

МИРОВАЯ ЭКОНОМИКА И МЕЖДУНАРОДНЫЕ ФИНАНСЫ

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The Slow Motion Train Crash of the Eurozone Monetary Alchemy

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This article is about the potentially losing battle to save the Eurozone in the long term. The Eurozone, the greatest achievement of the European Union, is losing its glamor and is in danger of losing its appeal as the promise of perpetual prosperity for every participant faded away. The Eurozone architecture was created on the grounds that is almost designed to fail. Various policies such as quantitative easing did not help boost economic growth as the best remedy for economic troubles. Profound federalist-type reforms are necessary if the Eurozone is to have a longer-term future. Policymakers have at least two urgent tasks to save the Eurozone. The first is to relax budgetary rules and to change the mandate of the European Central Bank to add growth and employment to the low inflation policy objective. The second is to introduce belatedly federal instruments such as a common budget, automatic stabilizers (transfers), fiscal and banking unions, a system for orderly default, common bonds, and a dispute-settlement mechanism. This is a tall order that faces strong political barriers. The dissolution of the Eurozone would not be the end of the world, and the European Union would return to where it was in 1992. Preparations for the post-Eurozone Europe are necessary.

Keywords: eurozone, monetary integration, optimum currency area, quantitative easing, Cantillon effect, Troika, gold, breakup.

*They are blind leaders of the blind.
And if the blind leads the blind, both will fall into a ditch.
(Matthew 15:14)*

1. Introduction

Monetary unions were often, but not always, created as a part of the process of political unification among countries¹. Economic reasons for monetary unions include enhanced monetary stability, improved spatial and industrial allocation of resources, boosted competition because of transparent prices, deepened integration, reduced transaction costs, access to wider markets, gains from economies of scale and from trade, as well as gains that come from harmonisation of policies. Non-economic reasons such as geographical proximity, common language, culture, history and religion sometimes contributed to monetary unification. The break-ups of monetary unions are often found in political factors. Once the political unity among the participating countries dissolves, it is most likely that the monetary union will vanish [Bordo, Jonung, 1999, pp. 24–25]. Hence, the political will and the firm promise and determination to respect fully a common currency system explains the rise and fall of monetary unions. Interestingly enough, the Irish 1979 break with sterling had no noted effect on trade between Britain and Ireland.

Monetary integration in the European Union (EU), the eurozone, has been expanding its membership which shows its attractiveness, even success. However, the credibility of the eurozone is based on a promise — a credible fiat money promise for the time being — to pay. But it is still an international promise which needs to be tested over time and, especially, during lean times and crises². History is full of such promises that were not honoured. There were 69 currency break ups during the 20th century³. In Europe, for example, the Latin Monetary Union (1865–1927) included Belgium, France, Italy and Switzerland (Greece joined in 1868), while Denmark, Sweden and later Norway belonged to the Scandinavian Monetary Union (1873–1914). Apart from insufficient economic convergence among the economies of the involved countries, high and diverging rates of inflation, the domino effect in banking crises and a lack of political union that could enforce policies were always among the principal causes for their demise. The same holds for the Austro-Hungarian, Czechoslovakian⁴, Soviet and Yugoslav economic unions towards the end of their existence [Jovanović, 2015].

The real problem for governments is related to the issue of how to honour international promises and, at the same time, please domestic voters, if they matter. As long as governments are sovereign (no political union), the eurozone will have the potential to break up (the risk of a break-up is not zero). Monetary unions in Europe have a limited

¹ Exceptions included small states such as Andorra (with Spain), Monaco (with France), Liechtenstein (with Switzerland), Luxembourg (with Belgium), San Marino and Vatican (both with Italy). In addition, Ireland shared currency with Britain for quite some time.

² The Byzantine gold solidus maintained its purchasing power essentially unchanged for over five centuries (498–1030 AD) [Rickards, 2012, p. 171].

Napoleon introduced the gold franc in 1802. That currency was in use till 1914. It survived tumultuous times in the French history such as revolutions in 1830 and 1848, Napoleonic wars (1803–15) and the war with Germany (1870–71).

³ Currency disunion. *The Economist*. 7 April 2012.

⁴ The breakup of the Czechoslovak monetary union is a rare case that took place under stable circumstances.

shelf life; break ups have always been a risky idea⁵. In any case departure, from monetary unions has been common and a familiar eventuality in Europe over the past two centuries. There was always an initial “shock” for a country after departure, but ultimately the initially negative effects were usually rather temporary.

Various economic models (and tainted results), may provide politicians with various grounds for all kinds of manipulations. The British departure from the EU, the Brexit, is an obvious example⁶. One needs to recall that “essentially, all models are wrong, but some are useful” [Box, Draper, 1987, p. 424]. In addition, empirical credibility of economics ‘is likely to be modest or even low’ [Ioannidis, Doucouliagos, 2013, p. 997]. However, even though predictions are notoriously difficult in economics and linked with many unknowns and uncertainties, there are matters that the economists know, but to a more limited way than the textbooks might make one think. We know that the droughts (if there is no reliable and efficient irrigation) often lead to crop failures. This increases prices of crops and often to increases in the incomes of those who are lucky enough to have a crop to harvest (because the market demand is inelastic). We also know that major monetary expansions to cover government budget deficits lead to inflations and, if persisted in, to hyperinflations⁷. We know that if an economy is depressed that austerity measures lead to more unemployment, even slower growth and more pain and suffering to the people.

This article is about the potentially losing battle to save the eurozone in the long term. Following this introduction, section 2 briefly reviews theory of monetary integration. Section 3 presents promises and deliveries regarding the eurozone. Section 4 explains how the eurozone troubles happened. Quantitative easing and the Cantillon effect are subjects of sections 5 and 6, respectively. The impact of the banking industry on the policymaking and the unelected institution such as the Troika are considered in sections 7 and 8, respectively. The Greek problem is found in section 9. Responsibilities for the situation and reforms including the eurozone breakup are elaborated in sections 10 and 11, respectively. A search for alternatives such as cryptocurrencies and gold are subject matters of sections 12 and 13, respectively. The article gloomy conclusion about the long-term future of the eurozone is in section 14.

2. Theory

The modern theory of monetary integration started with considerations of optimum currency areas [Jovanović, 2015]. The first principal contributors were Mundell, McKinnon and Kenenen. They dealt with the one-criterion monetary integration models. [Mundell, 1961] proposed factor mobility as a criterion for monetary integration. For him, a region is the optimum currency area, as people and factors move easily within it. Factor mobility is the criterion that determines a region. Within the currency areas factors are mobile, while between them factors are immobile. Fluctuating rates of exchange are, according to Mundell, the adjustment mechanism between various currency areas, while factor mobility and flexible labour markets (i.e. quicker firing) are the equilibrating mechanism within them.

⁵ Many countries that emerged from the former Soviet Union found it hard to go it alone and were looking for a certain re-linking with Russia.

⁶ A. Mikhailova. Project Fear's Brexit predictions were wrong by £100 billion, new report says. *The Telegraph*. 22 April 2018.

⁷ I am grateful to Richard G. Lipsey for these comments.

McKinnon focused attention on the degree of openness of a country [McKinnon, 1963]. Goods in a country may be distributed between tradables and non-tradables. The ratio between those goods determines the degree of its openness to trade. Normally, the smaller the country, the greater its trade with other countries. A high degree of openness reflects this country's relative (high) specialisation and it may be taken as the criterion for the optimum currency area.

Kenen's contribution stated that countries whose production is diversified (criterion for an optimum currency area) do not have to change their terms of trade with foreign countries as often as the less-diversified countries [Kenen, 1969]. A reduction in foreign demand (an external shock) for a country's major export item may have a relatively smaller impact on the diversified country's employment than on a specialised country's economy and employment. Finally, links between home and foreign demand, as well as export and investment, are weaker in a diversified country than in a specialised one. Large and frequent exchange rate changes are not necessary for a diversified country because of the overlap in the reduction and increase in demand for various export goods. This overlap may keep the proceeds from exports at a relatively stable average level. Kenen suggested that fixed rates of exchange are suitable for diversified countries.

An extension of the three initial contributions to the theory of monetary integration came in the 1970s and beyond. Deepening of integration in the EU stimulated thinking about possible monetary integration. [Werner, 1970], for instance, argued in favour of the coordination of economic policies as a criterion for an economic and monetary union. Uncoordinated economic policies among countries may be a principal reason for the disturbance in the balance of payments. Coordination of economic, in particular monetary, policies from a supranational centre requires political will on the part of the participating countries because it goes to the heart of national sovereignty. A system of safeguards that includes assistance in the form of transfer of funds to countries that are in trouble is an essential feature for the survival of an efficient monetary union.

Another criterion for monetary integration deals with the rate of inflation. [Fleming, 1971] argued that a similar rate of inflation among the potential member countries provides grounds for monetary integration. Diverging ratios of employment to inflation among these countries will cause hardship and lead to disagreements about the necessary policy actions. Countries with a balance-of-payments surplus would be requested to accept a higher rate of inflation compared to the situation when they are free to choose this ratio. Conversely, countries with deficits may be asked to tolerate a higher rate of unemployment than they would be willing to accept if they were free to choose it on their own. Alternatively, the well-off countries would be asked to transfer funds to the ones that are in economic trouble.

Other definitions of an optimum currency area include the following. Machlup said that an optimum currency area was a region in which no part insists on creating money and having a monetary policy of its own [Machlup, 1979, p. 71]. A monetary union that imposes minimum costs on the participating countries may be called an optimum currency area [Robson, 1983, p. 143]. An optimum currency area may be alternatively defined as an area in which the net benefits of integration (e.g. increase in welfare in the form of greater stability in prices and smaller disturbances coming from abroad) outweigh the costs (restraint to individual uses of monetary and fiscal policies) [Grubel, 1984, p. 39]. That is, "the last recruit conferred more benefits than costs on existing members, but the next one will do the reverse" [Maloney, Macmillan, 1999, p. 572].

Monetary integration continued to be considered from the vantage points of costs and benefits [Jovanović, 2015]. Costs of monetary integration for the participating countries include:

- loss of national sovereignty in the conduct of monetary policy: money supply, rate of interest and rate of exchange;
- loss in the choice between unemployment and inflation;
- capital would flow to the already prosperous countries or regions.
- loss of seigniorage;
- costs from switching to a new currency.

Potential benefits of monetary integration are numerous, but generally intuitive in their nature. They are barely quantifiable and non-economists have difficulty in comprehending their character and significance. The principal gains from monetary integration are the following:

- improvement in integration of markets for goods, services and factors;
- prices are transparent and directly comparable. This boosts competition and specialisation in tradable goods and services. Spatial and industrial location of resources is improved;
- with stable prices, interest and exchange rates, internal trade and investment flows are not volatile, as there is no exchange rate risk and uncertainty;
- hedging and transaction costs are significantly reduced;
- by unifying monetary and coordinating fiscal policies, the participating countries are led to fewer distortions while combating macroeconomic disequilibria. This introduces both a greater internal monetary stability and an increase in influence in international monetary affairs. This contributes to economic growth and dynamic gains;
- the pooling of national reserves of foreign currencies is also advantageous for the members of a monetary union. By internalising their “foreign” trade, these countries reduce their demand for foreign currency reserves. Such reserves may not be necessary for trade within the group, but they may still be needed for trade with third countries. Savings in funds can be invested in alternative and more productive uses.

The net effect of monetary integration may not be easily and directly quantified. The ‘new theory’ of monetary integration suggests that there are somewhat fewer costs (loss of autonomy to handle domestic macroeconomic policies) and somewhat more benefits (gains in credibility in the fight against inflation) associated with monetary integration [Tavlas, 1993, p. 682]. Dissimilarities in economic structure increase the cost of participation in a monetary union for countries. Hence countries such as Britain (with a rather flexible labour market and domestic production of crude oil) may be advised to stay out of such an arrangement, while countries such as France and Germany may fare much better in it [Dellas, Tavlas, 2005].

To sum up, a monetary union introduces significant losses into the constitutional autonomy of participating states, but real autonomy to conduct independent monetary policy for a small open country in the situation of convertibility, synchronised economic cycles and openness for trade and capital flows will remain almost intact.

3. Eurozone: Promises and Deliveries

Monetary integration is the area where real and deep integration is tested. The eurozone, with the euro as the common currency, is the crown jewel in the European integration project. Even though the euro is the greatest of the EU's successes (together with EU enlargements), it also represents its weakest link which is instead of integrating eurozone countries creating not only economic divisions, but also political rifts.

Following the reunification of Germany in 1990, France wanted to lock the “robust” Germany into the European project for a long time to come. This was done through monetary integration. Starting in 1999, the process was technically based on a political compromise (Maastricht Treaty), rather than on initially sound economic basis⁸. In essence, the arbitrarily set Maastricht criteria for the eurozone participation were for each country: annual deficit 3 % of the GDP and 60 % debt-to-GDP ratio.

The eurozone started out among 11 EU member states⁹ in 1999. The euro as the eurozone *über*-currency¹⁰ started circulation in 2002. It was the most ambitious project in Europe since the Bolshevik Revolution (1917). No currency has circulated in Europe so widely since the Roman Empire. The introduction of the euro in January 1999 was the biggest currency innovation since the introduction of the United States (US) dollar in 1792. In general, the conditions set for the eurozone in Maastricht were a political decision/compromise with little regard for the suggestions/conditions that came from economic theory¹¹. Not only economic theory, but also rich experience suggests that for a successful and long-lasting monetary integration the group needs to have from the start at least:

- automatic stabilisers (including fiscal transfers);
- common federal-type budget;
- fiscal and banking unions (including deposit insurance);
- system for orderly default on public debt;
- dispute resolution mechanism, especially to manage insolvent countries, and
- a political union.

Unfortunately, politicians that created the eurozone defied those principles.

There were advance warnings being voiced about a possible train crash in the making well before the eurozone came into effect in 1999. As early as 1997 [Jovanović, 1997, p. 67–68] argued in favour of the postponement of the implementation of the eurozone as the conditions were not yet becoming for such a crucial integration step. At that time, the fiscal and banking union requisitioned for a single currency area were not in place. They still aren't. The same holds for automatic stabilisers. Harbours doubts about the premature adoption of the euro, 155 university professors of economics from Germany signed a declaration in 1998 for an orderly postponement of the implementation of the eurozone¹². The reasons pertained to the unsuitable economic conditions in Europe. It is hard

⁸ A survey of theory of monetary integration may be found in [Jovanović, 2015].

⁹ Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. Greece was allowed to join the eurozone in 2001.

¹⁰ *Über* (German) — above, superior, upward of, beyond.

¹¹ The interested reader is invited to consult [Praussello, 2011] on this point.

¹² Kusters W., Neumann M., Ohr R., Vaubel R. German economics professors convinced “orderly postponement” of euro essential. *Financial Times*. 9 February 1998.

for two economists to agree on anything; having a choir of 155 of them chanting with one voice is an extraordinary occurrence.

When the eurozone was created and the cherished German mark abandoned, the explicit and implicit promise made by the EU elite to the Germans and others in the eurozone was that the euro, a new *über*-currency, would:

- be a “glorified version” of the German mark;
- bring perpetual growth and prosperity to everyone, hence solidarity among the participating countries would be enhanced;
- be stable;
- that financially thrifty countries would not have to bail out prodigal ones; and
- that German taxpayers would not foot the bill for all of the above.

Were those promises honoured and delivered? Apart from stability of the euro on the international money market, there was nothing else that all users of the euro in the eurozone enjoyed. Many would trade that stability for economic growth. What the people have seen and experienced in the eurozone are as follows:

- the banking fiasco (2008);
- the eurozone mess (2011);
- zero or anaemic real growth;
- austerity¹³ (as devaluation is not possible);
- debt;
- tensions within the EU;
- uncertainty;
- high unemployment (especially among the young);
- rising poverty;
- gap between rich and poor EU countries that remains large;
- disenfranchised citizens (democracy suffered);
- public protests;
- decline in public investments;
- weak banks (especially in the south);
- deterioration in public services;
- economic pain.

After the 20-years long operation of the euro, the eurozone achievements are more controversial than ever. This asks for serious analysis and investigations as a controversial study by [Gasparotti, Kullas, 2019, pp. 4–5] found out that:

“In 2017, out of the examined eurozone countries, only Germany and the Netherlands gained from the euro. In Germany, GDP went up by €280 billion and per-capita GDP by €3,390. Italy lost out most. Without the euro, Italian GDP would have been higher by €530 billion, which corresponds to €8,756 per capita. In France, too, the euro has led to significant losses of prosperity of €374 billion overall, which corresponds to €5,570 per capita. In Italy, therefore, the introduction of the euro led to a drop in prosperity of around €74,000 per capita or €4.3 trillion for the economy as a whole, over the period 1999 to 2017. For France, the loss amounts to almost €56,000 per capita or €3.6 trillion respectively. Germany achieved an increase in prosperity of €23,000 per capita and €1.9 trillion respectively”.

¹³ Austerity means cuts in public expenditure, increases in taxes or both.

This is not the development that was promised by the EU elite to the population before the introduction of the euro. Therefore, the resentment by the population against the EU elite should not come as a surprise.

4. How did it Happen?

The great initial success of the eurozone during the years 2000–2007. Eurozone membership reduced risk related to government bonds between different countries, so there was almost no difference between the strong EU core and the comparatively weak EU periphery. They all converged to the low-risk German level. The peripheral countries had unprecedented access to cheap loans. They (and others) were exposed to the “perpetual cheap money illusion”. Debt-financed consumption had little in common with national economic fundamentals and growth. The assumption made by investors was that the Greek, Italian or other government bonds were almost perfect substitutes for the low-risk German ones. The crises revealed that this was not the case.

During the “happy hours” (2000–2007) the EU countries which had a history of monetary indiscipline (high inflation and high rates of interest) borrowed a lot at a (low) rate that was not warranted by their respective national economic fundamentals. Those governments, their private sectors and households borrowed cheaply and excessively. The inevitable happened: over-borrowing and excessive optimism about the eurozone (super optimistic promises about the eurozone were oversold) were not matched with the economic realities of repaying loans. Collected taxes and earned wages were insufficient to repay loans. Rates of interest accelerated to almost 30 % in Greece. That is the rate at which a country that does not control own low-inflation money cannot operate. Countries entered into deep recession without the possibility to exit for a decade, two or three or more.

Commenting on the eurozone troubles, [Mody, 2018, p. 459] stated:

“The inevitable adversity that would test the eurozone came as the global financial crisis in 2007 and then continued as multiple rolling eurozone banking and sovereign debt crises through to 2013. During these years, the euro caused the most damage in the weakest eurozone countries, widening existing income disparities between member nations. Without their own currencies to devalue, the southern countries struggled to recover from the repeated economic shocks. The crises left even France hobbled with high debt and youth unemployment problems familiar to the southern group of countries. In contrast, the strongest survived the best. The German economy came out virtually unscathed”.

This created sharp tensions between the southern eurozone countries and Germany.

Is debt good or bad? The reply to the question on whether it is smart to buy something now for which one does not have cash, depends on circumstances, i.e. for what purpose one uses debt. If one wants to get a better job, then debt for training or education may be smart. However, if in a similar situation one prefers to take a loan to pay for a travel to Monaco to see the Formula 1 race or to go on a cruise in the Caribbean, well such a choice may not probably be the best pick. The same logic applies to the governments, especially for the countries in a precarious situation. Debt for infrastructure development or education of the population that may contribute to economic growth in the future might be superior to the same investments in an amusement or a gambling facility or bailout of failed banks that have no recovery chances. Government debt to fight the existential threats such as the Nazis or similar menace may be justified. Still, to go into public debt to bribe the population or to buy social peace (increase private consumption) is rather problematic.

The economies of countries in the eurozone periphery were poorly prepared to cope with such a flood of cheap loans in the “foreign” currency that they do not control¹⁴. Irresponsible borrowing had a full counterpart in reckless lending across Europe. After 2007 the financial market reacted to the alteration in the perception of the national risk (the origin of the crises was not a speculative attack on the euro). National bond yields were returning towards their historical averages. The Roman god Bacchus may as well join the Greek god Dionysus and close shop and turn out the lights for a while. The party’s over.

Big players such as Germany and France have also often broken and ignored eurozone rules. France, for instance, has been breaking the eurozone deficit rules (maximum 3 % of the GDP) on yearly basis since 2008 without sanctions. The pressure for an increased public expenditure from to the *gilets jaunes* (yellow vests)¹⁵ protesters will have the same effect on the budgetary situation in the near future. This is how the eurozone rules are “applied” on big players. Another set of application of eurozone rules applies to other countries. For instance, in October 2018

“Italy’s coalition government, comprising the far-right Lega and the populist Five Star Movement (MS5), presented a draft budget that included many of the parties’ electoral pledges, such as a basic income for the unemployed and the shelving of a previous proposal to raise the retirement age. The budget would have increased Italy’s deficit to 2.4 % of GDP, higher than that planned by the previous administration, but lower than the EU limit of 3 %. Nevertheless, in an unprecedented move, the European commission rejected the budget for breaking its fiscal rules. Rome’s growth forecast, it insisted, is overoptimistic and the real deficit-to-GDP ratio would exceed 3 %. Italy was threatened with sanctions. Last week, the government in Rome caved in, drafting a new, more austere budget”¹⁶.

The French President, Emmanuel Macron, an exponent of the financial industry, tried reforms and cut taxes that benefited corporations and the rich. To make up for the fall in public revenue, he increased taxes on fuel and tobacco. That was the last straw that initiated the yellow vest protest in France, first in the rural areas, then throughout the country in 2018 and beyond. The budget deficit would rise to over 3.2 % in 2019. This does not worry France as this country never paid real attention to this rule enshrined in the Stability and Growth Pact. This rule is for others in the eurozone, not for France.

The differential treatment of EU countries is evident. Hence, one should not be surprised that general public support for the EU is vividly abating. This is a fertile soil for extremists and anti-EU forces. For example,

“the EU is an irreformable instrument for impoverishing the continental periphery and the working people of each country to the benefit of a predatory class whose wealth increases with every one of capitalism’s succeeding crises”¹⁷.

¹⁴ Japan, Britain or the US can borrow a lot in their home fiat currencies. If huge deficits emerge and create troubles, those countries may use inflation (print own money) and find the way out of difficulties. That is not possible in the eurozone as the euro is not controlled (not fully) by the domestic authorities in each participating country.

¹⁵ *Gilets jaunes* are the contemporary reincarnation of the *sans-culottes* (without breeches) the late 18th century movement by the common and disenfranchised people in France. They protested against poverty and many turned into militant proponents of the French Revolution.

¹⁶ Malik K. Europe’s merciless treatment of Italy only hardens popular resentment. *The Observer*. 16 October 2018.

¹⁷ Wright N. Why communists back Brexit. *The Guardian*. 3 January 2019.

Free markets in the EU exist only for the poor and weak. Big corporations (banks included) often privatised governments and *socialised* their own business failures. The big and rich are protected (socialism) and subsidised with enormous amounts of taxpayers' money. The Royal Bank of Scotland, for instance, got an injection of up to €111 bln of public money in 2009¹⁸. These are pure Marxist principles, but in reverse.

The banks and banks-prone government “elite” share an array of goals, ideas and dreams. This is a politically toxic mixture found within the same group of people that favours big business to the detriment of democracy, taxpayers and consumers. Democracy means the rule of the people and their elected representatives, not rule by the bankers and other special interests. If something goes wrong in the economy, as happened during 2008 (and beyond), the elite does not pay the price, but rather the taxed general public, which loses jobs, salaries, careers, savings, pensions, student grants, health care benefits, homes and hope. The deep crisis was “engineered” by the bankers’ financial alchemy¹⁹. Still, the bankrupt bankers were able to extract subsidies (hundreds of billions of dollars and euros) and continued to distribute bonuses!²⁰ The general interest of the society was overridden by specific and concentrated interests by the bankers. If one wants to have and keep a market economy (and capitalism), one must accept bankruptcies. Otherwise it would be like promoting Christianity without heaven and hell. If there are no bankruptcies, and if private risk and failures are socialised, you have state socialism — socialism for the already rich while “free markets” are for the others (usually weak and poor).

The eurozone was the French idea. It was “imposed” on Germany after the German reunification. France also wanted to reduce the economic gap between the two countries. However, one of the most worrying matters for France (and the eurozone) is the ever widening gap in industrial production with Germany. This may be the background for other economic cracks between these two countries. Instead of narrowing as intended, the gap is accentuated. Even though Britain has been outside the eurozone, when compared its index of industrial production with Germany, it performed much better than was the case with France and Italy in the post-2008 crisis period. Staying outside the eurozone may assist better the industrial production than being a part of it.

So far the eurozone works well only for Germany and, perhaps for the Netherlands, hence it would be a difficult job to convince Germany to change something of crucial importance in the euro system. Therefore, Germany would fight tooth and nail to preserve it. To be tough on France as the German chancellor Angela Merkel was on Greece is a non-starter. In the EU all countries are equal, but some are more equal than others. France cannot be treated as small countries such as Greece, Ireland, Austria²¹ or Hungary are. France

¹⁸ Willis A. EU approves largest state aid plan in union's history. *EUobserver*. 14 December 2009.

¹⁹ The Glass-Steagall Act (1933) that strictly divided commercial from investment banking had 37 pages. The Dodd-Frank Act (2010) that tried to resolve the American financial alchemy had 848 pages (it was more than 20 times longer than the Glass-Steagall Act).

²⁰ “Royal Bank of Scotland chief executive Ross McEvan received a total pay packet worth nearly £3.8m for 2015, the lender revealed, as it posted its eight straight year of losses. His total pay last year, including bonuses and other benefits such as pension payments, was more than double his remuneration package in 2014 of £1.8m” (Thomas N. RBS chief's pay packet more than doubled in 2015. *Financial Times*. 26 February 2016). In spite of miserable profits, Deutsche Bank paid 1,098 staff more than €1 mln a year in 2017 (A French habit is spreading. *The Economist*. 7 March 2019).

²¹ The EU introduced diplomatic sanctions against Austria in February 2000 as the coalition government of Wolfgang Schüssel (People's Party) included Jörg Heider's right-wing Freedom Party because of its anti-immigration, pro-Nazi and anti-EU platform during the October 1999 elections. This was the

needs Germany in the eurozone to keep it enshrined in the EU (not to do something on its own). However, Germany is changing. Economic might, problems with immigration of Muslims and the appearance of the Alternative for Germany on the political scene from thin air would modify the German perception of the EU, alliances and the euro.

5. Quantitative Easing or “Money for Nothing”

One response to the eurozone crises, introduced by the influential banking cast²², was the application of ‘quantitative easing’ (QE), i. e. purchase of predominantly government bonds by the European Central Bank (ECB). The intention was to flood the financial institutions with cheap capital in order to stimulate lending, increase liquidity and promote economic activity. The idea behind QE and extremely low interest rates was to “force” investors to invest in other more profitable ventures. It is suggested that the pumping of “free” money (“cash for trash”) into the economy would increase real estate prices and create the “wealth effect”²³. Those that had real estate, i.e. baby boomers (born between 1945 and 1965) experienced an enormous increase in the value of their property. There was also a cost, especially political. The millennials (born between 1981 and 1996) were priced out from property. The old (insiders) became subsidised and comfortable, while the young (outsiders) were “punished”. When real estate and other asset prices increase faster than wages, wage earners fall behind in wealth and social influence. The standard social contract that economic prosperity benefits everyone falls apart. Division in the society became stark both in Europe and in the US²⁴. This damaging QE side-effect contributed to popular protests and the rise of large-scale populism which was not countered effectively by the elite:

“Telling the people that they shall not be populist confirms the populist charge of arrogant elites disconnected from the anxieties and aspirations of Main Street” [Schmidt, 2019, p. 55].

Cantillon described the wealth effect as early as in 1755 (p. 39). Investors would feel richer because of the increased value of their real estate and invest more in the economy and, therefore, boost it. Experience has proven that this idea is nonsense. When safe investment assets have very low rates of interest, this gives a signal that there is no recovery on the horizon. Why, then, invest? The eurozone countries need to cure their chronic disease: weak spending and low consumption. The deflationary bias needs to be cured by flexible public spending rules (over an economic cycle). Private and public expenditure is necessary, but the eurozone rules prevent that (a cap on budget deficits). QE created price

first time that the EU as a whole criticised domestic policies or attempted to influence the composition of a member country's government — even before the new government had put a foot wrong.

²² QE, an unconventional expansionary monetary policy, was introduced in the US by Ben Bernanke in 2008 in order to avoid mass default.

²³ If rate of return on capital (r) is greater than the rate of economic growth (g) inequality increases. The winners in this game are persons that own real estate in popular and rich cities. For instance, in Vancouver, real estate owners “were rewarded so handsomely last year that they made their owners about C\$25 billion, or about 30 % more than the C\$19 billion the entire city population made in employment earnings the entire year” (Durden T. Vancouver Homeowners Made More From Sitting On Their Assets Than The Entire City Did By Working. *Zero Hedge*. 4 June 2016).

²⁴ Student loans, especially in the US, are a huge problem as many students are trapped in debt which they would never be able to pay back. They will never buy a house.

distortions. Fine art and real estate prices especially in top locations (London or Monaco) went through the roof.

Mario Draghi, the ECB President, said in 2012 that “policy makers will do whatever is needed to preserve the euro”²⁵. Translated into plain language, this means that this bank will, among other things, buy bonds of troubled (bankrupt) eurozone countries in unlimited quantities. Hence, this is equal to an endless printing of banknotes to finance governments.

The QE strategy (“money for nothing”) of the ECB was active in the period March 2015—December 2018 according to the following monthly schedule:

- €60 bln from March 2015 until March 2016;
- €80 bln from April 2016 until March 2017;
- €60 bln from April 2017 to December 2017;
- €30 bln from January 2018 to September 2018;
- €15 bln from October 2018 to December 2018.

During the 1371 days of the QE the ECB pumped in the eurozone economy €2.600 bln (€7,614 per eurozone person). This is on average €1.896.425.966 per day. The hope was to create extra demand, to accelerate inflation, reduce the value of the euro (to increase exports) and to boost business confidence and economic growth. What was the result of this policy?

The ECB, headed by Draghi (a former Goldman Sachs fellow), pumped in the eurozone’s financial system up to €80 bln a month (the EU’s annual budget is about €130 bln). When QE was introduced, the expectation was that it would last only two years. The intention was to give a boost to consumption which would revive anaemic economic activity. That revival did not happen. Why? The bankers and the wealthy used that money to buy US government bonds (higher rate of interest) and invested in real estate in tax havens such as Monaco where they do not pay taxes. Money did not go to debtors, but to creditors; money did not go to workers through wages or welfare, to the people that would spend that money, that would buy goods, services and pay bills which would revive the economy. Instead of creating inflation, QE created deflation. Money stayed with the wealthy, i.e. banks which mostly kept it within its circle.

There will be no improvement in the eurozone as long as QE or other forms of money creation are directed towards speculative activity. Money needs to be directed towards production. The post-Global Financial Crisis economy has temporarily been fixed, but the trust in the system has not been restored. Nonetheless, if the real growth does not return to the eurozone or if the situation in the economy worsens, there are hints from Draghi that QE would be restated²⁶. What does this mean? It means that the banks would be able to continue to get money for “free” and then “lend” it to the population via credit cards at predatory rates of interest. The QE Ponzi scheme will burst like all of them do.

The QE money remained in the banking industry which benefited most from the QE “honey spoon”. Rather than giving away trillions of euros to the banks (through QE) which do not invest further, a “helicopter drop” of money from the ECB to each citizen in the eurozone — say €1000 or even five or ten times as much, in a few instalments — may

²⁵ Black J., Randow J. Draghi says ECB will do what’s needed to preserve euro. *Bloomberg*, 26 July 2012.

²⁶ Jones C. China stimulus measures would boost eurozone, says Draghi. *Financial Times*. 28 January 2019.

be a superior economic policy choice. Citizens would spend those funds and this would contribute to inflation, production, employment and growth. Alternatively, governments may take that “helicopter money” and increase public expenditure that would stimulate the expenditure in the private sector. QE was from bankers for the bankers (bailout), not for the people.

Greece was excluded from the ECB's QE because “Greek government bonds did not meet the quality criteria required by the ECB in the framework of its QE programme”²⁷. Greece ‘misbehaved’ in the past, but the country was implementing draconian measures, hence this ‘punishment’ by the ECB should have ceased, but it did not.

6. The Cantillon Effect and the “Honey Spoon”

Richard Cantillon (1680–1734) an Irish-French-Dutch-English economist and a banker was one of the early writers about economics and banking. In his 1755 *Essai sur la Nature du Commerce en Général (Essay on the Nature of Trade in General)* (written in about 1730) he left a powerful and lasting message:

“It is a common idea, received of all those who have written on trade, that the increased quantity of currency in a state brings down the price of interest there, because when money is plentiful it is more easy to find some to borrow. This idea is not always true or accurate (p. 50). Then the King augments anew the coinage, settles the new ecu or ounce of silver of the new issue at 5 livres, begins with this new coinage to pay the troops and the pensions. The old coinage is demonetised and received at the Mint at a lower nominal value. The King profits by the difference (p. 67). But all the sums of new coinage which come from the Mint do not restore the abundance of money in circulation. The amounts kept hoarded by individuals and those sent abroad greatly exceed the nominal increase on the coinage which comes from the Mint (p. 68)”.

This is to say that the first receiver of the new money profits most, i. e. more than the following ones. In the eurozone case, this is the banking industry which invests to an extent outside the eurozone and which often buys the US and other government bonds because of yields.

The Cantillon effect explains the uneven spread of the newly printed amount of money. The monetary expansion by a central bank does not spread evenly throughout an economy. The Austrian economist Friedrich August von Hayek compared this monetary expansion with a spoon of honey in a cup of tea. Honey sticks to the spoon well before it melts in hot water. The closer one is to the new money pumped into an economy, the higher the benefit.

One of the first lessons that students of economics learn during their 101 course is that artificially low prices of money stimulate bad investments, there is no interest-rate market filter that permits only potentially profitable investments. To addict the economy, especially banks, to a strong economic drug such as QE (financial crack cocaine) and then withdrawing it may create a serious problem.

The problem was not that there was a flow of capital towards the eurozone periphery. The problem was that it ended up in the property bubble (real-estate gamble) first, and then in the commodity price gamble. Who is to blame? The culprits are obvious: defective banks, the snowballing herd-like behaviour of investors, as well as imprudent govern-

²⁷ Grauwe P. de. The ECB grants debt relief to all nations except Greece. VOX. 13 May 2016.

ments. Not the euro. Countries such as the US, Britain, Iceland and other non-eurozone countries (Hungary) had property bubbles too. Being in the low-interest-rate eurozone only provided the possibility for the Irish and Spanish to get cheap loans to invigorate the property boom. Low-cost financing gave imprudent entrepreneurs the opportunity to undertake too many projects at the same time. Capital was misallocated and wasted in certain projects (too many houses and apartments remain empty and cheap). In the case of Spain, the migration of (affluent) foreigners such as retired into those cheap properties may be better than the emigration of Spaniards elsewhere.

The choice for the public authorities is the following. What is worse for the country: a failure of a big bank or a company *or* an economy with a burden of debt to help failed banks and companies (which prevents or slows down new and promising businesses)?

Regarding public assistance to bad and failed banks, Sir Walter Bagehot (1873, IV. 4)²⁸ left economists and policy makers with an instructive advice. Its value is strong and lasting, but the contemporary policy makers ignored this important lesson, just as they did with Cantillon's, to the detriment of taxpayers, gifted entrepreneurs and the promising future of the economy:

“If the banks are bad, they will certainly continue bad and will probably become worse if the Government sustains and encourages them. The cardinal maxim is, that any aid to a present bad Bank is the surest mode of preventing the establishment of a future good Bank”.

This means that evolutionary business selection (bankruptcies included) should take place in a market economy. During the Global Financial Crisis (2008) governments turned back at the market forces and the capitalist organisation of the society. They bailed out banks instead letting them go bust as free markets would demand. Capitalism is for private gains, but losses are socialised. This gave some support to Schumpeter's prediction that capitalism would be replaced by some sort of socialism.

How mighty big banks are and how they appropriate the legal and democratic process can be seen in the case of Eric Holder, the US Attorney General:

“When the Attorney General of the United States admits some banks are simply too big to prosecute, it might be time to admit we have a problem — and that goes for both financial and justice systems...Some observers have defended the Justice Department, suggesting that prosecuting law-breaking banks would amount to a death penalty that upset the financial system and trigger recession — although nobody really knows if it would do any such thing. But not prosecuting law-breaking banks, and confessing to its terror of prosecuting those banks, the Justice Department has waved a big checkered flag to the biggest banks to go ahead and break all of the laws they want”²⁹.

The social contract in a market economy is that if you take certain risk and invest, you harvest rewards, but you also have to accept failure if things go wrong. What happened to big banks was that they took risk, excessive risk, sometimes failed in their business and instead of throwing bad apples from the basket, such banks were bailed out by the government, i.e. taxpayers that were not asked anything about such important and expensive

²⁸ Walter Bagehot (1873). *Lombard Street: A Description of the Money Market*. London: Henry S. King and Co. URL: https://www.econlib.org/library/Bagehot/bagLom.html?chapter_num=7 book-reader (accessed: 19.01.2019).

²⁹ Gongloff M. Eric Holder admits some banks are just too big to prosecute. *Huffington Post Business*. 6 March 2013.

actions. Are we living in a post democratic or a post law society? Are the banks holy cows of the modern economy and politics? When faced with the Global Financial Crises (2008), unlike the US which bailed out banks and letting the offenders scot free, Iceland paid off consumers' loans, forgave homeowners' debt and put the offenders in prison. Iceland started from a clean sheet of paper and bounced back³⁰.

Continued and growing distrust by the population of the patrician elite that is indifferent to the troubles of the compatriots has mobilised the underclass and an ocean of losers. This is taking place not only within nations, but also between them. The elite sticks to its vanity project (the eurozone), now it becomes obvious, at all costs. The elite continues to live in a capsule and is incapable of understanding what the popular fuss is all about. This obstructs the positive reaction to the popular revolt and might lead to discords and conflicts. The social contract is on the verge of falling apart. Common vision of the future and an enemy (presumably foreign) was the tissue that connected various actors. Now, these have gone. Is the nemesis now the framework in which the EU is bound to live? Britain is leaving the EU, while Switzerland was under EU pressure and had own Brexit-style EU pressure for 30 years and survived outside the EU rather well.

Economic recovery rests on new investments in low-carbon energy, infrastructure, sensors, new and better skills of labour, not on continued austerity and propping up banks that make preposterous loans. As long as politicians go cap in hand to powerful vested interests that finance their election campaigns, a new and sound growth-friendly push in the economy will not be forthcoming. Backlash from the voters is unavoidable.

How to avoid the repeat of such a financial disaster (Global Financial Crisis)? Well, make the system smaller. However,

“in global finance today, the opposite is happening. The financial ski patrol of central bankers is shovelling more snow onto the mountain. The financial system is now larger and more concentrated than immediately prior to the beginning of the market collapse in 2007. ... the next collapse will not be stopped by governments, because it will be larger than governments. The five-meter seawall will face the ten-meter tsunami and the wall will fall” [Rickards, 2012, pp. 211–212].

In addition, public finances are and will remain fragile because of debt and feeble growth of the economy.

“Stuff happens”, but does not happen rarely. Hence, the bell curve distribution of events needs to be flattened in reality. “Black swans” may not be all that rare, for instance, in capital market and elsewhere. What matters is not necessarily the “black swan”, but rather the response to it. Rickards suggested:

“Societies that are not overtaxed or overburdened can respond vigorously to a crisis and rebuild after disaster, while those that are overtaxed and overburdened may simply give up. When the barbarians finally overran the Roman Empire, they did not encounter resistance from the farmers; instead they were met with open arms. The farmers had suffered for centuries from Roman policies of debased currency and heavy taxation with little in return, so to their minds the barbarians could not possibly be worse than Rome. In fact, because the barbarians were operating at a considerably less complex level than the Roman Empire, they were able to offer farmers basic protections at a very low cost” [Rickards, 2012, p. 222].

Current and future policymakers need to keep this experience in mind.

³⁰ Greenstein T. Iceland's stabilized economy is a surprising success story. *Forbes*. 20 February 2013.

7. Revolving Door and Goldman Sachs

Mega investment banks such as Goldman Sachs have strong and spread global political power. Goldman Sachs dispatches its people to the top level of governments worldwide and offers them lucrative jobs once they leave their public posts (revolving-door turnover of politicians):

“This is The Goldman Sachs Project. Put simply, it is to hug governments close. Every business wants to advance its interests with the regulators that can stymie them and the politicians who can give them a tax break, but this is no mere lobbying effort. Goldman is there to provide advice for governments and to provide financing, to send its people into public service and to dangle lucrative jobs in front of people coming out of government. The Project is to create such a deep exchange of people and ideas and money that it is impossible to tell the difference between the public interest and the Goldman Sachs interest”³¹.

Former Goldman Sachs bankers such as Mario Monti and Lucas Papademos were appointed (not elected) as prime ministers of Italy and Greece, respectively. Another former Goldman Sachs banker, Mario Draghi, was appointed chairman of the ECB. Interestingly, these appointments of Goldman Sachs bankers (old boys' club) all took place in November 2011. Hence, instead of elected politicians, Goldman Sachs bankers were taking charge³². Taxpayers and 99% of the population should not expect good news for quite some time to come.

Article 245 of the Treaty on the Functioning of the European Union states that the members of the European Commission ‘shall give a solemn undertaking that, both during and after their term in office, they will respect the obligations arising therefrom and in particular their duty to behave with integrity and discretion as regards the acceptance, after they ceased to hold office, of certain appointments and benefits.’ Senior public officials have a responsibility not only to be followed by example, but also to set the highest standards of ethical behaviour. This is law and theory. Practice is different.

Eighteen months after his term as the President of the European Commission (twice five years), Jose Manuel Barroso was recruited by Goldman Sachs as an adviser on Brexit in July 2016. This is the investment bank that was deeply involved in the eurozone-related Greek financial alchemy and disaster. Even though Barroso did not break any law, Francois Hollande, the French President, said that Barroso's choice was “morally unacceptable”³³. Barroso could have chosen any bank, but not Goldman Sachs.

Former European Commissioners also found commercial home in big private businesses. Neelie Kroes (Competition Commissioner) joined boards of Uber and Salesforce; Karel de Gucht (Development aid Commissioner) joined Arcelor Mittal; Connie Hedegaard (Climate Commissioner) joined VW; Martin Bangemann (Commissioner for internal market and industrial affairs) joined Telephonica; Jonathan Hill (Commissioner for financial stability, financial services and capital markets) joined the Union Bank of

³¹ Foley S. What price the new democracy? Goldman Sachs conquers Europe. *The Independent*. 18 November 2011.

³² Hillary Clinton received generous a check (\$200,000) for a single speech to Goldman Sachs (Cillizza C. Why Bernie Sanders should talk A LOT more about Hillary Clinton and Goldman Sachs. *The Washington Post*. 25 January 2016). Tony Blair, the former British Prime Minister, was no different (Bower T. A man without morals. *The Daily Mail*. 1 March 2016).

³³ Chassany A. Hollande blasts Barroso for Goldman move. *Financial Times*. 15 July 2016.

Switzerland;... A profound problem and serious concerns with such revolving door affairs is that the former highest officials and lawmakers join the industry he/she formerly regulated. Suspicions remain. No wonder why there is a wide popular discontent regarding the running of the EU institutions.

The alumni network of excessively powerful Goldman Sachs is impressive. It is the greatest one in the global private business. This investment bank is using all available “guns” to win business. One day they hire prostitutes to win business in Libya³⁴, the next day they hire the former President of the European Commission³⁵. And their business goes on.

The elected politicians are supposed to provide a popular counterweight against the demands by powerful businesses. This irresponsible revolving door practice and recycling of lawmakers in big private businesses escalates public distrust in government institutions. Do elected politicians serve the people or big business, especially big banks? Does the political elite know greed or decency? Is this beyond repair? Does this open gates to the extremists and the popular backlash against the EU?

8. The Troika

Many important actions that relate the eurozone take place outside the cover of the EU treaties. From 1998 the Eurogroup refers to informal and unofficial monthly closed-door meetings of the finance ministers of countries that officially take part in the eurozone. Hence, it escapes the legal and transparency coverage of the EU laws. Even though the Eurogroup’s political decisions on austerity are important and harsh, they are legally illegal as this group does not exist in the EU law!

Created from “thin air” and outside the EU legal structure in 2010, the “Troika” is composed of the top officials from the International Monetary Fund (IMF), the ECB and the European Commission. It is a new institution that is not based on any international treaty or national constitution. It is unaccountable to any elected body, but it is the master of the economic survival of countries such as Greece. The presidents of the IMF and the ECB have no democratic mandate (people did not vote for them), while the democratic mandate of the President of the European Commission is rather meagre. The Troika is principally in solidarity with bankers, hence the democratically elected national representatives are subject to this unelected institution that was created from thin air. The Troika reviewed the Greek problem as an issue related to liquidity, while in fact, it was an issue of insolvency.

In spring 2010, as Greece wrangled with the IMF and the rest of Europe for what would turn out to be a €110 bln emergency loan, a revealing, chilling phrase slipped out. When Greece’s then Prime Minister, George Papandreou, begged for easier borrowing terms, he was told by Angela Merkel that the deal had to hurt. According to a well-sourced report in *The Wall Street Journal*, the German Chancellor said: “We want to make sure nobody else will want this”³⁶. In September 2012, Merkel pleaded in favour of “une Europe

³⁴ Treanor J. Goldman Sachs hired prostitutes to win Libyan business, court told. *The Guardian*. 13 June 2016.

³⁵ Spence P. Goldman Sachs hires former EU President Barroso after Brexit vote. *The Telegraph*. 8 July 2016.

³⁶ Editorial. Greece’s austerity: democracy tested to destruction. *The Guardian*. 8 November 2012.

forte et solidaire [strong and united Europe]³⁷. This is EU solidarity in the Teutonic manner. For the French, enthusiasm for ‘solidarity’ means something else: redistribution and protectionism.

Who was rescued with emergency loans? “Of the total lent to Greece, less than 10 percent ever got to the Greek people. The rest went to pay back creditors, including German and French Banks” [Stiglitz, 2016, p. 144]. So, the generosity by the Germans and the French and others was primarily to save own domestic banks that gave reckless loans to Greece even though the story presented to the public was that the assistance goes to Greece. How can a debtor that has no economic growth repay loans? The London Debt Agreement (1953) assisted Germany to make a fresh start. This was not the case with Greece.

9. The Greek Problem

Greece is a country with enormous debt and needs solidarity in the form of (generous) debt forgiveness as its foreign debt is so huge that it can never be repaid in full [Jovanović, 2015a]. In addition to the Marshall Plan, it should be recalled, Germany benefited in 1953 from foreign solidarity and debt relief in which Greece participated. The London Debt Agreement wrote off roughly a half of Germany’s external debt, which was “more than 280 per cent of the country’s 1950 gross domestic product”³⁸. Repayments of the rest were linked to revenues from exports³⁹. This debt forgiveness (the German debt/GDP share was significantly higher than is the current Greek debt/GDP share) was, at the time, as controversial as is the current discussion about the possible writing off of Greek debt. However, if there is a Greek debt forgiveness precedent, would others in this so poorly designed and operated eurozone request the same (moral hazard)? Would market confidence flop? Greece and the whole of the eurozone need growth, not never-ending austerity.

The eurozone as it is constructed does not have a problem: it is the problem itself. The eurozone architecture morphed into an economic torture chamber. It is like the Procrustean bed which forces conformity standards. Procrustes, a bully from ancient Attica, was either stretching people or hacking at their legs to make them fit onto an iron bed. The modern version of the Procrustean bed is represented in the eurozone’s one-size-fits-all austerity policies, which have significantly slowed growth and made unemployment, especially among the young, a hideous long-term problem (compounded by an endless flow of economic migrants and refugees from the Middle East and Africa). Poverty and inequality have also risen sharply which creates serious social problems. A real rise in investment is rather anaemic. This does not provide grounds for vigorous growth and employment.

Table presents the evolution of the Greek GDP, deficit and public debt from 2001 to 2020. The Greek economy shrank sharply in the period 2008–2013. The evolution of the deficit during the same period was even sharper. The EU, i.e. the German, remedy was to cut spending. However, debt as a share of the GDP almost doubled during the same period, not because expenditure increased, but because the Greek economy shrank. The

³⁷ Saint-Paul P. Merkel plaide pour une Europe solidaire. *Le Figaro*. 3 September 2012.

³⁸ Sfakianakis J. History shows why Germany should help Greece. *Bloomberg View*. 3 December 2012.

³⁹ Guinnane T. A pragmatic approach to external debt: The write-down of Germany’s debts in 1953. *VOX*. 13 August 2015.

Table. Greece: GDP growth, deficit and debt, 2001–2020

Year	Real GDP, % change from previous year	General government financial balances, Surplus (+) or deficit (-) as % of nominal GDP	General government gross financial liabilities, % of nominal GDP
2001	3.6	-5.5	114.1
2002	4.0	-6.0	113.1
2003	5.8	-7.8	108.8
2004	4.7	-8.8	110.1
2005	0.8	-6.2	111.9
2006	5.6	-5.9	116.9
2007	3.2	-6.7	114.8
2008	-0.2	-10.2	119.0
2009	-4.3	-15.1	135.2
2010	-5.5	-11.2	129.1
2011	-9.2	-10.2	109.8
2012	-7.3	-8.8	165.9
2013	-3.1	-13.1	182.6
2014	0.7	-3.7	182.9
2015	-0.3	-7.3	182.7
2016	-0.2	0.5	188.2
2017	0.6	0.8	190.9
2018	0.5	0.3	187.6
2019	0.8	0.1	183.7
2020	0.9	0.3	179.2

Source: [OECD Economic Outlook, no. 99 (June 2016); no. 104 (November 2018)].

medicine may have been worse than the disease. The Greek economy needs growth and the externally imposed economic instruments were wrong. Paul Krugman noted that “Austerity probably shrinks the economy faster than it reduces debt, so that all the suffering serves no purpose. The landslide victory of the ‘no’ side offers at least a chance for an escape from this trap”⁴⁰.

What are the theoretical choices for Greece? Is it simply between the Grexit (Greek exit from the eurozone) or destructive austerity with no end in sight? The effect of the imposed austerity was that “wages have fallen by nearly 20 % since 2010 with pensions and other welfare payments cut by 70 % in the same period. The size of the public sector has been cut back by 26 %”⁴¹. A toxic mix of policies imposed by the Troika reduced public services and led to the collapse of the middle class. Unemployment reached 28 % and the young were disillusioned about their future in Greece⁴². So,

⁴⁰ Krugman P. Ending Greece’s bleeding. *The New York Times*. 6 July 2015.

⁴¹ Boffey D. Eurozone agrees deal to bring Greece out of financial crisis. *The Guardian*. 22 June 2018.

⁴² “While the lack of funds was a significant barrier for investment in the lagging EU regions in the past, a new important obstacle appeared in the EU peripheral countries: the lack of people. Emigration of the young, educated and the brightest is particularly strong from the Baltic states, Romania, Bulgaria, as well as from Poland and the Czech Republic from the time they joined the EU. For instance, Lithuania, a country

“up to 400,000, mostly aged between 20 and 30, have left in the past eight years... So many doctors have left since 2010, the cash-strapped health service faces a shortfall of 8,000 doctors, said George Patoulis, president of the Athens medical association. “The country has lost more than 18,000 doctors, not only new graduates but established specialists”⁴³.

If the euros from the ECB are not available, the Greeks will have to pay wages and pensions in certificates. Those IOU (“I owe you”) paper certificates would evolve as a parallel currency that would eventually develop into a new drachma. It has become obvious, since the most recent debt crisis, that the expected eurozone economic benefits to Greece have vanished. A number of observers may agree with Krugman that “The Greek exit from the euro is the best of bad options”⁴⁴. The price to remain in the eurozone is dear.

The Greek government announced on 2 November 2011 that it would hold a referendum as soon as possible on the bailout programme in order to get a clear mandate by the people to stay in the eurozone. That announcement created ‘shock, panic and anger’ around the world, but especially in France and Germany. The French Prime Minister François Fillon said that ‘France regretted the unilateral decision by Greece to hold a referendum’⁴⁵. The fear was that a negative reply to the bailout programme would trigger sovereign, as well as bank failures that could wreck the eurozone. The Greek government withdrew, in a matter of days, the decision under foreign “peer pressure” because of real fears that the result by the Greek people would be a no answer.

Four years later, the Greeks voted on the Troika’s financial-rescue plan and responded with a resolute NO (62 %) on 5 July 2015. Does a clear NO vote in a national referendum in an EU country mean NO or does it mean something else? Jean Claude Juncker, a member of the Troika and the President of the European Commission, has a rather slender democratic mandate. He was appointed by the EU Presidents/Prime ministers through the political “black box” and was passed on to the European Parliament for approval. Juncker “ridiculed the Greek No vote as an unintelligible ‘circus’”⁴⁶. Unelected politicians and the EU technocrats hate referendums. Public and democratic voting is not the way to do business in the EU. This was confirmed a week after the referendum when Greece caved in and accepted the Troika’s draconian deal. Hence, it was all a circus. Do the eurozone countries need democratic decisions about crucial national issues or do they not? Once again, referendums may not be the ways to do the EU business. Is this a post-democratic EU?

The European elite are more and more afraid to verify democracy through referenda. Decisions are taken and implemented in the exclusive and closed elite-led political process. If things go wrong, the elite which rule over our lives blame Brussels. With this in mind, Ken Livingstone’s book has a revealing title: *If Voting Changed Anything, They*

of 2.8 million inhabitants in 2019, lost 1 million citizens through emigration since 1990” (Lithuania hopes the next century is quieter than the last. *The Economist*. 15 February 2018).

⁴³ Hope K. Graduate brain drain hinders Greek recovery. *Financial Times*. 17 August 2018.

In addition, health-related services suffered (Smith H. Desperate state of Greek medical facilities blamed for death of UK tourist. *The Guardian*. 12 September 2018).

The problem is not common only in Greece, “around 30 % of Romanian doctors have moved to richer European countries where they earn substantially more ... doctors in a poor country became taxi-drivers in a rich one” [Collier, 2018, p. 970].

⁴⁴ Krugman P. Ending Greece’s bleeding. *The New York Times*. 6 July 2015.

⁴⁵ News of Greek referendum stuns the world. *Bulleten Quotodien Europe*. 3 November 2011, p. 4.

⁴⁶ Holehouse M. I do not understand Greek referendum circus. *The Telegraph*. 7 July 2015.

Would Abolish It [Livingstone, 1987]. Voting may not be the actual means how the EU integration business is done in reality. Whenever the policymakers consult the people on EU matters through the voting process and when they do not get the pre-set decision, they force the people to vote again and again (Denmark and Ireland) until they approve the decision that has already been taken by the 'dark masters' of European integration. This type of management of EU affairs created a kind of democratic deficit which evolved into a democratic crisis.

A referendum may not always be the most appropriate way to have people speak on certain issues. For complicated matters such as treaty texts, voting may be skewed. If the voters are not informed properly by the politicians and the media, then sectoral interests may prevail. For instance, farmers may be against reductions in subsidies, housewives may be in favour of increases in benefits for part-time work, while domestic plumbers may be against increases in work permits to foreign plumbers. These sectoral interests may distort the general interest that a treaty aims to promote. In certain cases, and if key national sovereignty issues are not compromised, national parliaments may be a more appropriate places for decision-making. In addition, national referendums in France normally turn into voting on the popularity of the current government, no matter if the question asked on the voting slip relates only to France or the EU.

Following the August 2018 deal, Greece exited the bailout programme, but it would be under "enhanced surveillance". Greece would start repaying its huge debt from 2032. Nobody knows where will be the country's economy, the eurozone and the EU at that time. This looks like kicking the can down the road. Still, "Germany turns out to be a major beneficiary of Greece's debt crisis as it earned total of 2.9 billion euros since 2010"⁴⁷.

The patrician EU elite and "dark masters" of the art of European integration were once again indifferent to the plight of their compatriots and did not listen to concerns and demands of the people they rule. The elite, for instance, contempt and ignored the popular will of the people expressed in a referendum (Greece, 2015). The popular backlash may come in 2019 after the elections for the European Parliament. If anti-EU forces gain majority, the whole EU law-making process may be in jeopardy.

10. Who is Responsible?

Bankers in Europe were lending to the "prodigal" Greece in the full knowledge that the loans would not be repaid. They expected (re)payments from (home) governments. Both sides violated basic banking principles:

- *borrowers* should be careful about borrowing. Their duty is to pay back loans;
- *creditors* must verify the creditworthiness of borrowers, their existing debt, assets and future stream of income. Creditors' moral duty is to lend diligently. If they do not do their homework on being careful in giving loans, well, then they deserve what transpires.

Although Greeks themselves have a sizeable share of responsibility for the trouble (excessive expenditure), others were also far from innocent. In fact, all types of sales (legal and illegal) to Greece were strongly encouraged both officially and covertly. Hence the

⁴⁷ Stam C. Germany earned €2.9 billion from Greece's debt crisis. *EurActiv*. 21 June 2018.

blame should be shared. Foolish creditors always find reckless debtors. Here come just a few illuminating examples of illicit German sales to Greece.

The biggest corruption scandals in Greece involved German high-tech and defence firms. Ferrostaal, the German arms producer, was fined (€149 mln) in 2011 for giving €62 mln in bribes to the Greeks to buy (faulty) submarines at inflated prices⁴⁸. Furthermore, in March 2012 the Greek government reached an out-of-court settlement with German company Siemens related to bribes. Siemens would pay a fine of €170 mln for bribes to Greek state employees and ministers for the procurement of equipment⁴⁹. In addition,

“a Greek court has been provided with conclusive evidence that the largest tax avoider in the country is Hochtief, the giant German construction company that runs Athens airport. It has not paid VAT for twenty years, and owes 500 million euros in VAT arrears alone. Nor has it paid the contributions due to social security. Estimates suggest that Hochtief’s total debt to the exchequer could top one billion euros”⁵⁰.

The Independent Evaluation Office of the IMF (2016) document revealed unprofessional and dirty work behind the scene by the IMF concerning financial crisis in Greece and other counties hit by the Global Financial Crisis. Here come just a few details. “The IMF’s policy on exceptional access to Fund resources, which mandates early Board involvement, was followed only in a perfunctory manner” (p. vii); “the troika arrangement potentially subjected IMF staff’s technical judgments to political pressure from an early stage” (p. viii); “some documents on sensitive issues were prepared outside the regular, established channels” (p. viii); “written documentation on some sensitive matters, even with the help of generous staff resources, could not be located” (p. 5); “a number of factors undermined the quality and effectiveness of surveillance. First, the analysis often lacked sufficient depth, rigor, or specificity” (p. 22); “failure to grasp fully the functioning of the single currency” (p. 25); “a major downsizing of the IMF staff that took place during 2008–09 reflected this culture of complacency among the IMF’s membership” (p. 27); and “there was no clear demarcation of responsibilities between the IMF and its European partners, and their areas of competence overlapped considerably” (p. 41). Those quotations lead to three conclusions:

- the financial rescue strategy for Greece, Ireland and Portugal was not implemented in the coherent way and it was not based on proficient analysis;
- excessive political pressures overturn economic facts and professional IMF’s work;
- the IMF failed the standards of responsibility and transparency as are expected from public institutions.

⁴⁸ Ferrostaal shareholders approve EUR149 million fine in bribery case. *The Wall Street Journal*. 14 October 2011; [Pitelis, 2012, p. 8].

The EU countries sold Greece over €1 billion of arms during the first bailout deal in 2010. France was the biggest seller, but the pro-austerity advocates (Germany and the Netherlands) were also active. “An aide to the then Greek leader, George Papandreou, who asked to remain anonymous, told the news agency: ‘No one is saying ‘Buy our warships or we won’t bail you out.’ But the clear implication is that they will be more supportive if we do” (Rettman A. EU figures show crisis-busting arms sales to Greece. *EUobserver*. 7 March 2012).

⁴⁹ Hope K. Siemens to pay €170m to Greece over alleged bribery of officials. *Financial Times*. 9 March 2012.

⁵⁰ Ali T. Diary. *London Review of Books*. 30 July 2015.

Donald Tusk, the President of the European Council, suggested a “special place in hell” for those that backed Brexit without a plan⁵¹. What would such a “special place in hell” look like? Yanis Varoufakis, the former Greek Minister of Finance, tweeted on 7 February 2019:

“probably very similar to the place reserved for those who designed a monetary union without a proper banking union and, once the banking crisis hit, transferred cynically the bankers’ gigantic losses onto the shoulders of the weakest taxpayers”.

To criticise Greece as the only culpable party in the financial catastrophe is unjustified. Again, responsibility is shared. However, it is easy and arrogant to blame the victim for its own trouble. In spite of the shared responsibility for crisis, the adjustment cost fell, i.e. was imposed on the Greek side only. The deep post-2010 Greek depression did not happen because Greece did not follow Troika’s conditions, but rather because Greece followed them. Austerity usually has slim economic effects, while it creates harsh social troubles and discontent.

11. Reforms or Breakup

The eurozone works well only for Germany and for very few other countries. This is because:

- all eurozone countries must have fully open domestic market for the German (and other EU produced goods and services);
- no eurozone country may devalue to compete with the German (and other EU produced) goods and services.

In the absence of the euro, developments on such a scale would not be possible. For other countries, such as Greece, the eurozone was brutal.

As the real economic growth in the EU was feeble, the EU changed in 2014 the statistical methodology used to calculate the GDP. The new methodology includes in the coverage illicit economic activities such as smuggling, drug trafficking and prostitution. Such an economic and statistical alchemy slightly increases the GDP, politicians may relax a bit and boost their confidence, however, few would feel richer because of such statistical makeup⁵². What else needs to be reformed?

As there are no possibilities for the adjustment in exchange rates among the eurozone countries, there is a suggestion to the countries in trouble to apply “internal devaluations” (reducing domestic prices and wages). Still, this is hard, costly and highly unpopular. The problem is that there is no inverse policy suggestion to the export surplus countries to increase domestic prices and wages. Such “internal revaluation” is also unpopular, but these countries feel less pressure than the countries that have deficits in trade.

The German excessive current account surplus is one of the principal causes of imbalances in the eurozone. One way to solve the problem was proposed by [Priewe, 2019, p. 100]:

⁵¹ Boffey D., Rankin J., Stewart H. Tusk warns of “special place in hell” for those who backed Brexit without a plan. *The Guardian*. 6 February 2019.

⁵² Fox B. Sex and drugs drive EU growth surge. *Euobserver*. 17 October 2014.

“Within the ‘European Semester’ and among the ‘Country-Specific Recommendations’ with ‘Medium-Term Budgetary Objectives’ of the Commission, current account surpluses play hardly any role. Regarding sanctions, excessive surplus countries could be barred from access to structural funds — having to replace them with domestic funding — or obliged to pay a tax on the surplus that would be channelled into a fund to support industrial policy in countries with a weak export base. A key measure would be supporting countries with structural deficits in establishing industrial policy to improve non-price competitiveness and lean against the wind of further deindustrialisation”.

There is no doubt that Germany has an upper economic hand in the eurozone. However, this may not last forever in the fiat currency world. The ‘eurozone trilemma’: independent ECB, perpetual export surpluses and no fiscal transfers (all at the same time) cannot last too long. Something has to give up otherwise the crisis is imminent.

Reforms of the eurozone are urgently needed as one is witnessing a slow motion train crash. Dark clouds, for instance, are looming over Italy. This country did not have real growth for 20 years. The population is disillusioned. Italy’s debt is high (130 % of the GDP), the balance sheets of Italian banks have €128 bln of non-performing loans (loans in arrears of over 90 days)⁵³, and the public infrastructure is in poor shape (the collapse of the bridge in Genoa in 2018 with 43 fatalities is just one example of troubles). Eurozone deficit rules strictly limit public expenditure which severely restrain the inflow of fresh capital (economic oxygen) into the economy.

Eurozone-instigated cuts in public expenditure bite into Germany too. The defence budget is affected. For instance in 2014, “a shocking example is the decrepit state of German military hardware. Of the Luftwaffe’s 254 fighter planes, 150 cannot fly”⁵⁴. The situation became even more serious in 2018. Eurofighters are state of the art combat aircrafts. Out of the 128 Luftwaffe’s Eurofighters only four were combat ready⁵⁵.

A temporary means to bridge the crisis in the form of the European Financial Stability Facility was created in 2010 to assist Greece, Ireland and Portugal. This Facility, superseded by the European Stability Mechanism (ESM) (2012), has the financial “firepower” of € 500 bln. Eurozone ministers agreed in principle, but not in detail, at the end of 2018 to create a eurozone budget to fortify the ESM. There are ideas to transform of the ESM into a eurozone’s version of the IMF. If the German position remains that it needs to be done through the Lisbon Treaty’s change, then the chances that this would happen soon are very slim.

The 2018 proposals for a deeper eurozone integration by the French President Macron were based on strong federalist grounds (common budget to assist countries in economic troubles; European Finance Minister). The eurobonds are also a well-known federal idea, but for such bonds there must be a strong vision of a common future. Eurozone successfully eliminated exchange risk. However, risk in general remained, but it was transformed into a credit risk inside the eurozone. Currency unions do not operate without some kind of risk sharing and political union. The Macron’s deep federal vision was strongly criticised by 154 prominent German economists. Macron should perhaps put his own house

⁵³ Smid B., Soedhuizen B., Teulings T. The transition to a banking union for the EMU. *VOX*. 10 September 2018.

⁵⁴ Münchau W. Eurozone stagnation is a greater threat than debt. *Financial Times*. 20 October 2014.

⁵⁵ Huggler J., P. Luftwaffe “down to four” combat-ready Eurofighters out of 128, as pressure builds over weak defence spending. *The Telegraph*. 2 May 2018.

in order and only then preach what to do in the EU. There is a stark division in opinions on how to reform the eurozone. The Germans argued in favour of an orderly eurozone departure framework for insolvent countries⁵⁶. Macron's federalist-type proposals were put aside even though

“Germany seems to recognize the importance of a banking union for the functioning of a single currency, but, like St. Augustine, its response has been, “O Lord, make me pure, but not yet.” Banking union apparently is a reform to be undertaken sometime in the future, never mind how much damage is done in the present”⁵⁷.

The future of the fiscal and banking union is unclear. Germany and the Netherlands resist the pan-eurozone deposit insurance scheme, a vital part of the banking union, because of the fear that other countries failures would be foot by the German and Dutch taxpayers' money. As a temporary measure, Germany and a few other eurozone countries, may encourage the ECB to mutualise the Italian (even the French) debt⁵⁸. This would just postpone (not prevent) a possible eurozone breakup. If this mutualisation happens, the can will be just kicked down the road. Joseph Stiglitz thought that

“the central problem in a currency area is how to correct exchange-rate misalignments like the one now affecting Italy. Germany's answer is to put the burden on the weak countries already suffering from high unemployment and low growth rates. We know where this leads: more pain, more suffering, more unemployment, and even slower growth. Even if growth eventually recovers, GDP never reaches the level it would have attained had a more sensible strategy been pursued. The alternative is to shift more of the burden of adjustment on the strong countries, with higher wages and stronger demand supported by government investment programs”⁵⁹.

France, under President Macron, introduced in 2018 neoliberal reforms which favoured big businesses. Reforms included tax cuts to big corporations; abolished progressive tax on capital gains; ended indexation of pensions; reduced housing benefits; and terminated liberty in the choice of university education by the state distribution of students based on their results at the end of secondary education. That was the reason for strong and lasting protests by the 'deplorable' big part of the French population (*gilets jaunes*). Social discontent has been brewing and the trigger for protests in 2018 and beyond was an increased tax on fuel. The working class that has to use cars for transportation was hit as there were no increases in wages⁶⁰.

⁵⁶ Jones C., Brunsten J. German economists attack Macron vision for eurozone reform. *Financial Times*. 23 May 2018.

⁵⁷ Stiglitz J. Can the Euro Be Saved? *Project Syndicate*. 13 June 2018.

⁵⁸ “Poland's foreign minister has labelled France a ‘sick man of Europe’ on national TV this week. He may be right, but France is hardly the only one, and there's no silver bullet for the smorgasbord of ailments on show. Can Europe get fighting fit before May's elections?” (By Morgan S., Brzozowski A. The Brief — Sick men of Europe. *EurActiv*, 18 December 2018).

⁵⁹ Stiglitz J. Can the Euro Be Saved? *Project Syndicate*. 13 June 2018.

⁶⁰ Earlier, “beyond being an economic crisis, the collapse of 2008 was a social crisis. It was a great revealing of the deeply immoral financial arrangement of our societies, the criminal ineptitude of our regulators, the disastrous corruption of our democracies by money. What broke in 2008 wasn't primarily the economy: it was the people's faith in the reigning world order. The economy has been fixed somewhat but this faith has not been restored. This social crisis, unlike the economic crisis, never stopped — everything we're experiencing on the global political stage today, from the rise of social movements beginning with Occupy Wall Street to the clamorous appearance of ethno-nationalist populism, is a symptom of the unresolved

The rebellion against globalisation and in favour of re-gaining national control of affairs may have certain parallels with what took place during the Reformation that started in 1517 with the publication of Martin Luther's Ninety-five Thesis. At that time, there was a rebellion against the Catholic Rome that took too much power and money, that lived a sumptuous life and that lost touch with the people that paid for all that. The Western Christianity was split (disintegrated) into several denominations. Five centuries later, there is now a popular revolt against the EU's Brussels that does similar errors as the Catholic Church did before the Reformation. For instance, the earlier sale of Catholic indulgences looks a bit similar to what does QE. The financial system needs change and slimming. For instance,

“during the global financial crises of 2008 subprime mortgage losses were less than \$300 billion, but when derivatives are included, total losses were over \$6 trillion. To reduce the risk of the grand collapse and to increase the robustness, the system needs to be reduced in size so that no component may grow too large. Instead U.S. banks are bigger and their derivative books are larger today than in 2008. This makes a new collapse, larger than the one in 2008, not just a possibility but a certainty. Next time, however, it really will be different. ...the next collapse will not be stopped by governments, because it will be larger than governments” [Rickards, 2012, p. 211].

Is exit or a dissolution of the eurozone a panacea? The consequences of the eurozone breakup would be substantial in the short term (Austria-Hungary, the Soviet Union or Yugoslavia), but if accompanied with active policy intervention, they would be manageable. “The advantages over a five-year horizon would be substantial” [Bagnai, Granville, Mongeau Ospina, 2017, p. 533]. Hence, there are significant costs of breaking up the eurozone, but there are, possibly, even greater ones related to the keeping it together. Still, there is a strong possibility that the bad eurozone marriage continues with a hope by the politicians that are tinkering with some reforms would buy time for a financial fairy to come and solve the eurozone's existential problem with a magic stick. All that they do seems like actions by medieval wizards that prescribed leeches as medical therapies (kicking the can down the road).

One has to recall that for the success of a monetary union the participating countries need to have not only similar economic structure, but also similar system of *beliefs* on how the economic system works and about social justice [Stiglitz, 2016, p. 45]. This also includes similarities in the rates of inflation and unemployment, acceptance of wage cuts, exchange rate, taxation, labour standards, social services, environment-related regulation and even the energy mix.

Unemployment in the EU, France, Germany and Britain (2006–2018) is another concerning issue. The gap in unemployment rates between Germany and France is wide and worrying, especially since the post 2008 crisis. Just as was the case with industrial production, Britain outside the eurozone, performs significantly better than France even in the unemployment indicator. Was or is the eurozone a stumbling block for the French economic policy and prosperity?

If a eurozone country is shut out of an open capital market or if the loan terms are prohibitive (as was the case with Greece), the country is destined to have a permanent slump. It is forced to make painful reforms and it may encounter the temptation to re-

social crisis of 2008” [White M. The collapse was a social crisis — and unlike the economic crisis, it has never stopped. *The Guardian*. 14 September 2018].

introduce its national currency. This currency may be devalued and printed 'freely'. The problem is that while the introduction of the common currency, the euro, was orderly (it was introduced on the basis of a detailed plan, timetable and fixed exchange rate), the reverse operation would not be orderly. It would be noisy, nasty and involve anger and panic. The cost would be enormous and hard to estimate. These costs would include a run on the banks to avoid forced conversion into a new and weak currency, as well as the logistical nightmare regarding conversion of contracts, bonds, deposits, mortgages and wages. Even though the exiting country could have its own (devalued)⁶¹ currency, it would still face payments of foreign loans in euros. Benefits that may come from the breaking of a monetary union (or leaving it) may be volatile⁶². A country may devalue and increase exports, in particular if it has low import dependence (inputs) of its exports. Nonetheless, even if the cost of the eurozone breakup is colossal, this will not in itself prevent it from happening. The peaceful and orderly Czechoslovak dissolution may provide an inspiration⁶³. If there is a social group that may gain something from such chaos, those are mostly lawyers.

The root cause of weak competitiveness of national goods and services on international markets has most often been low productivity, lack of innovation, rigid wages and a meagre flow of labour from low to higher productivity industries. Devaluation may help a country only temporarily, but it does not eliminate the root causes of low competitiveness. Hence, the potential benefit of the breaking up of a currency union (in the EU) or an exit from it may be rather slim in the longer term unless the competitiveness and productivity issues are addressed sufficiently.

Generally speaking, austerity policies in certain eurozone countries were not offset by expansionary policies in others. Hence, harsh austerity worsened the debt/GDP ratio and increased unemployment in the eurozone. Germany and the Netherlands have current account surpluses, but many of these may be accumulated unserviceable claims. Would these two countries be better off without such export surpluses? Incredibly harsh austerity packages and painful bailouts will be the rule of the game in the eurozone for many years to come. Strange and unsavoury politicians and movements are mushrooming in countries subjected to the draconian eurozone austerity measures. The reason this is taking place is that the EU elite and respectable politicians, refuse to admit that the imposed austerity measures are a tragic failure. The eurozone has turned out to be a dismal marriage. Would a painful divorce be preferable to agonising eurozone matrimony? A German proverb says: "Better a horrible end, than horror without end"⁶⁴.

The EU elite is either blind or deaf to sense the trouble in which the eurozone is. Silos mentality (one-size-fits-all policy) prevails in Brussels and Frankfurt while the people are stripped of money and democracy, hence the backlash in the form of public protests⁶⁵. The

⁶¹ Devaluation will be inevitable as nobody will want the new currency, especially not at a high rate of exchange.

⁶² Slovenia is an example of a country that broke up from the dysfunctional Yugoslavia and successfully went it alone in 1991. Nonetheless, it joined the EU in 2004 and the eurozone in 2007. A larger group is still attractive in certain cases. However, would it be also the case now for Norway and Switzerland?

⁶³ Slovakia is in the eurozone, while the Czech Republic is not. Having in mind the Slovak experience, the Czechs are not excessively enthusiastic about joining the eurozone.

⁶⁴ „Lieber ein Ende mit Schrecken, als ein Schrecken ohne Ende“.

⁶⁵ Real problems are: feeble growth, austerity, increasing poverty, lack of hope for the improvements in the situation, immigration, terrorism, to name just a few. Brexit was a handy scapegoat to turn attention away from those problems to which the patrician elite has no or no good answers or policies.

gilets jaunes did not emerge from trade unions or political parties. They emerged from the disenfranchised and deplorable part of the population that has no money. What remains to the people are yellow vests-type of movements and nationalism which may destroy the current euro and even the EU from within. Divided societies have a lot of hardship to operate properly. Errors by the patrician elite are not admitted, while troubled vanity project is continued. Germany prospers, while most of the others are impoverished of funds and hopes. This is especially obvious at the EU's southern periphery.

The eurozone operation and crisis triggered a massive transfer of macroeconomic policymaking authority away from national governments. More dangerously, it shifted policymaking towards institutions that are not enshrined in and controlled by the Treaty of Lisbon. This just contributed to the hostile sentiment in the general public towards the running of the EU by a remote elite that does not consider much democracy and the opinion and needs of the people.

The EU elite mind-set is entrenched in post-nationalism and post-Cold War view of the world. The central points of this new attitude are globalisation and liberal internationalism. National interests do not feature high. With such mentality, the EU is incapable of reform just as was the approach by the former Soviet Union. For over a decade the EU countries do not seem to agree on much of anything of substance.

Technocrats in the European Commission and their mentors lost both political, moral and professional respect regarding the eurozone in general and eurozone countries such as Greece or Italy. Whatever they forced as solutions went wrong. Italy did not have (almost) any real economic growth for a generation (since the introduction of the euro in 1999). Something new needs to be done.

The benefits of the eurozone, at least in the south, are controversial and in doubt. However, strong popular resistance to the replacement of the euro by national currencies is not obvious in that affected region. Many Greeks, Italians or Spaniards profited from low rates of interests during the eurozone "happy hours" (2000–2007). They acquired assets such as real estate and savings. They would not vote to get a new national currency which would devalue their assets by a half. The young, especially, unemployed have no such qualms. They could benefit from a fall in the prices of houses. If the eurozone continues unreformed, the EU (bar Germany) would be destined to have low growth, high unemployment and division between those that have and those that are different.

The breakup of the eurozone would normally provoke a huge devaluation (especially at the eurozone periphery), prices would drop for say Italian Fiats and Spanish Seats and the single EU market would be in jeopardy. Germany (or other country) would introduce customs posts to control the imports of cheap Fiats and Seats, so what would remain of the EU? Apparently, European disintegration may be more difficult than European integration.

The new German eurozone template (strict rules and punishments) for the operation of the EU may provoke perpetual austerity (devaluation is impossible) and no growth, when growth actually may be the best way to remedy the situation. How does this square with other countries' visions of the EU? Spain or Greece or Italy, for instance, not to mention the views of many others? The austerity rules may easily provoke violence and extremism as one country imposes its rules on others. Suspicions are running high — the thrifty northern Protestants vs. the prodigal southern Catholics and the Orthodox; Britain vs. the Continent; everyone vs. the Germans. It is amazing how more than half a century

of European integration has not managed to dissipate deep-seated mistrust and cultural conflicts. [Jovanović, 2012, p. 77] wrote:

“During the Great Depression, Heinrich Brüning, the German Chancellor (1930–32), thought that a strong currency and a balanced budget were the ways out of crisis. Cruel austerity measures such as cuts in wages, pensions and social benefits followed. Over the years crises deepened. This led to what the reader of this article knows. Once the financial and the existential storm is over and the new EU architecture is in place based on the tough German template, a number of EU countries may not like or enjoy the EU that they live in. Many of them may find themselves in the slow-lane of European integration. The EU will not be the same again. It is turning into a multi-speed and multi-directional EU”.

12. Cryptocurrencies

Alternative currencies such as bitcoin appeared as new competitors to the fiat currencies. Still, there are controversies regarding bitcoins and similar options. A currency should be a unit of account, medium of exchange and a store of value. If the price of any asset changes about 10 % or more a day, is it a currency? So,

“anything that is so volatile cannot be a satisfactory unit of account. It is itself stable so you can't measure other values against it. It can be a medium of exchange but you would have to fix the transaction price instantly, and in any case the capacity of even an established cryptocurrency to handle a mass of transactions is limited. As for store of value, well, it clearly isn't”⁶⁶.

Such speculative cryptocurrencies are ideal assets to money launderers, criminals and terrorists.

The supply of bitcoins is limited. A growing economy needs more money. As there is no central bank to step in during inevitable crisis, bitcoins would create an unattractive deflation. In addition,

“although Bitcoin is perceived as the currency of the future, it is in fact, like gold, a currency of the past. The contrast with modern money is striking. Modern money is also called ‘fiat money’ because it is made from nothing. Of course, the production of paper money costs a lot, but we use less and less of it. Instead we use more and more electronic money by making payments with debit and credit cards. Electronic money is produced with minimal use of scarce resources. As the cost of communication continues to decrease, the use of electronic money will become even cheaper in terms of resources needed to produce it. In this sense electronic money, not Bitcoin, is the money of the future. There is indeed a potential problem with fiat money. Because its production is so cheap, there is the danger that too much of it is produced. That then leads to inflation. However, since the 1990s, many central banks have followed a policy of strict inflation targeting. And that has proved very successful. It has ensured that annual inflation has remained close to 2 percent in the last 30 years in most industrialized countries. In the US, for example, average yearly inflation was 2.35 % from 1990 to 2017”⁶⁷.

As long as the “independent” central banks are under political or industry pressure, or even worse, privatised by private banks, the public needs to worry that private business interests would take primacy over interest of the general public and taxpayers.

⁶⁶ McRae H. Cryptocurrencies are about to become worthless — and this is what will happen when they crash. *The Independent*. 21 November 2018.

⁶⁷ Grauwe P.de. Bitcoin is not the currency of the future. *Social Europe*. 11 January 2018.

A banker or a financial consultant may take you for a ride by saying says: “This paper or this cryptocurrency is a superb investment for you, but it is too complicated for you to understand (and me to explain). Just give me your money and be delighted about splendid investment you made”. There is golden advice to the potential investors in various (toxic) “financial papers” or electronic transactions: “If you do not understand it, do not buy it”.

13. Where to Go from Here? To Gold?

Collapses of the international monetary system take place almost every thirty years. We are limping towards the end of the useful life of the current one. One is witnessing volatility, confusion and suboptimal performance of the economy since 2007. The financial structure that existed prior to 2007 is over, but the new system is not yet in place. The new systemic collapse is approaching. “The United States is not getting the growth it needs to pay the debt. Derivatives are piling up, the banks control Washington, and the financial system is falling. Gold is the only sensible insurance in this state of affairs” [Rickards, 2016, p. 70]. No matter its flaws, money based on gold would restore financial and monetary order. This may not happen very fast, as those that have political levers, i.e. politicians that have the money printing press and that are controlled by private bankers, would not give up. Gold would not let them opportunity to manipulate as they do with the fiat-money alchemy⁶⁸. In any case, the new currency may likely be something tangible, exchangeable and permanent, not fiat money that may soon have the value of the confetti.

Let us refer to the Constitution of the US and its Section 10 — “Powers prohibited of States” which reads (emphasis MJ):

“No State shall enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; pass any Bill of Attainder, ex post facto Law, or Law impairing the Obligation of Contracts, or grant any Title of Nobility”.

Hence, the recognition of value and importance of precious metals as the only legal tenders in the US. The only real money is gold (and silver), the rest is just credit. If a national legal tender becomes accepted as an international currency, then it is used in international trade and finance in a much wider area than is the reach of its original central bank.

Bitcoin and gold have, however, a few similarities. Both exist in rather limited quantities; neither generates any revenue; and both are searched by investors that worry about the depreciating value of the dollar, euro or other fiat currencies.

Some argue against the use of gold as a currency. Their strong arguments include the following ones: (a) investment in gold is old fashioned; (b) gold does not bring interest; (c) gold has a deflationary bias; (d) there are important storage and transportation costs.

Those advocates are the ones that have faith in the fiat money and related financial manipulations⁶⁹. Counter arguments include that:

⁶⁸ Fiat money and various financial/banking innovations (toxic documents for massive economic destruction) permit Ponzi schemes and various “bubbles”. The bubble burst when there are no new buyers of the offered asset, i.e. when the last guest arrives at the birthday party to find out that all the cakes have already been eaten.

⁶⁹ “Markets are manipulated by special interests. For instance, JPMorgan Chase set aside \$1 billion on legal reserves in 2014 because of possible hefty penalties over allegations that it manipulated the foreign

- the gold standard system is simple, direct and understandable to all (the eurozone rules are not only complicated, but also they are applied in an arbitrary way);
- gold protects value in the long term as it is rare, divisible (without any loss in value) and durable;
- gold does not rust;
- gold is trusted, especially during crisis and in the long term;
- gold cannot be stolen by hackers;
- once central bankers are deprived from their unlimited fiat money printing authority, manipulations with fiat money shall be replaced by the use of intellectual and other resources towards innovations in technology⁷⁰, production and better management, towards productivity that creates real, not paper wealth which ultimately creates disorder and chaos for the 99 % of the society.

With hard money (gold) in place, corporations will have to compete and compete hard with their products and services, not with their influence on those that have the button in the money-printing press. With fiat money, governments and lobbies may go into war (the US is constantly in wars since 2001) in a much simpler way than would be the case with hard money. Easy money permits wars for which future taxpayers would foot the bill for generations. With hard money, governments would go to war when it is really necessary.

Men in the street normally have a poor idea about the role and operations of central banks. This is compounded by Delphic speeches by central bankers such as Alan Greenspan. Few could understand his ambiguous speeches about the fiat-money related financial alchemy. Gold is different. It is timeless, tangible and the same everywhere (which is not the case with, for instance, iron ore or crude oil). While gold has its eternal intrinsic value, i.e. melt value, fiat money is a currency without its intrinsic value. It is created from thin air. The value of fiat money is either established by the government regulation or by the agreement of the parties that use it. The gold standard would turn (central) banking from monetary manipulations into what it needs to be: boring.

If gold is a “barbarous relict” and old fashioned, then there is one “killer question” for the proponents of such ideas. If gold is of marginal importance or irrelevant, why don’t you sell all your gold to the Chinese, Indians, Arabs, Russians, Kazakhs, Turks or Hungarians? Many of them, especially the Chinese and others in Asia, would be delighted to pay for it in fiat money (to move away from dollars and euros). In addition, why is almost the entire US gold hoard located on military bases (Fort Knox⁷¹ in Kentucky and West Point

exchange market” [Braithwaite T., Hall C. JPMorgan sets aside \$1bn to cover cost of penalties for market manipulation. *Financial Times*, 15 October 2014].

“Furthermore, the Swiss UBS paid \$1.5 billion to the American, British and Swiss regulators as a fine for the manipulation of interbank lending rates” [Masters B., Binham C., Burgis T. UBS pays price for epic scandal. *Financial Times*, 20 December 2012].

“Or Standard Chartered set aside \$900 million in 2019 to cover potential fines in the US and Britain” [Weinland D., White E. Standard Chartered sets aside \$900m for fines in US and UK. *Financial Times*, 21 February 2019].

⁷⁰ Rather than being employed by the banks to create and manipulate models there on how to ‘steal’ money from others, the best talents from mathematics, physics or management would be employed in the real economy to create there, for instance, new and more efficient energy systems (batteries, solar panels, reduction in CO₂ emissions...), improved management of transport and the like.

⁷¹ Fort Knox, constructed in 1937, was to hold the gold confiscated from the US citizens from 1933 [Rickards, 2012, p. 72].

in New York) rather than in civilian bank vaults [Rickards, 2012, p.34]? China, Russia, India⁷² and others are constantly adding to their gold stocks. These countries in the East are preparing not only for the post-euro, but also for the post-dollar financial world. The further East one goes from the US, the more there is demand for gold. When there is a currency crash, those that have gold have the best life-saving financial boats.

If the value and/or the future of a fiat money, especially international one, is in question, then both borrowers, lenders and savers alike normally chose to avoid such a currency. If the crisis is looming, then the risk-averse holders of such a currency would prefer to get rid of it.

There is also a fundamental difference in attitude towards gold between investors in Asia and the ones in the West. While the western investors use their dollars to buy gold in order to resell it when the price of gold increases (they get back more of their dollars), Asian investors buy gold in order to save and to store value. They have less confidence in fiat monies.

14. Conclusions

The euro is the crown jewel in the EU integration project. No similar currency circulated throughout Europe since the times of the Roman Empire. Measured by adoption, expansion and official political support, the eurozone is a great success. However, there are other and more important measures of success. Growth (or the lack of it), transformation of the economy and democracy (Draconian 'ruling' of Greece by the Troika) are those yardsticks. At the same time, the euro is the EU's weakest link. It needs a substantial federal-type overhaul if it is to survive. Uncertainty about its future and the impact on the whole EU and beyond is paramount. There are contingency plans in the preparation for the eventual split of the EU⁷³.

The properties of a well-functioning economy are clear and well known. They are a rapid economic growth the benefits of which are shared widely in a society (solidarity) and there is low unemployment [Stiglitz, 2016, p. 5]. The results of the two decades of the operation of the eurozone are just the opposite. There are too many losers and too few winners. Is it worth continuing with such an important, but a vanity political elite-sponsored project or would it be better to dissolve it, lick wounds and try something superior?

In spite of great hopes and political support, the eurozone has been a failure⁷⁴. It failed to deliver growth and it contributed to various discords. As for the eurozone architecture,

“the euro was a system almost designed to fail. It took away governments' main adjustment mechanisms (interest and exchange rates); and, rather than creating new institutions to help countries cope with the diverse situations in which they find themselves, it imposed new

⁷² Women and temples in India are supposed to be the biggest private hoarders of approximately 22.000 tons of gold. This was collected over centuries. Demand for gold (jewelry) in India is high especially during the wedding season. As a matter of comparison, there are about 4.600 tons of gold in Fort Knox.

⁷³ Khan S. Brexit: Macron warns Europe could split after Britain leaves EU and calls for unity. *The Independent*. 5 January 2018; Rankin J. Jean-Claude Juncker: EU is facing existential crisis. *The Guardian*. 13 September 2016; K. von Hammerstein. Militärplaner halten Zerfall der EU für denkbar. *Der Spiegel*. 4 November 2017; Mason P. The Germans are making contingency plans for the collapse of Europe. Let's hope we are too. *The Guardian*. 6 November 2017; The EU existential crisis was analysed by [Sidjanski, 2018].

⁷⁴ “The euro crisis was yet another very bitter chapter in the history of the failures of financial capitalism” [Fricke, 2019, p.51].

strictures — often based on discredited economic and political theories — on deficits, debt, and even structural policies”⁷⁵.

The initial diversity among the eurozone countries, both economic, institutional and behavioural were great and unfriendly with monetary integration. One-size-fits-all eurozone policies without the supporting institutions (federal budget managed by a minister, fiscal transfers to the ones in trouble [automatic stabilisers], banking union with a common insurance of deposits, fiscal rules, common bonds, dispute resolution mechanism and political union) which economic theory and rich experience propose, had no great chances for success. Still, the EU patrician elite was apathetic to warnings by economists. If the eurozone wants to survive in the longer term those suggestions by economists need to be supplemented by the abandoning of the existing fiscal rules that choke growth and by changing ECB mandate to include economic growth and fight against unemployment (the current mandate is to keep inflation low).

It is hard to find one positive economic effect which the eurozone can provide now or in a decade to come. Some would argue that the gain may be found in the ease with which travellers may make payments; of course, only those whom have enough euros to travel (many tourists are taking only short holidays). Others would argue that the gain may be found in the simplicity in trade, while others would argue that this easing in trade is the problem itself as countries traded too much, i.e. southern EU countries imported too much because loans were cheap. Germany was the principal exporter of goods and capital and the eurozone “worked well” until the importing countries could service their debt. This could not last forever.

In spite of serious troubles the euro survived and it expanded its coverage. Still, the greatest eurozone success is that it has survived by now, although at a huge cost in terms of growth and employment in most participants. However, there is a big difference between surviving and surviving well. Inflation was low and under control, but many would change low inflation for real economic growth. There was a cost of eurozone paid by most participants (bar Germany): austerity, low or no real growth, divergence in living standards, crisis, unemployment and contempt of principles of representative democracy.

At the celebration of the 20th anniversary of the eurozone, Jean-Claude Juncker, the President of the European Commission, said:

“For 20 years, the euro has delivered prosperity and protection to our citizens. It has become a symbol of unity, sovereignty and stability, and we must ensure it continues.” Thus spoke Jean-Claude Juncker, president of the European Commission, in ‘celebration’ this week of the 20th anniversary of the adoption in synthetic form of Europe’s single currency”⁷⁶.

One may really admire his sense of humour. There were no celebrations by the general public. Anywhere, a currency needs to be organised around the economy in order to serve it, not the other way around as is currently the case with the euro. Automatic inter-country fiscal transfers are essential for the currency union to work. This federal instrument is absent in the eurozone. The eurozone as we know it is almost finished. The new one is not yet emerging. However, the next (imminent) financial crisis will be the test of make it or break it. The triggers may be various and many. One may be the failure of the

⁷⁵ Stiglitz J. Can the Euro Be Saved? *Project Syndicate*. 13 June 2018.

⁷⁶ Warner J. The dismal euro will stagger on and condemn Europe to further disaster. *The Telegraph*. 3 January 2019.

insolvent Deutsche Bank which is kept together by the scotch tape⁷⁷. Hard choices need to be made. What will come out of it is anybody's guess. Nonetheless, one thing is certain: the outcome will not be glorious.

Many believed that a common currency was unthinkable in Europe some three decades ago. It looked like a pie in the sky. Still, it happened. Many think that fiscal and political unions are impossible now. Political will and commitment (if they exist) may prove them wrong and may avoid turning Maastricht into Arnhem (air distance 127 km). No matter how the eurozone crisis ends, it will not be happy. The final message from this article is that, in spite of gloom and doom, some hesitant optimism about the future of the reformed eurozone is justified, with an emphasis on 'hesitant', however, as time passes by, these federalist hopes evaporate⁷⁸.

Economic performance of the eurozone has been a great disappointment for most of the participating countries. The euro has been overvalued for most of its member countries which hampered exports. The objective of the euro was to stimulate growth and provide certain stability, however it became a dysfunctional currency that created troubles chaos and a currency with unhappy and uncertain future. Rather than fostering growth and certain economic convergence among the participating countries, the euro "has fostered divergence among its member countries thus leading to the underperformance of the euro area and undermining its resilience to external shocks" [Bagnai, Granville, Mongeau Ospina, 2017, p. 524].

There exists a consensus about the dysfunctional structure of the eurozone. Having this diagnosis is important, but there is a discord on the way to resolve the problem: the Germans and a few thrifty others argue in favour of strict application of the existing rules, while many others such as French or Italians are in favour of relaxing those statutes.

The eurozone was supposed to serve the Europeans and to provide them with a brighter economic future. Now, the Europeans are asked to serve and save the eurozone, i. e. to accept lower wages, higher taxes and reduction in social benefits (yellow vest protestors). Is this the promising way forward for the eurozone?

Fiat currencies are not forever. The longest surviving ones and shining exceptions are the US dollar, the pound sterling and the Swiss franc. The possible dissolution of the eurozone would not be the end of the world. It would just return the EU where it was in 1992, hence one needs to prepare for the post-eurozone EU. If federal-type reforms are not belatedly implemented, it may be better to leave the eurozone and save whatever could be saved in the EU.

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⁷⁷ A rescue financial package from Qatar in February 2019 may just postpone the debacle.

⁷⁸ Applying purely economic analysis and theory, [Jovanović, 1997, p.68] was strongly in favour of monetary integration in the EU; however, he was quite sceptical about its structure and actual implementation in the future as set in the Maastricht Treaty (1992). He argued in favour of the postponement of the implementation of the eurozone. The eurozone was missing from the outset other necessary federal elements for long-term operational success: automatic stabilisers, eurozone bonds, rescue funds, fiscal transfers and strong fiscal coordination. Jovanović was wrong because he *underrated* at that time the strongest political commitment and determination to implement the eurozone as it was set by politicians in Maastricht. Is Jovanović this time *overrating* EU leaders' political commitment, will and funds?

suggestions. The views expressed are my own and do not necessarily reflect the position of the institutions for which I work. I am solely responsible for all errors and mistakes.

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Медленное крушение монетарной алхимии еврозоны

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Статья посвящена рассмотрению проблем, касающихся заведомо проигрышной войны за спасение еврозоны в долгосрочной перспективе. Еврозона, главное достижение Европейского союза, теряет свой лоск и рискует утратить привлекательность в силу того, что для каждого участника перестает быть гарантией вечного процветания. Архитектура еврозоны построена на фундаменте, который готов рухнуть. Различные мероприятия, такие как количественное смягчение, не смогли ускорить экономический рост, что спасло бы от экономических проблем. Для долгосрочного будущего еврозоны необходимы глубокие реформы федерального типа. Перед политиками стоят как минимум две задачи по ее сохранению: во-первых, смягчить бюджетную политику и изменить мандат Европейского центрального банка, чтобы добиться экономического роста и повышения занятости и снизить инфляцию; во-вторых, ввести запоздалые федеральные инструменты, такие как автоматические стабилизаторы (трансферы), налоговые и банковские объединения, систему управления дефолтом, простые облигации и механизмы урегулирования споров. Это серьезная цель, достижению которой мешают политические барьеры. В случае распада еврозоны конец света не наступит — Евросоюз вернется на этап развития 1992 г. Необходимо подготовить Европу к периоду постеврозоны.

Ключевые слова: еврозона, денежная интеграция, оптимальная валютная зона, количественное смягчение, эффект Кантильона, Тройка, золото, распад.

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