What is the future of the eurozone?

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The eurozone cannot stay as it is

• The neoliberal policies failed to build a sustainable monetary union: a « muddling through » scenario is no longer possible
• Radical changes are likely to happen
• Three different scenarios can be put forward:
  – « Exit » scenario
  – « Common currency » scenario
  – « New monetary union » scenario
A/ « Exit » scenario

• One or several countries decide to reintroduce domestic currencies and leave the eurozone
• What will follow is very uncertain and depends crucially on:
  – The splitting country’s ability to tame the adverse effects of the exit decision
  – The behavior of other countries of the eurozone:
    • Will other countries leave the eurozone?
    • Will other countries & markets retaliate?
« Exit » scenario

• **Benefits to be expected:**
  – Recovery of domestic monetary sovereignty
  – Ability of the country to devaluate its currency

• **Costs of exit strategy:**
  – A high risk of monetary & financial crisis
  – High economic and social costs

• The balance between costs & benefits will depend crucially on the country’s ability to implement radical changes in its policies:
  – Capital control, price control, control of banks, ...
  – Long term investment in the productive sector ...
Short-term effects of the exit strategy: a pessimistic view

Exit from the eurozone → Reintroduction of domestic currency → Devaluation of domestic currency

Induced effects of currency devaluation

Higher (imported) inflation → Higher interest rates → Reduction in the value of bank deposits

Reduction in real wages → Reduction in competitiveness

Increase in the burden of debt → Bank runs towards foreign euro-banks

Depressive effects on consumption, exports, growth, employment

Crisis of the domestic banking system

Collapse of the new domestic currency
B/ « Common currency » scenario

• Countries of the eurozone agree:
  – to abandon the euro as a single currency
  – to adopt a common currency going along with domestic currencies

• This new monetary regime would require:
  – to go beyond the previous system of the ECU
  – to draw on Keynes’ model of the « bancor » by:
    • Creating new institutions, i.e. a regional Clearing Union
    • Adopting new rules for monetary cooperation, fiscal discipline, limits on current account disequilibria, ...
« Common currency » scenario

• The new ECU would be a regional equivalent of SDRs and have three functions:
  – Unit of account
  – Complementary means of payment
  – Instrument of credit among States

• The new ECU would be equivalent to the Latin American SUCRE

• These new regional monetary systems would lead to a transformation of the international monetary system
  – based on regionalisation
  – with new rules & institutions (regional monetary fund)
« Common currency » scenario

- **Benefits from a common currency**:  
  - Domestic monetary sovereignty => more flexibility for economic policies  
  - Regional cooperation based on symmetrical relationships among country members

- **Costs & risks**:  
  - High transition risks when going from the single currency system to the common currency system  
  - Important reforms needed: will Germany accept?  
  - Risks of currency war & speculation if the cooperation is not working: what rules for fixing exchange rates between the new ECU and the domestic currencies?  
  - The new ECU is not a full-fledged money: only a basket of domestic currencies; will circulate mainly among governments and central banks
C/ « New monetary union » scenario

• The euro remains the single currency of the eurozone

• **Radical reforms** are implemented:
  – Political union is reinforced to foster:
    • cooperation among country members
    • democratic control on EU policies by elected bodies and civil society
  – European fiscal policies are developed with a large European budget (10% of EU GDP) & European taxation & financial transfers within the eurozone
  – A drastic change in monetary policy and in the role of the ECB:
    • Democratic control instead of independence of ECB
    • Coordination of monetary policy & fiscal policy instead of separation
    • priority to employment, social and ecological targets =&gt; financing of public long term investment by money creation
« New monetary union » scenario

• **Benefits**
  – The euro will become a powerful factor of integration and cooperation if the reforms are implemented => the risk of segmentation of Europe is reduced
  – No risk of monetary instability among country members (no currency war, no speculation)
  – The euro as a means to counter-balance the power of the dollar & yuan in the world economy

• **Costs & risks**
  – High political cost for national governments (nationalist political parties)
  – The euro can benefit to all country members only if neoliberal policies are given up
Conclusion

• It is difficult to give a probability to each scenario: scenario 1 & 3 more likely because the eurozone crisis may lead to extreme strategies?

• In all three scenarios, a positive outcome depends crucially on the extent to which neoliberal policies will be reformed

• In particular, two major changes are required:
  – Democratisation & social control on policies
  – Strict control on financial markets & actors