Neither security nor sovereignty

Luiz Carlos Bresser-Pereira
Folha de S. Paulo, December 5, 2011

While the prospect increases of a collapse of the euro, given Germany's insensitivity in transforming the euro into a national European currency, the United States and Great Britain, which were the champions of deregulation and neoliberal financerization, are in a more comfortable situation, because they kept their national currency, and, faced with the crisis, they were able to doubly exercise their monetary sovereignty: by devaluating both the dollar and the pound, and by issuing money to increase monetary liquidity and thus to keep low the interests on public debt. Either the European Central Bank follows the same path, bail out its member countries, and puts a stop to the financial crisis, or the euro will go into collapse, and the only question will be to know whether it will have an organized or a chaotic end, and whether this end will result from the countries' perception that they do not need a foreign currency, or from the panic produced by a financial shock.

The cause of the 2008 crisis and of the rich countries's long recession was the deregulation of the financial markets, the explosive increase in the private debt, and bank bankruptcy. It was, in other words, the neoliberal belief, “scientifically” justified by the neoclassical orthodoxy, that the markets are self-regulated. But the Europeans have been twice the victims of this orthodoxy, because the Maastricht treaty that created the euro was governed by an absurd assumption: that the private sector would always be balanced, because it is coordinated by the market, and for this reason the only concern should be about the public sector.

Should this orthodox principle, known as the “Lawson doctrine” (finance minister of the Thatcher administration), be a mere idle theory, it would pose no problem, but it was central to the definition of the euro. In the treaty that created the euro, the European leaders established a parameter for the politicians, by limiting the public deficit to 3% and the public debt to 60% of GDP, but they did not think of establishing a limit for private indebtedness and for the whole country's indebtedness, that is, for the current account deficit.

Why haven't they also established a limit of 3% of GDP for this deficit? It would be a second limit, perfectly consistent with the public deficit's limit. Had it been established, the alarm concerning the countries currently in crisis would have sounded much earlier, and the crisis could have been avoided. After all, the euro crisis was not originally a fiscal crisis (which only materialized due to the need to bail out the banks), but a private indebtedness crisis.

Now this same orthodoxy refuses to listen to the angry outcry of people in crisis. It says that to bail out the countries implies to promote fiscal irresponsibility. This is a view that underestimates people's intelligence. After all, what sense does it make for big countries that have fought so much for their national autonomy to have a currency that is not theirs? A currency their citizens cannot use to face the financial crisis? At this moment they must be thinking something that was unthinkable not long ago. They must be evaluating the alternative of leaving the euro. A withdrawal that will be traumatic even if it is planned. But it is probably better than continuing to have as “theirs” a currency that is foreign and does not guarantee the country's security and sovereignty.