would be rather similar to what was initially intended for the Special Drawing Rights (SDR issued and managed by IMF). In this scenario, *euro* would circulate on the basis of the 'communicating vessels' principle between the members of Eurozone and the EU members which have not yet replaced their national currencies. In this way, *euro* would become more flexible[24] and adaptable to various economic and financial conditions. In fact, a higher degree of integration should mean homogeneity, *not uniformity.* Adopting the single currency must not be a political propaganda objective, but the normal outcome of a complex process of restructuring national economic and financial systems, based on freely accepted principles of European integration.

2. Nowadays one may remark a historical conjuncture when the extension of euro-area coincides with an ascending popular movement for a radical change of the principles, functioning and practice of the monetary system: from 'private' money (that is based on credit at the discretion of banks) to public or sovereign money – controlled by state under *an effective democratic control*.

For this relatively recent tendency, a significant example is represented by the *Positive Money* movement launched, in UK, in 2010, in the aftermath of GFR. Realizing that reforming the monetary system requires a concerted international strategy, the *Positive Money* established, in 2013, the International Movement for Monetary Reform and, in 2016, launched a 'QE (quantitative easing) for People' campaign in the Eurozone. In their vision, the monetary and banking system has not been working for the benefit of most people, causing houses price bubbles, ever higher levels of debt, worsening inequality and continuing to lay foundation for financial crises. It is too obvious that huge transnational financial institutions (mainly banks) concentrate most of the

[24] In a different version, this is also a desideratum expressed by Joseph Stiglitz in The Euro: How Common Currency Threatens the Future of Europe, W.W.Norton Company, 2016 (especially Part IV).

economic power, ultimately generating a dangerous democratic deficit in the way central banks take decisions.

Moreover, in USA, there has been established the *Alliance for Just Money* (in July 2018), which grew organically out of the American Monetary Institute. The Alliance's mission is to research, educate and organize society for a real monetary reform. Therefore the Alliance is promoting the development, implementation and protection of a transparent public, sovereign money system. As it is underlined in the Mission statement, to achieve an effective money reform it is necessary that: (i) Congress exercise its Constitutional power to monitor the creation of money, debt-free, and to establish a transparent public authority to determine the amount of new money the Treasury will disperse; (ii) end the exorbitant privilege of commercial banks to create and issue what is generally considered as money and which is presently based on credit and debt; (iii) transfer ownership of the Federal Reserve Banks to the Treasury, in a most democratic way.

Such initiatives are spreading, especially in Europe and North America, representing a form of social fight to eliminate or at least drastically reduce financial speculation, so that investment could be stimulated in productive sectors of the real economy which boost incomes necessary to serve society's urgent needs (economic, social, ecological). These movements are expressing an intense discontent of a large proportion of many countries' citizens concerning the big banks' propensity to manipulate the monetary and financial systems for increasing their own enormous profits. Ever more people are becoming aware of the harmful behaviour of banking and other financial institutions, contributing massively to the exacerbation of the boom – bust cycles, while avoiding paying for their own mistakes or even malevolent scenarios and tactics. In fact, financial institutions (banking and non-banking) were by far the main beneficiary of the famous *unconventional (non-standard) monetary policies.*[25] However, based on information from *Positive Money* Network, recently, in Ireland, the five major banks have jointly established a Banking Culture Board, for the purpose of rebuilding the public trust in the financial (especially banking) sector. The success of such an initiative mainly lies in creating a real dialogue between banks and their clients, irrespective of each one's financial assets. It is high time for the key banking institutions to abandon their psychosocial complex of superiority, favoured by unhealthy oligopolistic position and policy.

3. The dramatic events of the 1990s and 2000s put a big question mark on the real – not pretended – target of the aggressive campaign for the almost absolute 'independence' of the central banks, which was imposed internationally, with a special emphasis within the European Union, since early 1990s. But did this so-called 'independence' prevent the wild financial speculation from mid-1990s until the burst of GFR? The main pretext for hyperbolizing central banks' autonomy/independence was to prevent the interference of 'political factors' in the monetary decision process. In reality, the only concrete result was the extreme aggravation of the rift between nominal and real facets of the economy. The truth is that "decisions about how much emergency money to create and to whom it should be distributed are highly political, as the popular anger following the financial bailout of banks in the crisis revealed. Institutions, whether national or supranational, are important ways of embodying these political judgements so that monetary management, in good times and bad, can be effective."[26]

The discretionary non-standard monetary policies poured billions of strong currencies into big banks accounts (USD, EUR, GBP, JPY, et al.), while real economy and population at large were almost ignored. This is why central banks need a new legitimacy, based on stringent social and real economy necessities and a comprehensive consensus.

Since its enaction (1998), the European Central Bank (ECB)'s mandate had a very limited definition, being almost exclusively focused on stability of prices (while, for example, the US Federal Reserve had, after the WW II, a rather ambivalent objective – price stability *and* full employment).

However, a closer analysis of the main treaties of the European Union shows a more complex approach (S.Jourdan, `Why ECB has a legal obligation to account for environmental protection`, *PositiveMoney, Oct.1, 2018).* Thus, the Treaty of the Functioning of the EU underlines: "Without

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[25] Lucian C. Ionescu, Hesitant attempts towards normalizing monetary policies in JFME, no.4/2017
[26] M. King, The End of Alchemy, ed. Little, Brown, 2016, p.247

prejudice to the objective of price stability, the ESCB (the European System of Central Banks) shall support the general economic policies in the Union as laid in the Article 3 of the Treaty on European Union."(Art. 127)

But due to the specific way the banking system has evolved, there is a sort of a mutual 'captivity' between central banks and the banking institutions. A central bank has to keep the big banks 'satisfied' with its monetary policy. Otherwise the important banks – especially the transnational ones – could rather easily destabilize the money markets, under the cover of 'free market' operations, including manipulation of huge fund transfers between 'mother' banks and their international subsidiaries and branches. At the same time, central banks are supposed to bail out gigantic financial corporations during recessionary periods. It is more and more obvious that "central banks do not exist just to twiddle their thumbs and keep down inflation. (…) The pragmatic policies adopted after the crisis of 2008 avoided the worst, but they did not really provide a durable response to the structural problems that made the crisis possible, including the crying lack of financial transparency and the rise of inequality. The crisis of 2008 was the first crisis of the globalized patrimonial capitalism of the twenty-first century. It is unlikely to be the last."[27] Similarly, John Mauldin appreciates the most important problem is that central banks "create debt with little regard for how it will be used. That is how we get artificial booms and subsequent bursts."(*Mauldin Economics,* Oct. 27, 2018)

In this global context, EU should endeavour a multi-dimensional enterprise for improving the *euro's* institutional and functioning framework, learning from mistakes and turning into account the experience accumulated in almost two decades of existence: avoiding bad allocation of monetary & financial funds, mainly by speculative credits, and keeping under a strict control the `shadow banking`. There is not an accident that, in the last decade, important economists consider that the `classic` business cycle seems to be replaced by a *financial* cycle, which, in fact, is the upper stage of the *credit* cycle, specific to the 19th century (see, e.g., J.A. Schumpeter). This new type of social-economic cycle is reflecting the *inner nature of the up-to-date transnational financial oligopolistic capitalism*.

Therefore, in our view, *euro* can survive and strengthen only as a highly efficient means to hit the final target/aim: a homogenous union of developed national economies, contributing to the elimination of gaps evidenced by the real economy indicators, based on a profound democratic decision process.

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[27] *Th. Piketty, CAPITAL in the Twenty-First Century, Harvard University Press, 2014, p. 473*