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Alternative Interpretation of a Stateless Currency Crisis

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Alternative Interpretations of a Stateless Currency crisis

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Abstract

A number of economists holding Keynesian or pragmatic monetarist views warned that political union was a necessary premise for a viable monetary union. Inspired by Goodhart, we name this the Cartalist view. The European currency union was, however, strongly influenced by New Classical Macroeconomics, which gave new strength to older traditions, like ordoliberalism, that back separation of monetary and fiscal policy, legitimizing a Stateless currency. Again like Goodhart, we call this the Metallist view. This distinction is particularly relevant for assessing two alternative perspectives of the nature of the Euro area crisis. On one hand, there are those who argue that the crisis is akin to a traditional balance of payment crisis of the kind typically occurring in fixed exchange rate regimes. On the other, there are those who attribute the crisis to obstacles to more resolute intervention by the European Central Bank (ECB). Accordingly, belated intervention by the ECB led to worsening of the fiscal crisis of peripheral Euro area states, subsequently exacerbated by austerity policies. In this view, a classical balance of payment crisis can be excluded as a cause of the crisis, because Target 2, a payment mechanism analogous to Keynes's International Clearing Union, protects the Euro area. In this paper, I argue that although a balance of payments crisis cannot exist in a viable sovereign monetary union, it is still conceivable in a flawed, stateless monetary union like the Euro zone, possibly obscured by Target 2. In this regard, I also show that, while timely and resolute ECB intervention would have been appropriate, in the absence of federal institutions (particularly a federal budget controlled by a European democratic parliament), once this intervention finally took place, austerity measures necessarily accompanied it to check moral hazard possibilities of peripheral member countries. I argue that the German neo-mercantilist orientation and the influence of the predominant mainstream credo that monetary policy should be detached from politics and fiscal policy are obstacles to a viable federal union. I also warn about the risk that the Parliament of such a union would be divided according to national rather than ideological/class interests. Virtue out of necessity, Hayek pointed out long-ago that a currency union among different nation-States could only survive with a minimalist federal State.

Keywords: Europe, Crisis, Target 2, ECB, State.
JEL classification: E11, F33, N14

"An economic transaction is a solved political problem. Economics has gained the title of queen of the social sciences by choosing solved political problems as its domain" — (Lerner 1972, p. 259).

1. Introduction*

A number of economists of different persuasions, including Nicholas Kaldor, Winnie Godley, Charles Goodhart and Martin Feldstein, warned that political union was a necessary premise for a viable monetary union. However, creation of the European currency union was actually influenced, inter alia, by the then prevailing New Classical Macroeconomics doctrine of the separation of monetary from fiscal policy. For argument's sake, we use Goodhart's (1998) terms, Cartalist and Metallist, respectively, for the two views. This distinction is particularly relevant for assessing two alternative perspectives on the nature of the euro area crisis. On one hand, there are those who argue that the crisis is akin to a traditional balance of payment (BoP) crisis of the kind typical of fixed exchange rate regimes. Economists of otherwise different persuasions, including Werner Sinn, Roberto Frankel, Peter Garber, Carmen Reinhart, Michal Bordo and Fernando Vianello, held this position (on Vianello see Cesaratto 2013a). On the other, there are those like Paul De Grauwe and Marc Lavoie who attribute the crisis to obstacles hindering resolute intervention by the European Central Bank (ECB). The latter's belated intervention aggravated the fiscal crisis of peripheral euro area states, leaving fiscal adjustment to harmful austerity policies. According to this view, the existence of Target 2, a mechanism analogous to Keynes's International Clearing Union (Cesaratto 2013a; Bordo 2014; Lavoie 2015), protected the Euro area from a classic balance of payment crisis. In this paper I argue that despite Target 2, the euro zone crisis is a BoP crisis. Although a proper BoP crisis cannot happen in a viable sovereign monetary-union, it is still possible in a flawed, stateless monetary-union like the euro zone, possibly obscured by Target 2 (Mayer 2011, Pisani-Ferry 2012).[1] In this regard, I also show that more timely and resolute central bank intervention, as we saw in the U.S., was impossible in the absence of greater political and economic union and related federal institutions (particularly a federal budget counterbalancing a stricter check on local budgets). I argue that the German neo-mercantilist orientation is not the only major obstacle to such a union. Another was European ruling class endorsement of the mainstream credo that monetary policy should be detached from politics and fiscal policy, leaving the task of full employment to labour market flexibility. In this sense the euro lacked a State but not a deliberate political design. A further obstacle is that the Parliament of a hypothetical European Federal Union would presumably be divided according to national interests, undermining the political cohesion of the Union. As suggested by Hayek (1939), this would leave a minimalist federal State, one that just fixes the rules, a solution

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[1] The distinction between viable and flawed currency unions is made by Barba and De Vivo (2013).

favoured by ordoliberals and conservative European élites. As a result, the Metallist view prevailed over the Cartalist. In the long run, however, a stateless currency may not be socially and politically sustainable, vindicating the Cartalist view.

Section 2 recalls some prescient contributions about the priority of political over monetary union, precedence sustained by economic logic and historical experience. Section 3 explains the role of the neoclassical restoration of the 1970s in setting the stage for a stateless euro. Section 4 points out some analytical deficiencies of the Metallist neoclassical background. Section 5 illustrates why the eurocrisis is a BoP crisis and why Target 2 marks a difference, albeit not substantial, with respect to a classic balance of payment crisis in a fixed exchange regime. Section 6 reviews the reasons of those who regard Target 2 as a mechanism that drastically differentiates the euro area from a fixed exchange regime and related BoP crises, and attribute the outbreak of the crisis to delayed and timid intervention of the ECB. Section 7 explains that more effective ECB intervention would have required an institutional framework that could only be provided by a full, sustainable, American-style political union. In this regard I put forward a number of economic and political reasons why such a union is out of sight in Europe. In the conclusions, I sum up the logic of the paper and remark that the euro is part of a larger design to deprive national working classes of their natural playing field, i.e. a national sovereign State.

2. State-based monetary unions: the Cartalist view

Numerous prescient economists of otherwise different persuasions were sceptical of the European monetary unification. Although this is well known, a short revision is useful here. Scepticism was evident in early contributions by Meade (1957), Mundell (1961)[2] and later by Fleming (1971) when discussions about monetary unification were already in the air. Kaldor (1971) had the advantage of an earlier European Commission Plan (the Werner Report), while Godley (1992), Feldstein (1992) and later Goodhart (1998) were able to discuss the final plan contained in the Maastricht Treaty. Kaldor (1971, p. 204) points out that the "harmonization" of social rights in the then European Community, purported by the Werner Report, implied a redistribution of tax revenues among member countries, lest weaker members fell behind due to higher taxation. This redistribution presupposed a political union. Of course, support for what was later known as a "transfer union" in the German mass media was likely to be high in weaker countries and low among prosperous members. A (democratic) political union required a will to reduce regional divergence, since "growing inequalities between the different countries" were bound to break up the Union "in a relatively short time" (ibid, p. 205). Of course Kaldor also had macroeconomic policies in mind when he worried that: "Monetary union and Community control over budgets will prevent a member country from pursuing full employment policies on its own – from taking steps to offset any sharp decline

[2]Mundell (1961) was rather Keynesian in spirit, talking of monetary unifications of non-optimal currency areas as a deflationary force. In the spirit of the time, Mundell later became a supporter of the disciplinary role of monetary unifications (see e.g. Masini 2014).

in the level of its production and employment, but without the benefit of a strong Community government which would shield its inhabitants from its worst consequences." (ibid, p. 206). The prescient conclusion was that "it is a dangerous error to believe that monetary and economic union can *precede* a political union or that it will act (in the words of the Werner report) 'as a leaven for the evolvement of a political union which in the long run it will in any case be unable to do without'. For if the creation of a monetary union and Community control over national budgets generates pressures which lead to a breakdown of the whole system it will prevent the development of a political union, not promote it." (ibidem).[3] Commenting on the Maastricht Treaty, two economists of otherwise opposite convictions, Wynne Godley (1992) and Martin Feldstein (1992), shared concern about countries losing monetary, fiscal and foreign exchange sovereignty, being reduced to the state of local authorities or colonies (Godley 1992), without a federal authority being responsible of full employment. Quite the opposite: in the Treaty, "anti-inflationary policies" clearly prevailed. Moreover, both authors criticize those who believed that the monetary union would abolish BoP problems, unless of course "federal budgeting arrangements are made which fulfil a redistributive role … as Professor Martin Feldstein pointed out in a major article in the *Economist* (…), this argument [that BoP problems would disappear] is very dangerously mistaken. If a country or region has no power to devalue, and if it is not the beneficiary of a system of fiscal equalisation, then there is nothing to stop it suffering a process of cumulative and terminal decline leading, in the end, to emigration as the only alternative to poverty or starvation." (ibid).

Optimal Currency Area (OCA) theory has long been the benchmark for monetary union feasibility. Charles Goodhart was critical of this approach and stresses that the test of feasibility is political sovereignty. He compared the Cartalist view of money as a creature of the State with the Metallist view that money has an intrinsic value and is mainly introduced to facilitate trade. Since the question that OCA discusses is the optimal regional space in which to adopt a single currency, he sees OCA theory as an extension of the Metallist view of money and instrumental to trade efficiency, whereas in the Cartalist view political sovereignty is the authority that enforces a certain currency over a certain regional space.[4] In the Cartalist view, the European monetary union, with its separation between sovereign political/fiscal agency and monetary authorities, is fundamentally incongruous. Conversely, it would not necessarily be odd in the Metallist/OCA view, since efficiency may in principle dictate that according to circumstances, a State adopt more than one currency, or a number of States share a single currency (ibid, p. 420).[5] Indeed, extending Goodhart's reasoning, we may include among the efficiency reasons adduced by Metallism, the mainstream view that sovereign

[3] On the functionalist idea, inspired by Jean Monnet, that the economic and monetary union could be a step towards deeper political union, as long as it leads politicians to appreciate the advantages of greater cooperation, see Spalaore (2013). Even crises, in this view, may lead to enhanced cooperation.

[4] " [Cartalist] analysts would claim that the spatial determination of separate currencies has almost nothing to do with such economic cost minimisation and almost everything to do with considerations of political sovereignty" (ibid, p. 409).

[5] According to Metallism, "there should be a divorce between currency areas and the boundaries of sovereign States" (ibid).

monetary policy has nominal but not real effects in the long run, so that it can be efficiently delegated to an independent super-national authority (Giavazzi and Pagano 1988).
Goodhart's argument about the sovereign rather than merely technical nature of money is convincing. However, two qualifications can be made, both alluded to by Goodhart himself. The first points out a consistency between OCA theory and Cartalism; the second underlines that even a stateless currency is a political choice.

(i) OCAs probably coincide with sovereign States, since the latter may enforce policies, such as elimination of linguistic barriers and unification of the labour market, or inter-regional transfers, that make a collection of regions an OCA**.** This does not however lessen Goodhart's main argument, since these policies generally emerge by political will and not natural evolution (ibid, pp. 423-24), as sustained by supporters of endogenous OCA (Frankel and Rose 1998). In this respect, the seminal OCA literature and Cartalism are not necessarily opposed, since in general the viability of a currency area can only be ensured by sovereign State backing, and vice versa the long-run popular legitimacy of a State over its regional dominion can generally only be guaranteed if the dominion is an OCA.
(ii) Although lacking a sovereign reference State, the euro was the result of a political design. In essence, by depriving euro member States of their currencies, most of their economic sovereignty was abrogated and assigned to borderless market forces. By ordoliberal inspiration (to which we shall shortly return), only residual regulatory power was left to the States, and even that was mostly delegated to Brussels.[6] A main purpose of this design was to deprive national working classes of a natural interlocutor, their respective sovereign State, now that capital has become more and more elusive through globalisation and outsourcing. Once domestic political dialectic over control of the nation State is evicted from its natural playing field, conflict over distribution of wealth is voided and democracy with it (Pivetti 2011, Cesaratto 2015b). In this regard, if not backed by a State, the euro was nonetheless backed by a political design pursued by the European élites.

3. Market-based currency unions: the Metallist view

The process of the European monetary unification has contradictory aspects. For instance, Feldstein (1992) observes how certain members of the European Monetary System (EMS), complaining about the dominant role of Germany, pushed for monetary unification to regain some sovereignty over monetary policy decisions, while surrendering monetary policy to an independent, German-style central bank.[7] The political motivations of the euro also included

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[6] As Goodhart puts it: "there has been an overlap between [Metallist] theorists and those who believe that the intervention of government within the economy is excessive, unnecessary in most cases and should be reduced. There is, therefore, a disguised, but not hidden agenda of [Metallist] theory in advocating a reduced role for the State in economic affairs. By contrast, [Cartalist] theorists tend to believe that government intervention is an inevitable concomitant of the operation and organization of our political system, and many worry whether the prospective European Central Bank ECB may not suffer from a 'democratic deficit'" (Ibid, p. 425).

[7] In the German model the Bundesbank played a major role in keeping social conflict at bay (see Cesaratto and Stirati 2011, pp. 73-75).

the geo-political problems caused by a unified Germany and the influence of élitist federal utopia. The feasibility of a stateless currency was certainly also greatly influenced by the return of neoclassical dominance (as broadly juxtaposed to the Keynesian approach) in economic theory and policy in the 1970s. This meant the prevalence of the view that markets are a self-sufficient institutional fabric of domestic and international relations, with monetary policy as the watchdog of the rules, over the view that attributes this institutional role to fully sovereign States. The first view, supported by the vested interests of the dominant classes, prevailed in the creation of the euro. As reported by Masini (2014), documents like the "All Saints Day Manifesto for European Monetary Union" published by *The Economist* (Basevi et al. 1975), provided ideological support for the reaction to widespread labour indiscipline brought about by Keynesian full-employment monetary and fiscal policies, besides elaborating the intellectual rationale for dismantling national monetary sovereignties on the basis of the proposition of the long-run (and possibly short-run) ineffectuality of monetary policy:

> *"There is no trade-off along the Phillips Curve: 'any attempt to drive the rate of unemployment below the 'natural' rate by means of expansionary monetary policies will be self-defeating and will engender a process of accelerating inflation' (Basevi et al. 1975, p. 34). Given the purchasing power parity assumption, a currency union implies a convergence between inflation rates but if no inverse correlation exists with unemployment, no country would incur real costs by tying its hands on monetary policy: 'There are no unemployment costs in monetary unification in the long run. The abdication of the national monopoly to print money has consequences only for the national rate of inflation, not for the long-run rate of unemployment' (ibid, p. 38)"* (Masini 2014, p. 1025).

This New Classical Macroeconomics (NCM) view transmigrated into the influential *One market one money* report (Emerson 1990), the Maastricht and subsequent Treaties and European policies up to the present austerian stance. These beliefs, rather than those of seminal OCA theory – which were more Keynesian in spirit or oriented by pragmatic monetarism – led public opinion to believe that a European currency without a federal State was a feasible possibility.

Possibly almost unknown to foreigners, the German ordoliberal influence over the euro set-up also attracted some attention during the euro area crisis (Bonefeld 2012; Berghahn and Young 2012; Cesaratto and Stirati 2011; Allen 2005). To assess the influence of this tradition on the European monetary constitution is more difficult. According to some ordoliberal scholars (Feld et al. 2015, p. 10) its influence should not be overrated, although many prominent German economists, including Hans Tietmeyer, Jens Weidmann and Hans-Werner Sinn moved in this tradition. The main message of ordoliberalism is that the State has an essential function in economic policy as "market policeman" (Biebricher 2014, p. 21), enforcing rules seen as necessary for efficient functioning of a free market economy. The first and foremost ordoliberal rule is price stability. This is seen as a pre-condition for smooth working of the price mechanism according to neoclassical principles, about which ordoliberal exponents have no practical or theoretical doubts. In this sense the European monetary constitution that

targets price stability as a priority is faithful to the ordoliberal credo (Feld et al. 2015, pp. 11-12).[8]

Ordoliberalism prescribes a currency union backed by a robust set of rules rather than by a pro-active federal State. Hayek (1939) astutely suggested why this is the only way a currency union can actually work, although it probably did not directly influence the economic constitution of the current euro area.[9] Discussing federalism rather than monetary unions, Hayek provides an additional key, beside the dominance of the NCM and ordoliberal doctrines, to explain why warnings from OCA and other literature were ignored. In brief, Hayek argues that a "liberal economic regime is a necessary condition for the success of any interstate federation" (ibid, p. 269). This regime "will have to take the form of providing a rational permanent framework within which individual initiative will have the largest possible scope" (ibid, p. 268). According to Hayek this is also the only feasible interstate federalism because any significant fiscal empowerment of a federal state beyond a broad regulatory role soon leads to inter-state conflict over policy measures and distribution of federal resources (ibid, p. 266). According to Hayek, this is why interstate federalism is the Mecca of liberalism (and, notably, not of socialists).[10]

We thus see broad convergence between different laissez-faire traditions (ordoliberal, NCM, Hayekian) and the agenda of the conservative European élites aimed at dismantling nation-states as the natural contending terrain of social conflict, replacing it with an ethereal super-national entity basically beyond the reach of national working-classes.[11]

4. The weak foundations of the Metallist view

Kalecki (1943) suggested that the ruling élites select from among contending economic theories on the basis of political considerations rather than on their real welfare efficacy. In

[8] Besides price stability, the other ordo-liberal pillar that found place in the euro area economic constitution is the no fiscal bail-out clause based on the "principle of liability" that "sovereign states within the monetary union have to be held responsible for their decisions, i.e. that they cannot impose the costs of their actions on others" (Feld et al, 2015, p. 14. An excellent account of the ordo-liberal view underpinning the EMU economic policy is provided by Issing (2002), a former chief of research at the ECB. In assigning a prominence of the State over markets, almost as if the latter are a result of the former, Ordoliberalism touches some profound chords of German cultural tradition including Cameralism, romanticism, Historical School (Riha 1985, Schefold 1999), with some controversial contamination with national-socialism, at least at its earlier stage (Berghahn and Young 2012). It even attracted the interest of Focault (Biebricher 2014, pp. 4-5).

[9] Biebricher (2014, p. 12) reports that according to Wolfgang Streeck, Hayek (1939) was the blueprint of European integration. Notably, the ordoliberal view that price stability is a pre-requisite for ordered working of the price mechanism sounds influenced by Hayek (1931), although the Austrian scholar and the ordoliberals are generally regarded as two distinct traditions in liberal thinking (e.g. Riha, 1985, pp. 204 (17)).

[10] On the tormented relation between socialism, nationalism and internationalism, see Szporluk (1988); Cesaratto (2015b).

[11] See Huerta De Soto (2012) for an extreme, disquieting view of the disciplinary role of the euro. Feld et al. (2015, p. 12) approvingly quote Huerta De Soto, while an alleged progressive designer of the euro, Tommaso Padoa Schioppa is not distant from his views. The latter wrote that continental Europe had to undertake a full programme of structural reforms in order "to attenuate the protections that progressively distanced individuals from direct contact with the hardship of living in the twentieth century." (Padoa Schioppa 2003, my translation; cf. Cesaratto 2013c).

particular, capitalists prefer social discipline to full employment and therefore opt for policy options that lead to deflationary set-ups (conveniently defined as natural unemployment equilibria). Considering these political motivations, it is nonetheless a worthy exercise to briefly remind the analytical flaws of these doctrines, if anything because it clears the desk of one aspect of the question.

Progressive mainstream economists basically share (and teach) the idea that free competition and independent monetary policy lead to full employment growth, at least in the long-run, when the forces of "thrift and productivity", as D.H.Robertson famously defined them, are said to prevail. However, in line with Keynes's celebrated practical remark about the long run, pragmatism leads progressive mainstream economists to assign a role to more Keynesian-oriented policies at least in the short run. This is a limited role, though, mainly confined to periods of low business confidence or explained by price rigidities. It is not useless, therefore, to recall that there are solid reasons to maintain that mainstream neoclassical theory is wrong in the short as well as the long run. The present author's favourite critical approach hails back to the capital theory controversy. This showed that the demand curves for labour and capital – on which the mainstream relies to assert that labour and capital stocks are both fully utilized in the long run – are not "well behaved", as mainstream economists acknowledge when faced with this theoretically irrefutable result.[12] As a consequence of the capital theory critique, we can now safely argue that it is aggregate demand (not factor supply) that drives economic growth, with saving adjusting to investment in the short run through fuller use of productive capacity and in the longer run through larger productive capacity. In this context fiscal, monetary and foreign exchange policies play a major role in sustaining aggregate demand (Cesaratto and Mongiovi 2015). The policy suggestion is that balanced international growth requires that all countries be engaged in sustaining domestic demand through appropriate fiscal, monetary and distributive policies. Neo-mercantilist behaviour, i.e. reliance on other countries' expansionary policy, should be avoided.

Nonetheless, competitive deflation, a pillar of neo-mercantilist policies, is deeply embedded in the euro area economic constitution.[13] This rests on the idea that domestic labour

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[12] Mainstream economists cannot and do not deny the results of the capital theory controversy (Samuelson 1966), but perhaps rely on other, neo-Walrasian versions of neoclassical theory in which "capital" does not appear as a "value" but as a list of physical capital-goods. This would however be a short-period version of the theory unable to sustain the long-run conclusions of modern macroeconomics, including for instance monetary policy, exogenous and endogenous growth models and conventional international trade theory (see Dvoskin 2014).

[13] Germany has practised this policy since the early fifties (Cesaratto and Stirati 2011). Ordoliberalism and mercantilism are only apparently antithetical in the German experience since both assign the State a central role in framing the institutional and policy context most favourable to private economic activity. As already noted, there is a sense of continuity in German economic thinking from Cameralism, through List and the Historical School up to ordoliberalism. After all, German post-World War II "monetary mercantilism" was a creature of ordoliberalism (Cesaratto and Stirati 2011). This introduces another aporia of the euro: in a stateless currency union the strongest country prevails, and the strongest country is the one with the strongest economic institutions, in the German case enforced by a pro-mercantilist State.

flexibility and international free trade are Pareto-improving (to use a conventional parameter) according to the Heckscher-Ohlin theorem. Unfortunately, the results of the capital theory controversy invalidate this theorem, as well as the idea that free capital mobility leads to faster growth in catching-up countries (Cesaratto 2013b). Much to the surprise of Blanchard and Giavazzi (2002), in the long run capital flows from core to peripheral euro areas have destabilized rather than re-equilibrating the currency union, as I recall below.

All this shows that the economic theory background of the euro area market-based economic constitution was flawed. This vindicated the state-centered warning that viewed a long-run viable currency area necessarily backed by a sovereign entity in full control of fiscal and monetary policies. There is therefore little expectation that a monetary union deprived of pro-growth sovereign institutions will succeed, at least in terms of full-employment and social justice. As noted above, however, such a progressive union was not the *political* objective. Although a number of prescient scholars foresaw the shortcomings of a stateless currency union, to the best of my knowledge no economist predicted the actual origin of the euro crisis (Pisani-Ferry 2012).

5. Balance of payment crises in fixed exchange regimes

Bordo and James (2013) trace a parallel between the gold standard and the European monetary union (Emu).[14] In both cases a fixed exchange rate was a shortcut for catching-up countries to gain access to international finance, and in both cases this led to banking, sovereign and foreign debt crises, in that order. The difference between the financial crises in the gold standard and the EMU is that the rigidity of the latter – no country has dared to leave it yet, as the dramatic capitulation of Greece in July 2015 has shown - makes adjustment more painful. Roberto Frenkel (2014) and Carmen Reinhart (2015) extend this comparison to the crisis in emerging economies. In both cases, the liberalization of capital flows and financial deregulation, and the adoption of some kind of fixed exchange regime led to a sequence of events, appropriately named by Carmen Reinhart (e.g. 2011)[15] a “series of unfortunate events” and confirmed by various authors since the path-breaking contributions of Carlos Diaz-Alejandro (e.g. 1985) from which Reinhart (2015) takes inspiration. Frenkel (2014, pp. 5-6) sums-up the sequence:

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[14] We learn from Baldwin (2012) that the term European monetary union does not officially exist. Economic and Monetary Union would be a correct expression, but it alludes to a governance framework encompassing all the European Union. In his opinion, the term European monetary union would be common only in the underworld of economic amateurship, while the proper term would be *euro area*, the expression used by the ECB. Following authorities like Pisani-Ferry (2012) or Bordo and James (2013), I too use the acronym EMU with the first looser meaning.

[15] Also the title of her book with Rogoff (2009) is particularly fitting since it reminds of the historical unawareness of the participants of the financial party that precedes the crisis. This naivety is not surprising in view of the mainstream interpretation of core-to-periphery capital flows as an equilibrium phenomenon (Blanchard and Giavazzi, 2002).

- the sequence opens with capital inflows to peripheral countries that feed financial and real estate bubbles; aggregate demand, output and employment surge, but also prices;
- however, the expansion of aggregate demand leads to a trade imbalance while capital inflows and inflation determine a real exchange rate appreciation (given the nominal fixed exchange rate) that discourages exports;
- while the financial position of individual borrowers becomes more fragile, payment of interest on the foreign debt worsens the current account balance; the imbalance is sustainable as long as foreign lenders continue to finance the external deficit;
- eventually the financial fragility of borrowers and the country as a whole leads to a sudden stop in foreign lending, while creditors try to repatriate former loans; as financial and real bubbles begin to deflate, "episodes of illiquidity and insolvency emerged, first as isolated cases and then as a systemic financial crisis" (ibid). In fixed exchange rate regimes these "financial tensions or crises preceded currency crises in most cases" (ibid).

To be sure, the "series of unfortunate events" does not concern all the European peripheral countries: the introduction to Anna Karenina is very apt for these countries, each unhappy in its own way. It best suits the following countries (in decreasing order): Spain (Dejuàn and Febrero 2010), Ireland (Dellepiane et al. 2013), Greece and pre-EMU Portugal (Leao and Palacio-Vera 2011); much less Italy, which after all was not a catching-up/peripheral country. [16] Nonetheless, Italy too joined the EMU, inter alia, to finance its huge public debt at cheaper interest rates. Although Italy did not participate in the financial party with Spain, Ireland and Greece, the fall in her external competitiveness increased external debt, albeit much less than in true peripheral countries. Mutatis mutandis, post-EMU events in Portugal were similar to those in Italy.[17]

As mentioned above, the "series of unfortunate events" is not surprising in the light of heterodox criticism of mainstream economics. The latter regards financial liberalization and international capital mobility as a sort of redistribution of savings from capital-rich to capital-poor countries conducive to faster economic growth in catching-up economies. Keynesian and Sraffian criticism of the marginalist saving-investment nexus led us to look at the

[16] Curiously, it was Paul De Grauwe (1998) in the *Financial Times* who remarkably predicted that the euro could trigger a sequence of unfortunate events: "Suppose a country, which we arbitrarily call Spain, experiences a boom which is stronger than in the rest of the euro-area. As a result of the boom, output and prices grow faster in Spain than in the other euro-countries. This also leads to a real estate boom and a general asset inflation in Spain. Since the ECB looks at euro-wide data, it cannot do anything to restrain the booming conditions in Spain. In fact the existence of a monetary union is likely to intensify the asset inflation in Spain. Unhindered by exchange risk vast amounts of capital are attracted from the rest of the euro-area. Spanish banks that still dominate the Spanish markets, are pulled into the game and increase their lending. They are driven by the high rates of return produced by ever increasing Spanish asset prices, and by the fact that in a monetary union, they can borrow funds at the same interest rate as banks in Germany, France etc. After the boom comes the bust. Asset prices collapse, creating a crisis in the Spanish banking system" (see Cesaratto 2012).

[17] Similarities between European peripheral countries' crises are emphasized by Bagnai (2013). See also Brancaccio (2012).

phenomenon through different lenses. To begin with and contrary to Ben Bernanke's belief,[18] there is no such thing as "savings" going around the world in search of the best profitable employment in investment projects. "Savings" do not have a life independent of the investment that creates them. Werner Sinn's attempt to depict Germany as the victim of the circumstances engendered by the euro is also devoid of analytical foundations; the euro supposedly favoured migration of German savings to southern countries, thus shifting "economic vigour from Northern to Southern Europe and Ireland" and plunging Germany "into a recession" since German savings were badly invested in the south (Sinn 2013, p. 4).[19]

An alternative, Keynesian-oriented *endogenous-money view* – a view authoritatively endorsed for instance by Goodhart (1998), Bindsell and König (2013) and the Bank of England (McLeay et al. 2014) – suggests instead that in certain circumstances (financial liberalization and fixed exchange rate regime), the sequence of unfortunate events is triggered by credit-money creation by local and foreign banks, as suggested by the eminent international finance economist Borio (2014).[20] Contrary to neoclassical expectations, most of this finance does not go to investment projects that enhance productive and export capacity, but to construction and consumption bubbles (both private and public) that fuel imports and inflation. This is followed by a current account surplus in northern countries which according to national accounting leads to the formation of savings (thus we can say ex post that northern savings are eventually lent to southern countries).

Despite theoretical differences in the causality of events – the conventional Bernanke-Sinn story or Borio's less conventional sequence – the two views agree that, at the end of the day, the euro area crisis *is* a balance of payment crisis. The bursting of the bubbles also triggered a banking crisis, which after government bail-outs, generated a sovereign crisis. The course of

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[18] I refer to the famous saving glut hypothesis.

[19] It is interesting to quote Sinn (2013, pp. 3-4): "The credit bubble stemmed from the fact that investors did not charge appropriate risk premia. …The institutionally induced abandonment of interest rate spreads effectively acted as a subsidy for capital flows from the North to the South and West of the euro zone. … For a long time Germany had the lowest net investment rate and the lowest growth rate of all European countries. … Most of Germany's savings were invested abroad, after capital had paved its way *via* a corresponding current account surplus".

[20] The following quotation from Borio (2014, p. 13, my italics) can be usefully compared with that of Sinn in the previous footnote: "At a deeper level, all this reflects the failure to make a sufficiently clear distinction between *saving* and *financing*. As a matter of identities, saving, a national-accounts concept, is simply income (output) not consumed; financing, a cash-flow concept, is access to purchasing power in the form of an accepted settlement medium (money), including through borrowing. *Spending of any form, whether on pre-existing real or financial assets, or on goods and services for investment or consumption purposes, requires financing, not saving*. In a closed economy, saving is not a pre-requisite for investment, but materialises only once investment takes place if the necessary financing is available. In an open economy, by construction, a current account deficit somewhere must be matched by a surplus elsewhere. But countries running current-account surpluses are *not* financing those running current-account deficits. The underlying consumption and investment expenditures that generate those positions may be financed in a myriad of ways, both domestically and externally". Pertinently, Borio refers to the issue as an extension of the saving-investment controversy. It would, however, be incorrect to press endogenous money (and Cartalism) into the heterodox and exogenous money (and Metallism) into the orthodox camps, respecticely, since endogenous money and Cartalism are consistent with mainstream theory as shown in seminal work by Knut Wicksell (for a paper that introduces endogenous money in a DSGE model, see Jacab and Kumhof, 2015).

events in a currency union is not, however, the same as in a traditional fixed exchange rate regime. The sudden stop in foreign lending did not cause the exchange rate to collapse. Nonetheless the increasing interest rates on government bonds of peripheral countries began to reflect a euro break-up risk. The Outright Monetary Transactions (OMT) operation launched by the ECB in September 2012 had the effect of reassuring international investors about the solvency of peripheral States and therefore reduced the risk of those States being forced to reclaim their monetary sovereignty to ensure their solvency. This prompted various authors to conclude that the real origin of the euro zone crisis is due to delayed ECB intervention compelling peripheral countries to make painful and counterproductive fiscal adjustments – imposing continuation of this policy even once the OMT was in place. According to this view, the existence of Target 2, moreover, means that there cannot be a balance of payment crisis in a currency area. Let us now look at this proposition.

6. Is the crisis the fault of the ECB?

Paul De Grauwe is the best-known exponent of the thesis that the euro crisis is a "bad equilibrium" result of the lack of a clear mandate to the ECB as lender of last resort to Emu governments. His view can thus be summed up:

- In a currency union, governments of member countries lose their central bank as lender of last resort.
- If financial markets lose confidence and massive selling of governments bonds occurs, the absence of a lender of last resort may transform a temporary sovereign liquidity problem into a solvency crisis, letting interest rates reach unsustainably high levels. This is precisely what happened to some European peripheral countries. Massive capital flight from these countries made it unfeasible for them to rollover their debt at affordable interest rates.

Deprived of a lender of last resort, those countries had to resort to tough austerity measures to secure their solvency in order to reassure the financial markets. Unfortunately, these pro-cyclic measures pushed these countries into a deflationary cycle, in which the fall of tax revenues made their fiscal position even more fragile, inducing a further fall in market confidence.[21] The sequence envisaged by De Grauwe therefore goes from investors' loss of

[21] A direct quotation from De Grauwe and Ji (2015, p. 2) may be useful:

> What was not understood when the Eurozone was designed is that this lack of guarantee provided by Eurozone governments in turn could trigger self-fulfilling liquidity crises (a sudden stop) that would degenerate into solvency problems. This is exactly what happened in countries like Ireland, Spain and Portugal. When investors lost confidence in these countries, they massively sold the government bonds of these countries, pushing interest rates to unsustainably high levels. In addition, the euros obtained from these sales were invested in "safe countries" like Germany. As a result, there was a massive outflow of liquidity from the problem countries, making it impossible for the governments of these countries to fund the rollover of their debt at reasonable interest rate.
> This liquidity crisis in turn triggered another important phenomenon. It forced countries to switch-off the automatic stabilizers in the budget. The governments of the problem countries had to scramble for cash and

confidence in the sustainability of a country's public debt due to the absence of a lender of last resort, to austerity programs to regain market confidence. These programs, however, damage the country's fiscal position so that an initial (presumed) liquidity crisis becomes a solvency crisis. Notably, however, De Grauwe does not explain the initial investors' loss of confidence, whereas the BoP view attributes this loss to growing intra-euro imbalances and to fear of a euro break-up, as in a classic BoP crisis. In fact, De Grauwe denies that there can be a balance of payment crisis in the euro zone "in the sense as those that occurred in fixed exchange rate systems because in a monetary union internal foreign exchange markets have disappeared" (De Grauwe 2013, p. 26).

In a similar fashion, the Post-Keynesian exponent Marc Lavoie considers the BoP irrelevant in a currency union (Lavoie 2015, p. 9) and associates the crisis with "the flawed design of the links between the national governments and the system of central banks, in particular the self-imposed prohibition to hold large amounts of government securities and to intervene on the secondary markets for bonds" (ibid, p. 17).[22]

I fully agree with De Grauwe and Lavoie that ECB intervention could have been more timely and that Target 2, accompanied by the ECB's refinancing operations that regenerated the foreign reserves lost by deficit countries, deferred redress of foreign inter-euro zone disequilibria (Bordo 2014, p. 18). The two arguments are not, however, sufficient to argue that the euro area crisis is not a balance of payment crisis[23] and that better timed ECB

were forced into instantaneous austerity programs, by cutting spending and raising taxes. A deep recession was the result. The recession in turn reduced government revenues even further, forcing these countries to intensify the austerity programs. Under pressure from the financial markets, fiscal policies became pro-cyclical pushing countries further into a deflationary cycle. As a result, what started as a liquidity crisis in a self-fulfilling way degenerated into a solvency crisis.

[22]A more nuanced position is taken by Frenkel (2014, pp. 13-14). On the one hand he regards the eurocrisis as a balance of payment crisis; on the other, he denies that there can be an "exchange rate risk" (the typical manifestation of a balance of payment crisis) in the euro zone presumably because of the combination of Target 2 and the ECB refinancing operations. The increasing sovereign default risk is then attributed to the absence of a lender of last resort. Notably, with OMT the ECB began to act as a lender of last resort but precisely to defuse what Draghi (2012) called in his most famous speech "convertibiity risk", that is the risk of an euro break-up.

[23] Garber (1998) is a premonitive paper on the possibility of an exchange rate crisis, Target 2 notwithstanding. In his view the creditor country would discourage capital flights from the peripheral countries, worried about losing control of its monetary policy (and prices), as the Bundesbank allegedly did during the 1992 ESM crisis. This sounds like a monetarist preoccupation. In actual fact, in 2011-12 the main creditor country was worried about its mounting Target 2 claims rather than the mounting liquidity parked and left dormant in the ECB reserve facilities (Sinn 2013, p. 18). Since Target 2 claims correspond to liquidity created by the Bundesbank, according to Sinn, Target 2 losses correspond to loss of seigniorage on emission of this liquidity (see also JKH 2015). This argument is rather convoluted. Distinguishing two origins of the Target 2 claims, one related to the repatriation of German private loans and the other to capital flight by residents in peripheral countries, it can more simply be argued that potential Target 2 losses entail: (i) in the former case a fall in German foreign assets, i.e. in net financial wealth; (b) in the second case, adding insult to injury, a gift of new DM from Germany to foreign residents who would otherwise have been left with, say, devalued new Drachmas.

intervention could have avoided it. This thesis is not pertinent in a flawed, stateless currency union (Cesaratto 2015a).

7. Balance of payments crisis in a flawed currency union

To begin with, the euro area exchange rate crisis revealed itself to be a sovereign debt crisis once foreign investors panicked about borrowers' ability to redeem their debt (Merler and Pisani-Ferry 2012), i.e. *foreign* debt that accumulated because of the events narrated in section 5. The prohibitive levels reached by interest rates on peripheral sovereign debt clearly concealed a risk of redenomination, namely that a peripheral sovereign, being unable to refinance itself at prohibitive rates, would return to a national currency. Of course, the combination of various European measures – including European bilateral and multilateral fiscal support, the various measures adopted by the ECB and Target 2 – averted disaster.[24] The crucial question is whether more timely action by the ECB, that could have avoided counterproductive austerity policies, would in fact have prevented the crisis.[25] Given the existence of structural foreign core/periphery imbalances in the euro zone, the question is whether or not there can be endlessly increasing indebtedness of peripheral countries towards core countries. In my opinion there are limits to such indebtedness. This is suggested by the experience of past financial crises triggered by a sudden stop in capital flows once foreign investors realized that debtors would be increasingly unlikely to service a debt denominated in a foreign currency. Is this behaviour irrational in the sense that borrowers, given more time (and loans), may reach an external surplus so as to be able to redeem the debt? It is doubtful that a country caught in a debt trap can resume a sustainable path by itself. After a sudden stop, IMF-led debt restructuring accompanied by fiscal austerity and currency devaluation have traditionally been necessary.

[24] Greece was first supported in 2010 by a package of direct European and IMF loans, and later, along with Portugal, Ireland and Spain, by the newly constituted European funds (EFSF, ESM). These financed their loans through issues of bonds guaranteed by the European governments. The ECB directly sustained peripheral sovereign debts – including Italian debt – through the Security Market Program (2010-11), and indirectly through the 3-year Long Term Refinancing Operation (2011-12). This funded the purchase of the troubled sovereign debts by the respective domestic commercial banks at the price, however, of deepening the "doom loop" between banking and sovereign crises. Be this as it may, rolled over by domestic banks, peripheral States could let foreign investors repatriate the funds previously invested through Target 2 (see Cesaratto 2013a and 2014; Garber 2010, p. 3). A more decisive stop to the Italian and Spanish sovereign debt crises was provided by the operation OMT (Outright Monetary Transactions) launched in summer 2012 and, later, by the quantitative easing inaugurated in early 2015.

[25] This position also seems to be held by Modern Money Theory (MMT) that stresses that there cannot be sovereign default with full monetary sovereignty. This presupposes a central bank that backs a public debt denominated in a sovereign currency without commitment to convertibility at a fixed exchange rate (e.g. Nersisyan and Wray 2010). While this is true, it should not be forgotten that peripheral countries give up full monetary sovereignty to get access to international capital markets (e.g. Bordo and James 2013). A peripheral country cannot have both, as sometimes alluded to by MMT. Full monetary sovereignty would be helpful, but only through a competitive exchange rate, which accompanied by industrial policy may provide an alternative to failed external-debt-led growth.

In the euro area case, the combination of Target 2 and refinancing operations permitted smooth repatriation of former lending (and in principle provided support to endless current account deficits), replaced by official lending, with automatic recreation of the reserves lost by the national central banks (NCB). Target 2 is an electronic platform that allows payments in the euro area (and beyond, see Cour-Thimann 2013; Febrero and Uxò 2013). At national level, when we make a payment from bank A to bank B, the domestic central bank transfers a corresponding amount of reserves from the reserve account of bank A to that of bank B; this allows bank B to credit the current account of the recipient of the payment. When we make a payment to bank C in another euro area country, our central bank removes reserves from (our) bank A, while the foreign central bank credits a corresponding amount to bank C. As compensation for this courtesy, the ECB records a Target 2 claim in favour of the foreign central bank, and transcribes a Target 2 liability in the records of our national central bank. Target 2 claims/liabilities are never settled (say in gold or dollars). Normally commercial banks of countries with a current account surplus find themselves with an excess of reserves, while the opposite happens to banks in deficit countries. Up until the onset of the eurocrisis, it was thus normal for the former to lend the excess reserves to the latter, so that Target 2 imbalances cancelled out. With the break-up of trust in the interbank market in 2008, core-country banks began to retain their excess liquidity, while peripheral banks took advantage of the licence that respective national central banks had to re-create reserves in favour of domestic banks. In principle, in this way peripheral countries could continue to finance any external payments or capital flight. As mentioned above, the 3-year LTRO launched by the ECB in December 2011 reinforced this possibility. Bankrolled by LTRO, domestic banks could replace foreign investors in rolling over public debts and let them repatriate their funds. (After the OMT launched by the ECB in September 2012, private capital flows to the periphery resumed).

In my view, Sinn (e.g. 2013) is fundamentally correct when he says that in the climax of the crisis the EMU provided peripheral countries with the electronic printing press to re-create foreign reserves that were used to regulate foreign payments (Febrero and Uxò, 2013, are of the opposite opinion). It is as if a peripheral country could print €-Drachmas that the core central bank had to accept for payments and transform into €-DM.

Let us compare a fixed exchange system with a currency union. In the former case, the traditional balance of payment identity for an open economy would read:

$$CA + FA = \Delta OR \qquad (1)$$

where CA and FA are the current and financial account balances, respectively, and OR is the variation in official reserves held in gold or international currencies. Notoriously, if net capital flows (FA) are not sufficient to fund a CA deficit, the exchange rate can be defended only as long as the country has enough official reserves. If we now consider a currency union as a closed economy, we can write the balance of payment equation of each member country as:

$$CA + FA = \Delta T2 \qquad (2)$$

where T2 is the variation in net Target 2 balance (the net Target 2 position of a country is a stock, part of the net international investment position). Any time the capital flows (reflected in FA) are not sufficient to finance a CA deficit, by equation (1) the national central bank can create an international currency (euros) to finance it, allowing T2 liabilities to grow indefinitely. By the same token, the national central bank can print euros to finance capital flights (again reflected in FA). It is as if the Federal Reserve allowed a Latin-American country involved in a balance of payment crisis to print dollars (that is OR) to fix equation (1).

In theory the system could continue indefinitely.[26] However, faced with a lack of any peripheral foreign rebalancing perspective and mounting Target 2 imbalances, what actually happened in Europe was a sort of political halt to current account imbalances calling for correction through austerity measures.[27] Since leaving the euro and redenomination of sovereign debt to avoid austerity measures was an alternative, an increase in sovereign spread without ECB intervention (which in summer 2012 was resolute enough) would have made leaving the euro inevitable. But ECB support was intolerable for core countries without continuation of austerity measures in order to avoid any moral hazard incurred by peripheral countries that could otherwise rely on Target 2 and refinancing operations to endlessly increase their foreign imbalances. Implementation of the OMT was thus made subject to an IMF-style conditionality clause (Cour-Thimann and Winkler 2013, pp. 17-8, 40; Mody 2015, p. 18). In a similar vein, Daniel Gros (2013, pp. 511-12) sees fiscal austerity as functional to external adjustment, so that it cannot be said to be "self-defeating" in terms of public debt/GDP ratio, since the fall of domestic GDP addresses the current account deficit:

> *"The view that the euro crisis is at its core a balance-of-payments crisis implies also that the debate about austerity is misleading. It has often been pointed out that austerity can be self-defeating in the sense that a reduction in the fiscal deficit can actually lead in the short run to an increase in the debt-to-GDP ratio if both the initial debt ratio and the multiplier are large. However, austerity can never be self-defeating for the balance-of-payments adjustment. To the extent that a fiscal adjustment (i.e. a reduction in the deficit) depresses domestic demand, it actually contributes to an improvement in the current account. A corollary of this observation is that a higher fiscal multiplier (i.e. a larger fall in domestic demand in response to an increase in taxes or a reduction in government expenditure) might actually be beneficial for the resolution of a debt crisis because it accelerates the turnaround in the current account."*

[26] According to ECB rules, NCBs and the ECB provide unlimited and uncollateralized credit facility to each other (Ramanan 2012). Conversely, Keynes envisaged some limits to the clearing union (Cesaratto 2013a).

[27] Since 2011 European Commission control on the formation of national budgets has become more meticulous through the European semester, the Six pack, Two pack and the Fiscal Stability Treaty (aka Fiscal Compact) in a sequel of suffocating regulations that challenge the understanding of the most learned European citizens.

Gros invites us not to be deceived by the fact that many of the European policy prescriptions are set in terms of sovereign balances (e.g. setting primary surplus targets). This is only an intermediate target instrumental to the ultimate objective that concerns foreign balances. We therefore conclude that, in the given circumstances, fiscal austerity is naturally associated with ECB intervention and cannot be said to be the result of delayed intervention, as argued by De Grauwe-Lavoie. That this policy combination does not deliver growth and only helps to kick the can down the road should not surprise us, since the euro's real target was not growth, and precisely by exploiting the crisis, the EMU revealed its real purposes (as Mundell is reported to have admitted, Palast 2012).

The alternative that De Grauwe, Lavoie and others may have in mind – determined ECB action as lender of last resort accompanied by fine-tuned fiscal reflation distributed among member States to repair foreign and fiscal accounts in the periphery is in principle viable. These adjustments would be facilitated by core-countries accepting a higher inflation rate – the inflation bias Mundell (1961, pp. 658-59) pointed out long-ago. Marshall-plan style investment projects especially aimed at southern members, debt restructuring and eurobonds could enrich the recipe. In the meanwhile the resemblance of Target 2 to Keynes's clearing union would continue to avoid a traditional exchange rate crisis (Lavoie 2015) and might even be modified to be closer to Keynes's original design (Bruni and Papetti 2013). We did not suffer from a lack of reasonable suggestions in the recent past. The proposed adoption of an American-style institutional framework in the euro area would be the ultimate solution. This would include, inter alia, a conspicuous federal budget with a regional rebalancing objective, accompanied by balanced local State budgets, a central bank responsive to politics and with a full employment objective, and an American-style banking union.

All these proposals are out of reach since they entail a degree of political cohesion, as well as trust and an institutional framework that are just not present in Europe, for two fundamental reasons: (a) reluctance of the dominant country to abandon its mercantilist model, which the élites of the other countries are eager to imitate; (b) European public opinion is not ready for the degree of political solidarity required by those policies. As a result, a more powerful European Parliament that controls a federal budget would risk division along national lines rather than ideological/class lines. Historical experience suggests that any such union would be litigious and short-lived. The only sustainable European super-State is a Hayekian minimalist federal State.

The result is that in the given institutional framework of the euro area, the current combination of policies – austerity moderated by some ECB intervention – is the only game in town. Consistently, the only proposal on the table is the German one that obliges euro members to surrender any residual fiscal authority to Brussels in order to reinforce the current model. This is the natural result of a stateless currency union. The combination does not deliver growth to most of the periphery, and since the solution of a sovereign currency union

is not in sight, a return to sovereign national States and to some looser European monetary coordination appears the only reasonable solution, albeit at the price of turmoil in the short period.

Conclusions

The reasoning followed in the paper can thus be summed up:

1. although a currency union backed by a fully-fledged political union is in principle desirable, in the European case only a minimal super-State is possible among economically and culturally heterogeneous countries, as suggested by Hayek;
2. the eurocrisis is a BoP crisis with striking similarities to traditional financial crises in emerging economies;
3. the ECB's monetary refinancing mechanisms, Target 2 and the former's belated intervention impeded a blow-up of the currency union, but could not solve its deep causes and were necessarily accompanied by austerity measures devoted to keeping the foreign imbalances at bay;
4. alternative, more Keynesian policies are not politically feasible in Europe in the light of point 1, let alone the German mercantilist intolerance to domestic demand support;
5. virtue out of necessity, recessionary imprinting of the European monetary union was among the aims of the European élites.

I thus showed that the ECB's delayed response to the sovereign debt crisis, which forced painful and counterproductive fiscal retrenchment on the euro periphery, cannot be seen as the culprit of the euro area crisis, which has much deeper roots in the foreign imbalances brought about by the currency union. The current combination of austerity policies and moderate ECB intervention aims at slow intra-eurozone rebalancing. A more resolute role of the ECB as lender of last resort accompanied by fine-tuned expansionary fiscal policies can only be imagined in a different political and institutional framework, quite close to that of a political union. The technocratic promise that a currency union would eventually force the European countries to build a political union turns out to be false. Hayek's warning that a federal union among heterogeneous countries implies a minimalist State has been forgotten. Hayek's admonition is only apparently at odds with the persuasion of many other economists that building a stateless currency union was the euro's original sin. Plausibly, it was a sin committed deliberately by the European élites in order to deprive national distributive conflicts of their natural playing field, fully sovereign national States, and to make competitive deflation the only game in town. Mainstream economics provided the ideological justification for this move by advocating the ineffectuality of monetary policy and the advantages of fiscal retrenchment, namely the centrality of markets as opposed to the State. From this point of view the euro can be considered a success.

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