The Euro is Not Without Alternative

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European Monetary Union was a historical mistake, not for Germany – which originally didn't want it but then became its main beneficiary – but for the Mediterranean countries including France, who had for different reasons been eager to "Europeanize" the German currency. They suffer, not so much because of high debt, as the Germans claim, but because different national capitalisms need different monetary regimes – different moneys, as it were – allowing their different social and institutional structures to be internationally competitive. As early as 1992, the late Ralf Dahrendorf, then Director of the London School of Economics, pointed out that some countries, like France, have historically fueled economic growth by public debt, while others, like Italy, relied on relatively high inflation to drive domestic demand. A heavily export-dependent country like Germany, by comparison, needs nothing more than monetary stability. Imposed on Europa as a whole, as happened with the EMU in the neoliberal 1990s, a German-style monetary regime secures captive markets for German exports by making it impossible for other countries to use occasional devaluations to defend their international competitiveness.

Under EMU, countries not adapted to a hard currency regime are doomed to turn into peripheral provinces of a Northwestern European center, in particular Germany, predestined to be the European economy's growth pole. The structural "reforms" other countries would need to close the gap would be so harsh that they are bound to meet with heavy popular resistance, making them unlikely to happen in a democracy. This is why someone like John Maynard Keynes concluded in the interwar years that an international gold standard money regime was incompatible with national democracy, because it prevented governments from doing what their citizens demanded: protecting them from shocks emerging from international markets. European Monetary Union as instituted in the Treaty of Maastricht, creating a common currency for a group of highly heterogeneous economies governed by sovereign democracies – a monetary union without a political union – is bound to cause international conflict over fiscal policy, trade imbalances, supranational supervision of national budgets, and demands for economic discipline on the one hand and economic redistribution on the other.

Can countries crippled by the euro get out of it? Merkel's slogan, "If the euro fails, Europe fails", has turned adherence to the common currency into a "pro-European" moral duty, as opposed to a political-economic choice. This was intentional, including the slightly threatening undertone. Undoubtedly there would be costs to a euro exit, unpredictable but also likely to be exaggerated by the winners of EMU. To be balanced against them are the costs of remaining, which are structural and accrue in the long term. Also, Germany and France, the masters of the EU, might try to raise the costs of exit, as they did and still do with the Brexit. Would there be a golden handshake, of the kind offered in the end by Schäuble to Varoufakis? Theoretically in any case there are alternatives to the one-size-fits-all monetary union, and discussing them seems timely, also in the context of the necessary search for a post-neoliberal money regime at the global level. Issues there include the role of the dollar, how to integrate the Chinese currency into the global financial system, and the "quantitative easing" and zero-interest rate policies of the leading central banks. As to the euro, it would seem quite conceivable for countries like Greece and Italy, but perhaps also Spain, to introduce a second, national currency alongside the euro, fluctuating against it; in Italy preparations for this seem to be underway.

Another arrangement, also allowing for more monetary flexibility, is already in existence. Before their exchange rates were finally locked in order to be replaced by the euro, national currencies were linked in an exchange rate mechanism that allowed for limited adjustments within a band of plus-minus X percent. Currencies that were at risk of being pushed outside that band could ask for support from the European Central Bank. When in the last moment Denmark decided not to join the Euro, it remained in that system as its only member country, up to the present day. The system gives Denmark a degree of monetary sovereignty while insuring it against excessive exchange rate volatility. In principle it should not be impossible to allow countries to join that are now using the Euro but prefer to return to a national currency.

A dual currency, or whatever the escape would be from the euro's gold standard reformatory, would mean more national sovereignty, i.e., more freedom and more responsibility. We are not talking here about a "return to the nation-state", as an isolated political entity in a hostile world. In fact, as the euro divides Europe rather than uniting it, less monetary centralization, and this holds for centralization on other matters as well, can lead to more and better integration: more egalitarian and therefore more peaceful relations between our countries. Europe cannot be held together by a straightjacket; it must be a free association of free countries, or it will not be. This requires realistic recognition of national differences and different national interests. No country in Europe is willing to give up its sovereignty, and all of them want to remain democracies. This being so, they should as little as possible be at the mercy of other countries. Europe should not be an empire, neither a German nor a German-French one. Reliance on the "solidarity" of a stronger country is risky. Self-denial happens between individuals; between states, support by one country for another must be in the "national interest" of the former, or else it will be unsustainable. In a democracy, it must be "sold" to an electorate busy with its own life and having to cope with its own problems.

If the German government was accountable only to the German export industry, it would happily pay whatever entrance fee would be asked for German products getting access to the captive markets of EMU, enabling "pro-European" local elites to keep their voters sufficiently happy with the joint currency. But Germany is a democracy, and one with a balanced budget constitution to boot. There will therefore be no "transfer union" compensating less competitive member countries for their losses – and in any case the amounts required would be far too high even for Germany. Moreover, in the long run reliance on transfers from a richer country will undermine national self-government, as the giving country will want to have a say on how the receiving country will use what it is given. Sticking to the euro in the hope for Germany paying off the losers under its hard currency regime would be a big mistake.