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The odd fiscal 'implicit bargain' in the Eurozone. A continental view of sovereignty: List, Chartalism, and Keynes' international economics

Ignacio Ramirez Cisneros

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The odd fiscal 'implicit bargain' in the Eurozone, a continental view of sovereignty: List, Chartalism and Keynes' international economics

Ramirez Cisneros, Ignacio*

Abstract: At present, the European customs and currency union finds itself in a transitional period. Without a path forward toward greater political unity, it has prematurely bound constituents by 'hard law' fiscal limitations (the Maastricht criteria, Stability and Growth pact, Fiscal Compact) not dissimilar to those applying to provinces, states, or Laender. In other words, it is caught in an odd 'implicit bargain' (Goodhart) where members are expected to abide by de jure fiscal constraints with no central authority having the fiscal capabilities for stabilization, redistribution, and state-building (Arrighi) expenditures --all of which are indispensable in modern credit economies. The present paper makes use of European economic traditions reliant on statecraft to revisit the region's integration under the leitmotiv of economic sovereignty as a *continental* project. Specifically, we look at the work of List, Keynes, and the Chartalists. The work of F. List sets European economic unification in its historic place as a strategy founded in large part on exploiting economies of scale (demand and supply-side) by political and economic aggregation of smaller non-self sustaining economies into one market. This proposal for a new *Continental System* sought to lay the foundation for 'catching-up' or *emulation* of world economic leaders. Keynes's international economics serves as the most useful orienting blueprint to begin to address the particularity of economic unification among sovereigns absent political unity. Chartalist insights into the political nature of central banks are of great value, and can help frame the European Central Bank's often clumsy attempts to hold together the Union within a broader scope. Despite its differential treatment of members thus far, the ECB could become a centerpiece institution in the consolidation of Europe as a self-sustaining pole of international effective demand. The overriding thematic principle encompassing the different authors (and traditions) discussed is that of European economic sovereignty in a region continuously struggling to balance political independence with economic co-dependence, and possibly unity.

Keywords: sovereignty, eurozone, sovereign-constituent fiscal implicit bargain, continental political economy, international macroeconomic viability
JEL classifications: B52, F15, E12, F45, B15

*Visiting Assistant Professor in Economics at Rhode Island College, irv22@mail.umkc.edu; igramirez@gmail.com; iramirezcisneros@ric.edu

'In the union of the three kingdoms of Great Britain and Ireland the world witnesses a great and irrefragable example of the immeasurable efficacy of free trade between united nations.'

Friedrich List [1841] 1885.

'...it would be ruinous to have thirty or forty entirely independent economic and currency unions. Therefore I would encourage customs unions and customs preferences covering groups of political and geographical units, and also currency unions...'

JMK [1941] 1980.

I. Introduction

At present, the European customs and currency union finds itself in a transitional period. Still without a path forward toward greater political unity, it has prematurely bound constituents by 'hard law' fiscal limitations (the Maastricht criteria, Stability and Growth pact, Fiscal Compact) not dissimilar to those applying to provinces, states, or Laender. However, in the words of one of the Eurozone's (EZ) prescient critics, 'the (implicit) bargain in most federal countries is that the constituent states abide by fiscal rules, while the central federal government provides the main redistribution and stabilization functions (Goodhart 2007,145).' In the EZ today, this foundational *implicit bargain* described by Goodhart is only met halfway. With an EU budget at less than 1% of 2019 GDP, it is by design completely inadequate to perform the key fiscal requirements needed by a conglomerate of monetary production economies of the size and complexity of those adopting the common currency. Large expenditures as a percentage of total region-wide GDP are not only needed for financial stabilization, and social stabilization (redistribution), but also for structural capital investments --i.e., state-building investments (Arrighi 1994). Thus, peripheral constituents, as well as larger members with trade deficits, are expected to abide by stringent fiscal limitations that render them prone to financial and societal chaos[1].

As foreseen, the lack of a central government (Big Government[2] [Minsky 2008]) in the EZ has thus implied sovereigns have had to continue performing the cited fiscal

[1] In the words of Minsky (1993, 14) 'the successful operation of market economies requires positive intervention.'

[2] Minsky, discussing the resilience of the US economy since WWII stated '[i]f I were to cite the most important reason for the success in avoiding a deep depression… I would select the deficits induced by big government.' (Minsky 1979, 27). Elsewhere, Minsky (1993, 8) stated '[b]ig governments, either automatically or as the result of discretionary policies, were able to run stabilizing deficits which serve to contain downside instability of aggregate profits and aggregate demand.'

functions within their boundaries of jurisdiction, though greatly handicapped by ideological (austerity) fundamentalists at the helm of crisis management institutions in the region. Hence, paradoxically, those called to enact the 'main redistribution and stabilization functions' are strong armed into 'abiding by fiscal rules', hampering the very viability of the currency union. As a result, EZ sovereigns cannot exploit all the tools and policies learned by the over 80 years of macroeconomic management. In other words, they are unable to exploit their 'big government' prerogatives to the degree modern credit economies inevitably require[3]. That is, they are inhibited from countercyclical policies aimed at countering instability of profits and aggregate demand, and likewise handicapped in creating and bolstering new markets as potential future outlets for private sector investments (i.e., state-building). Consequently, real adjustments to demand shocks have taken the place of fiscal and monetary buffers in the wealthiest region of the world, with arguably the most productive industrial sector, taking back economic policy to pre-Keynesian times.

Making use of fiscal expenditures to stabilize incomes and in turn the financial sector (in the last instance, income streams either validate, *or not*, financial liabilities at large), as well as to combat the intrinsic deficiencies of modern market economies (unemployment and inequality [Keynes 1936]), is *not* a policy *option*. Rather, fiscal expenditures are a compulsory, nay foundational requirement in all modern credit and market economies. Credit economies implode or in the best of cases, deflate slowly, in the absence of oriented fiscal expenditures. The inability to use over 80 years of accumulated knowledge in macroeconomic stabilization and growth policies has thus led to recurring sovereign debt crisis and budget conflicts in the region, while eroding the very belief that a true and fully developed implicit bargain may be possible within the customs and currency union of increasingly contrasting economic fate for its members.

Our discussion of the limits and possibilities of sovereignty within the EZ starts with a determination of the relationship between economic viability and sovereignty focusing on the application of macroeconomic policy as a determinant of the relationship. Section III looks to the work of Friedrich List to historically frame the discussion of increasing regional integration. List's work centered on the strategic unification of Western Europe as an economic bloc to counter encroachment by foreign free-trade interests (i.e., reestablishing a *Continental System*). These foreign interests with the help of local allies (agricultural interests, middle classes of big towns, leaders of port cities) sought to control the continental market for high value added goods (manufactures) to the detriment of Britain's competitors. Section IV evaluates chartalist theory's crucial

[3] Before macromanagement was officially practiced as such, statecraft involved many macroeconomic responsibilities: stabilization of the currency, managing the nation's budget under a gold standard, financing large public investment projects (such as railroad construction), attracting foreign capital, and looking after the balance of payments (Von Laue 1963, 8).

insights into the historical *ancillary* role monetary authorities have vis-a-vis the central government, making them at their core political institutions. As part of this ancillary role, we examine the central bank's management of public debt as its essential purpose of existence. Sovereigns cannot perform stabilization and redistribution policies as well as state-building expenditures (Arrighi 1994), all of which form the backbone of economic sovereignty as such, without a designated market maker for its debentures. Section V looks at the role the ECB has played in trying to keep the currency union afloat by acting as a continental liquidity provider despite its absurd self-imposed restrictions set in place in alleged compliance with the prohibition to directly fund constituents. Section VI stresses the importance of demand-side economies of scale that emerge from continental unity; for example having the prerogative to choose its strategy for crisis management --EU authorities involved the IMF, though not out of need for foreign exchange reserves[4]--, as well as access to funding for crucial state-building investments. All state-building investments are long-gestation projects, in minskian parlance, Ponzi in nature, and can easily overwhelm the financial capabilities of even the strongest European sovereign. In section VII, Keynes's international economics is revisited as an orienting blueprint for how the European customs and currency union can address the particularity of economic unification among sovereigns absent political unity, also pointing out its main limitations.

II. Sovereignty and economic viability, a starting point

A useful starting point to our discussion of economic sovereignty comes from Mitchell's critical diagnosis of the EZ (2015). In describing the Mitterand government's reversal of his predecessor's (Giscard d'Estaing) monetarist policy, Mitchell states (2015, 81), '[Mitterand's] government set about doing what a sovereign government should do: use fiscal and monetary policy to expand employment, reduce unemployment, and expand the social wage.' If in fact these aspects ultimately determine whether or not a government is economically sovereign, it would seem that it is rather the general historical trend toward renouncing state authority over the increasingly disembedded economy that has largely defined the policies of the Post-Bretton Woods international financial system (Harvey 2007, Naomi Klein 2008, Rodrik 2018), engulfing a majority of countries worldwide to differing degrees, rather than EZ membership itself causing the

[4] The IMF's Independent Evaluation Office report on the EZ crisis (Takagi 2016) clearly states how Spain and Italy refused to adopt an IMF crisis management package in early 2012 though encouraged to do so by EU authorities. Both countries' sovereign debt was under severe stress. Their refusal called the ECB into action to calm markets.

difficulties for troubled constituents[5]. Naturally, to the extent that the design of the customs and currency union embodied this larger global trend, it indeed has played a role in undermining economic sovereignty, especially for (trade-) deficit members. Nevertheless, at present, in perhaps a unique case of hegelian 'cunning of reason', the fragile common destiny still binding EZ members together may also provide the economic underpinning for a regional/continental policy framework. Not unlike other regions, such as North America and the Far East, most European trade takes place within the region itself. To continue to deflate their main export market (other european countries), in a world of renewed nationalist/protectionist trends, is patently at odds with both labor and business interests.

Nationalist or statist political economy and consequently the use of macroeconomics as a tool for populist politics has seen a rebirth in view of the catastrophic failures of private-sector self-governance and self-regulation (Fazi and Mitchell 2018). To this effect, ironically, the faulty design of the currency union, the product of ideals from a past (hegemonic) way of thought that belittled the role of the state, erected a powerful regional central bank that can be exploited under the aegis of a new international economic environment --that of state-centered economic populism (see part V). Furthermore, we may add, state leadership, i.e., 'socialization of investment', and state-building capital investments are required to meet the international challenges to sovereignty in a world of continuous dispute over hegemony (Arrighi 1994, 1999), of which Europe is, for better or worse, often at the center of[6]. Hence to continue exercising a deflationary administration for the currency union flies in the face of its citizenry's economic interests.

Hence, the main issue hovering over Europe becomes once more how to deal with increasing continental economic unity while respecting national sovereignty. Attempting to resolve this complex *longue-duree* issue is naturally made worse by the austerity fundamentalists expounding, knowingly or not, rentier interests. It is the unresolved nature of how economic unity will take shape that is eroding the gamut of possibilities available to European constituents; viz., it is the lack of a proper solution to its transitional 'implicit bargain' that is leading to equivocal policy and actions in the midst of members' contrasting economic destinies. The disastrous results from said policy were made clear in the differing approaches by the Troika to the solvency crisis suffered in Italy and Spain, on the one hand, and Greece, on the other, according to an IMF internal assessment (Takagi 2016). The former refused an IMF loan program and were

[5] Mitchell and Fazi (2017) would also appear to agree that the aggressive curtailment of political-economic sovereignty under the EZ framework is in fact a reflection of the cited more general economic policy under the undisputed leadership of the US after the collapse of the Soviet Union.

[6] The disputes over the 5G network, european shares in the financing of NATO, and the protests over the construction of Nordstream 2 pipeline are just a few examples. See also Heiko Mass (2018).

supported via LTROs beginning in late 2011 to quash bond market incredulity of their state finances, yet Greece was given no choice (Takagi 2016).

Hence, the issue of sovereignty becomes the crucial aspect in the assessment of economic viability, be it for a nation-state or a regional grouping. A nation unable to enact countercyclical fiscal policy, redistribution expenditures, and structural market building is hardly financially sovereign, and fails at promoting social mobility and high levels of employment. In this sense, only a sovereign state can have a viable self-sustaining macroeconomy and vice-versa, macroeconomics is only fully implemented insofar as a state is sovereign. The work of List, that of the modern day Chartalists, and the international economics of Keynes developed at the end of his life, when Britain had lost its empire and was forced to rely more heavily on its domestic market, all point toward taming market forces for the purposes of making economics a socially viable endeavor. The work of these European state-centered economists form a theoretical foundation for a properly continental european view of the region's internal struggles in balancing constituents' political independence with their economic co-dependence and unity.

III. List and the continental tradition of political economy

The master of continental political economy warned almost two hundred years ago that '[a]ll examples which history can show are those in which the political union has led the way, and the commercial union has followed' (List 2017, 58)[7]. Certainly, the validity of List's premonition rings prophetic in view of the vast economic difficulties the experimental and somewhat idealistic --utopian, even-- European currency union has experienced as a result of the financial crisis at the end of the first decade of the century. However, List's foreboding was not without a dash of historical irony. List was the leading theoretical advocate of the German Zollverein, a customs and currency union established before the German Empire secured the political unity of the territories. In a way, List's life's work refuted his quoted historical axiom.

List understood there were valid motives in which pushing forward to join a commercial/currency union[8], despite a lagging political union, made economic sense. Their exposition form one of the underlying threads of List's proposal for a new though territorially reduced pos-napoleonic Continental System. These motives were 1) that the

[7] Immediately before the cited passage, List states 'Among the provinces and states which are already politically united, there exists a state of perpetual peace; from this political union originates their commercial union…' (2017, 85)
[8] The Zollverein had two currencies; the Prussian currency and the Bavarian currency.

(european) home market is invariably more important than foreign markets in regards to strategies of catching up (*emulation*) to the leading economic powers, and must be secured as such; and that 2) both a large population and extensive territory endowed with plenty of natural resources are requirements for a nation to survive in the context of (imperial) free market policies[9]. Hence, in light of the overwhelming economic strength of the dominant Imperial power of the time, Great Britain, smaller nations would need to adhere to unions if they were to move beyond mere agricultural societies and consequently overcome their state of economic dependency. 'Only through alliances with more powerful nations, by partly sacrificing the advantages of nationality, and by excessive energy, can it [a small nation] maintain with difficulty its independence' (List 2017, 75-76). Though List believed the nation (viz., affinities in culture, history, and language) was the ultimate binding element in full political and economic unions, circumstances might drive nations mired down in economic dependency toward the formation of unions, notwithstanding the lack of national unity[10].

In contradistinction to List's continentalist economic thought, today foreign traditions in political economy, emphasizing further reductions in aggregate demand to counter external imbalances or demand shocks, are hardly benefitting European unity. These foreign yet hegemonic paradigms (ideologies), viz., the neoclassical canon (Reinert 2008), encourage further entrenchment of industrial incumbents such as Germany into neo-mercantilism (Bibow 2017, 2018) disguised as free trade --using the elimination of tariffs and exchange rates to further strengthen its dominant trading status. By limiting the fiscal powers at the disposal of sovereigns, internal markets are not harnessed to their full potential, strengthening dependence on extra-EU exports irrespective of the consequences to economic partners. The work of Friedrich List, on the other hand, represents a European tradition in political economy in support of nation and market building to counter aggressive free-market interests[11]. These interests tend to prescribe policies to competitors of the dominant nation that maintain them beholden to export-led models of development, rather than promoting their own domestic market.

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[9] List (2017, 76) defines 'free trade' as 'the exportation of agricultural products and the importation of manufactured goods.' According to List, *only* agricultural nations still close to subsistence can benefit from free trade, in addition to the free trade imperial power itself. Today it may be better to think of free trade as the interests pushing for the enforcement of trade-related intellectual property rights, open capital accounts, investor-state dispute settlement procedures favorable to foreign investors, and the harmonization of regulatory standards, skewing the until recently growing international economic integration toward powerful special interests (Rodrik 2018). Convergence is near impossible under these conditions.

[10] There emerges a dialectic by which sovereignty is achieved by ceding certain national prerogatives with the intent to form a union with other countries, in order to salvage political-economic independence threatened by the imperial power --at the time, Great Britain.

[11] Free market interests tend to prescribe policy that maintain potential competitors of the dominant free-trade nation beholden to exporting to those countries with much larger domestic markets, rather than strengthening their own consumer markets.

The work of List, on the other hand, was infused by the eagerness to see continental unity as the way to achieve parity with Great Britain. Developing expanded (regional) internal markets by promoting an industrial base was the key strategy in tackling the most pressing issue of the day --recurrent agricultural surpluses[12]. Naturally, Europe's main economic concern today lies elsewhere. The European continent is at the forefront of technological know-how in many major industrial sectors. List's relevance lies in his emphasis on the strategic importance of uniting and taking full advantage of the expanded continental market. This is especially so in light of Europe's recent contempt for its economic unity and co-dependence

It was precisely this European economic tradition aimed at shielding home markets from British imperial designs that placed the continent at the forefront of industrial competencies. List's goal of creating a continental market as a *self-sustaining* world-economy (Ramirez Cisneros 2018), to use modern parlance (Wallerstein 1980), must be salvaged from the collective unconscious of european political economy[13]. A 'Self-sustaining'[14] economic region is one that can manage its macroeconomy by countering the 'intrinsic deficiencies of capitalism' (Keynes 1997), at a minimum by enacting countercyclical fiscal policy in pursuit of full employment. In doing so, the sovereign nation or region avoids the more severe forms of rentier hegemony, and consequently the imposed austerity by hardened ideologues that symptomatically act as if the chastisement of the innocent was an economic virtue (Krugman 2018).

Additionally, List's focus on internal development of productive capacity by bettering transportation ways (canals, roads, railways) is in a way an important historical antecedent of Keynesian aggregate demand management (infrastructure investment as a way to further macroeconomic objectives)[15]. Keynes's revolutionary theoretical breakthrough emerged during the decline of the British Empire. At the time, Great Britain was attempting more than ever to foster its domestic market to support the

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[12] In the middle of the XIX Century, agricultural products and all other primary products were sold at better prices to the British than in the domestic market. Therefore, as was usually the case, the landed interests represented the greatest political obstacle to the industrialization of the German Territories.

[13] In a way, by inspiring the German, the US and the Russian (via Sergei Witte) drives for industrialization and development, Friedrich List is arguably the most important political economist of the XIX Century.

[14] Self-sustainability is meant to convey the ability of sovereigns to choose the path toward recovery after an endogenously engendered financial crisis, often difficult to avoid but the consequences of which can be successfully mopped up.

[15] List in yet another way is a precursor to the theory of effective demand, specifically regarding the deflationary effect of aggregate savings. '[Adam Smith] does not consider that this theory of savings, which in the merchant's office is quite correct, if followed by a whole nation must lead to poverty, barbarism, powerlessness, and decay of national progress. Where everyone saves and economises as much as he possibly can, no motive can exist for production… the wealth of nations is to be attained in a manner different to that of the private rentier.' (List 2017, 94).

economy in the midst of the collapse of the Gold Standard and of international trade (Burk, Kathleen; Skidelsky). Furthermore, the gaining strength of the Labor Party had allowed for full employment policies to enter into respectable political dialogue. Moreover, the financial exhaustion of fighting and funding allied efforts in WWI had so severely impaired Britain's external financial standing (Burk), that its days as world economic hegemon were, correctly as it turned out, feared over, thus it could no longer shift liquidity flows with changes in bank rate. For both List and Keynes the issues of demand management and price stability to counter deflation were to be addressed chiefly via statecraft/macroeconomics. The practice of state-centered economic policy was far more desirable in achieving economic objectives than its alternative, viz., deflation and/or economic depression. Furthermore, both economists understood that the use of deflationary policies were ultimately signs of economic dependency that sacrificed new economic output to old wealth.

IV. Chartalism: sovereign money and state-building

Some years after his classic critique of the flaws of European currency unification (1998), in reflecting on the deficiencies of the 'Stability and Growth Pact', Goodhart states,

'... there has usually been an (implicit) contract between the federal and the provincial (subsidiary) layers of government. On its side the subsidiary (state) government agrees to some fairly stringent (often federally imposed) constraints on its ability to run deficits. On the other hand the federal government implicitly (or even explicitly) guarantees the debt of the lower governments, *and*, partly through automatic stabilizers and partly directly, offsets adverse asymmetric shocks affecting differing regions by a system of inter-regional fiscal transfers.'

In essence, by adhering to the fiscal pact, EZ constituents were reinforcing the subsidiarity imposed on them by currency unification. Nevertheless, oddly, the subsidiarity did not really imply subordination to a central government or federal state, as would be the case under a standard implicit bargain, but predominantly to a central bank. The traditional role between state and central bank --namely, the ancillary nature of the latter to the former-- was turned on its head. This reversal in subsidiarity reinforces the EZ's incomplete arrangement critiqued by Goodhart. The main problem with the EZ framework, according to Goodhart, was precisely the impairment of central governments' ability to perform their macroeconomic fiscal responsibilities (stabilization of incomes and redistribution), *having lost their debt management arm* --viz., their central bank.

Historically, the nation states have been able, in extremis, (whether in the course of war or other --often self-induced-- crisis), to call upon the assistance of the money-creating institutions, whether the mint via the debasement of the currency, a Treasury printing press, or the Central Bank… The Euro area will not be like that.' (Goodhart 1998, 410)

Since 'they can no longer, at a pinch, call upon the monetary authority to create money to finance their domestic national debt' (Goodhart, 1998, 410), EZ constituents would become subsidiary agents limited to hard budget constraints with the aggravating element of not having formed a federal body to fill the void. That is, no collective body had been designated to take responsibility for performing counter-cyclical, redistributive, or state-building expenditures. Arguably, few theoretical insights have been as historically validated as the foreseen problems caused by the 'divorce between the main monetary and fiscal ties' (Goodhard 1998, 410) chartalists had denounced in the lead up to currency unification.

Nonetheless, for all of its prescient value Goodhart's critique left out a crucial aspect germane to his argument. Other chartalists (Wray 1998, 2016; Bell 2001; Forstater 2003) have accentuated how states require their monetary agencies/authorities to stand by ready to support sovereign debt markets *at all times*, not just 'in extremis' or 'at a pinch', as appears to be Goodhart's view. Central banks are continually and invariably called to perform sovereign debt management as other chartalists clearly note (Wray 2015)[16], during war and peace, during bouts of deflation and inflation, during times of cyclical abnormalities and times of stability.

In fact, Goodhart recognizes elsewhere (1988, 9) central banks owe their very existence, to a degree, to the management of state debt. As modern market economies evolved into ever more complex financial systems, central banks became indispensable. The funding of state-driven market-building investments in commercial and transportation infrastructure, along with the financing of defense industries, necessitated the existence of central banks. They evolved into a vital public-private organization not only for the financing of these first-order necessities, but also crucially for smoothing credit conditions when such large amounts of capital were summoned.

Thus, not only is sovereignty defined by the capacity to enact fiscal policy conducive toward both stabilization of incomes and redistribution (fiscal transfers), as Goodhart identified, it is likewise determined by the ability to carry out state-building

[16] Wray (2015) describes the extent to which the Treasury and the Fed must collaborate to guarantee smooth credit conditions in liquidity markets as payments are made to and made by the Treasury in the course of their normal business proceedings with the non-government sector. To think that central bank independence can encroach on the cited proceeding, interrupting the due course of transactions banks intermediate and fund, shows a lack of understanding regarding how modern monetary systems work.

investments[17]. The latter not only creates wealth for private citizens –often times more so for the courtiers surrounding the seat of power than for the broader citizenry–, but also, and more importantly, it supports economic activity going forward (List 2017, Hudson 2009). The enactment of state-building investments calls for a non-profit seeking financial institution to hold and distribute sovereign debt. By doing so, states can mobilize the real resources aimed at making social provisioning possible (see section VI).

For centuries state-building expenditures involved leveraging social hoards (wheat, and later bullion as well [Hudson 2019]) to create both an elastic means of payment for retail trade, as well as larger-value promises-to-pay required for wholesale borrowing/lending . Eventually, the banks with this intended aim evolved into quasi-public[18] purpose institutions, and became the vehicle to ensure against the over-leveraging of cash hoards (precious metals and promissory notes endorsed by the major exchange houses), i.e., that economizing on cash did not lead to out-of-control elasticity of money. Setting aside their at times spotty track record –history is replete with examples where state-centered clearing banks failed in their oversight responsibilities, but also of extended periods of stability (Roberds and Velde 2016a, 2016b)– without central banks, the monetization of social hoards for the purpose of government promotion of basic infrastructure in pursuit of social provisioning would have been near impossible. For this reason, central banks have always been crucially important institutions for modern nation-states. They are tasked with continually stabilizing and supporting the macroeconomy, but also with supporting state-buidling in general --tasks well beyond the macro objectives of price stability and full employment.

The role of state-building expenditures as a crucial part of sovereign fiscal disbursements is intimately tied to the history of modern nation-states as such (Arrighi 1996), and thus is also crucial to the history of the so called *banking principle* (Keynes 1980, Kregel 2019). Nation-states owe their existence in part to their capacity to mobilize society’s resources by making their liabilities, via the central bank, both the

[17] Our use of the concept of state-building is inspired by the work of G. Arrighi (1994). According to Arrighi, ‘economic nationalism’ came about in the battle for economic supremacy between British and French mercantilism. One of the ‘ingredients’ of economic nationalism was ‘domestic economy-making’ that involved both war-making and state-making. The latter implied the build up of a state bureaucracy to promote private accumulation of wealth that in turn bolstered the strength of the state bureaucracy to better position itself in the inter-European mercantilist battle. Our concept, on the other hand, emphasizes both the macroeconomic importance of having something like a ‘capital budget’, and the benefits of infrastructure development for modern credit economies that seek to maintain their international commercial/trade relevance.

[18] Undoubtedly, the non-profit seeking nature of central banks goes a long way toward ensuring a proper oversight, notwithstanding the persistent criticism from the wider public, economists, and even the executive branch regarding its performance, power, and purpose (Todd 2012) –criticism, often times well deserved.

standard for payments in retail transactions, as well as the financial instrument par excellence in capital markets. By exploiting their currency sovereignty (Forstater 2008, Wray 2015), they can undertake projects that are not immediately pecuniarily profitable, but are nevertheless required for social reproduction. Hence, during times of stability, it was not uncommon for central banks' promises to pay to trade at above par with precious metals (Colwell 1859), in spite of their far greater elasticity of production. No other institution is better placed to apply the banking principle, i.e., to leverage social hoards, than the central government by way of its Treasury/Exchequer and its subsidiary debt management arm, the central bank[19], precisely because it is the embodiment of the social contract.

The exploitation of the banking principle renders economic discipline for sovereigns qualitatively different than for private sector agents. For a select group of states, standard solvency criteria (determining whether it is engaging in hedge, speculative or ponzi finance [Minsky 2008]) do not apply. The common restrictions on matching income flows and payment outflows that businesses and households are all beholden to, do not apply to these select sovereign governments. Rather, the shopkeeper mentality of miserly economizing, when adopted by nation-states, leads sooner rather than later to failed-state status[20]. States validate their legitimacy and authority precisely by their fulfillment of fiscal commitments that foster wealth creation and economic stability. At least one economic agent must be delinked from hard income constraints on spending so that solvency is made possible for those private entities obliged to match payment inflows and outflows, and run a surplus in the long-run (Ramirez Cisneros 2018). Naturally, this agent must be the sovereign having been invested with collective sanction as the bearer of the social contract. Furthermore, due to purposes altogether beyond the altruistic or patriotic, the decoupling of the sovereign from hard budget constraints entails the submission of short-term private oligarchic interests in order to be successful (Hudson 2019). Pushing forward state-building projects to strengthen the state involves initiatives far beyond the petty interests of high finance (Arrighi 1994) and the rentier, normally pushing for balanced budgets out of fear for its holdings of public debentures becoming non-performing.

Without a doubt, some of the weaker trading nations in the EZ have been constrained in carrying out their sovereign mandate to both manage the macroeconomy (i.e.,

[19] "The tendency of a national bank is to increase public and private credit. The former gives power to the state, for the protection of its rights and interests: and the latter facilitates and extends the operations of commerce among individuals. Industry is increased, commodities are multiplied, agriculture and manufacturers flourish: herein consists the true wealth and prosperity of a state." (Hamilton 2015, 237)
[20] "A nation consisting of such insane misers would give up the defence of the nation from fear of the expenses of war, and would only learn the truth after its property had been sacrificed to foreign extortion…" (List 2017, 94).

stabilization and redistribution) and to foster new market creation by way of state-building investments[21]. The odd implicit bargain currently in place does not allow the exploitation of the sovereign banking principle to the extent required in order to guarantee full employment and an increasing real wage, both of which require state-building investments and thus deep sovereign debt markets.

V. The need for a militant central bank

The strongly validating ECB stance called for by the acute circumstances of the euro area crisis, has only partially enabled peripheral sovereigns to fulfill their fiscal responsibilities stated above, as required in all modern complex monetary production economies. By far the majority of the ECB's Quantitative Easing (Asset Purchase Program and previous large-scale central bank purchase operations) has gone to purchasing sovereign debt. This may be mainly due to the particularities of liquidity operations and portfolio preferences of the European banking system and actors, however, it also showed that when tested, the ECB abided by its commitment to act as the ultimate monetary backstop for sovereigns. Without the financial support from a monetary entity whose solvency is virtually unassailable, creating fiscal solvency for sovereigns[22], monetary production economies cannot maintain a semblance of stability; not at the national level, and much less so at the international level (Minsky 1979, Ramirez Cisneros 2018). Central banks have provided this support throughout the ages (Colwell 1859). In fact, as stated above, it is among their primary roles.

Making use of a region-wide, in essence *continental*, central bank to support and encourage the political-economic independence of sovereigns, allowing them to avert the worst of the pre-keynesian austerity policies –at least in the cases of Italy and Spain–, is thus required to maintain national sovereignty in all constituent states. Without deference to a degree of financial sovereignty for even those constituents that pose no realistic systemic risk on account of their small size, the continuing viability of the currency union is perilously undermined. In the words of Goodhart (2007, 151), '[t]here were few, arguably no, offsetting benefits (carrots) for countries committing themselves to give up their own abilities to use fiscal policy to mitigate asymmetric shocks', and as a result, we might add, the ECB has had to compensate for this lack of stabilizing mechanisms at a level superseding the individual nation-state. Hence, though

[21] The task of economic development is a continually required undertaking. Even high-income countries must seek to upgrade infrastructure to keep up with competitors and to ensure that neither technology permanently displaces large sectors of workers, nor the country stagnates in regards to service sector absorption of those displaced.

[22] In describing the liquidity support the central bank offers banks holding treasury securities, Minsky mentioned in passing how these liquidity operations entailed an endorsement of public debt. 'The sale of Treasury securities was an assured way of acquiring cash because the Federal Reserve was committed to sustaining the money value of Treasury securities.' (1993, 5)

the ECB is providing fiscal space to sovereigns, however reduced it may be, the very continuation of the EZ warrants the primacy of economic sovereignty over central bank policy independence, as things stand today[23]. The primacy of political-economic independence over central bank independence[24] is not a novel reordering of priorities. On the contrary, important historical antecedents can be found. The agreement between the US Treasury and the Fed to fix long term rates on government securities during the WWII military buildup (Hetzel and Leach 2001) and campaign is one in a long list of examples (Wray 2014).

Even mainstream sources (Condon 2019) appear to believe the era of central bank independence has most likely come to an end for the foreseeable future. The multiple rounds of QE in support of both domestic credit markets and sovereign solvency has largely debased the belief in central bank operations' independence (Mitchell and Fazi 2017). This is one of the few positive aspects resulting from the GFC. The eroding of the periodically unassailable belief in central bank independence, which waxes and wanes with the changing global (and geopolitical) realities regarding national(-ist) objectives (Toniolo 2005, Toniolo and Borio 2006), has translated into expansions of central bank balance sheets to record levels. The trillions of dollars distributed by the ECB in liquidity support to banks and large portfolio managers, in essence, cleansing balance sheets harboring non-performing assets, is testimony to the ultimate subsidiarity of monetary authorities. The purported and until recently desirable autonomy of central banks was in reality, according to some (Posen 1993), a cipher for independence from democratic control. Thus it hid the true political nature of monetary institutions –an insight Chartalists have always understood (Wray 2014). Even for organizations functioning largely according to technical rationality[25] –as opposed to an overt political rationality–, which in itself is disputable as a proper description of 'normal' central bank policy (Goodhart 1988, Borio 2005), the crisis has once again shown that central banks are shot through with political interests[26]and thus never truly neutral. During times of duress central banks reveal their role as appendices of the

[23] To the degree it shields the monetary authority from short-term populist interests, central bank independence is naturally a valuable monetary axiom. However, the monetary authorities should not override or undermine the long term economic development goals of a sovereign in the name of price stability.

[24] Even in 'normal' times central bank's prerogative to set policy independently of elected officials' is inordinately geared toward 'price stability'. Price stability can be a cipher for acting in the interest of the rentier class (financial oligarchy) (Posen 1993). In a way, class consciousness was born out of the social strife caused by the financial oligarchy's refusal to accept debt write downs, as can be seen clearly as far back as two millennia B.C. (Hudson 2019). Debtor class consciousness has existed for millenia.

[25] Neither in its macro responsibilities of overseeing financial market stability (the promotion of price stability and full employment), nor in its micro functions of regulating credit providers and looking after the health of the payments system (Minsky 2008, Goodhart 1988, Kregel 2019) do central banks strictly function under an instrumental or technical rationality.

[26] Without a doubt, the refusal to take over banks after injecting trillions of dollars of liquidity into the banking system, reflects just how strong some of these interests were.

Exchequer/Treasury, confirming that money is largely a creature of the state, or minimally requires substantial state support to serve its purpose (Wray 2014). Only during times of peace and stability can the case be made with any legitimacy, and then mainly by the rentier class, that central banks should act primarily to combat inflationary increases in credit.

The ECB's active assistance of public sector solvency is key at this early stage of the common currency endeavor. By maintaining eligibility of sovereign debt as collateral in liquidity operations[27] even during the worst of times, as occurred only belatedly in the US fiscal and monetary union with the passing of the Glass-Steagall act of 1932 (Burgess 1946, 121), peripheral sovereigns can recover some of their lost fiscal capabilities. Even internal EU documents recognize the dangers involved in the loss of fiscal wherewithal upon joining the currency union.

'States that do not have full control over their central banks can get in a situation, as banks, in which a liquidity and maturity mismatch between their assets and liabilities occur. In such a situation a phenomenon similar to a "bank run" can happen to a State. In order to avoid such a situation a State needs a source of unlimited liquidity such as a central bank acting as lender of last resort' (Repasi 2013, 15).

Liquidity support and sovereign solvency assistance are thus basic prerequisites for a properly functioning currency union dependent upon unified capital markets (Schelkle 2018).

Until a region-wide fiscal entity emerges, or 'hard law' regulations governing members' fiscal budgets can be agreed upon that are flexible enough to allow struggling countries to enact countercyclical fiscal and credit policies, and yet impose a degree of discipline (tied to managing increasing labor costs in line with a living *family* wage), there will be little alternative to the ECB's actively political role. The more resolutely it intervenes in support of its members, the less prone they will be to speculative attacks or runs. Categorically, the greatest moral hazard is that which liberates the oligarchy from the consequences of their mismanagement of the economy. By no means would moral hazard apply to helping member states immersed in a systemic crisis.

The main institutional obstacle to ECB support for sovereigns was the limitation on the Public Sector Purchase Program (PSPP) to capital key ratios for each member of the ECB, along with the percentage restrictions on holdings both of a particular debt issue,

[27] The Glass-Steagal act of 1932 allowed banks to hold government securities as collateral for holdings of federal reserve notes –in high demand at the time due to the nationwide distrust of most banking institutions. This measure both secured the banking-system's solvency and elevated government debt in the liability pyramid placing it on equal standing with many private sector credit instruments.

and of total debt outstanding (up to 25% and 33% respectively [Claeys, Leandro and Mandra 2015]). This constraint is bewilderingly in denial of the asymmetric nature of regional demand shocks. It directly interferes with the fulfillment of the ECB's duties, and precipitated the entry of non-European agents, such as the IMF, into the crisis management process, with its known repertoire of burdensome conditionalities (Ocampo 2015). Limiting purchases of EZ member's bonds to proportionality with the capital key is not part of the statute governing the ECB. Rather, it is a decision of the ECB dating back to May, 2010 (European Central Bank 2010) and may be in violation of article 124 of the statute (European Union 2012), that allows central governments access to the ECB on the basis of prudential considerations .

As stated above, the central bank's political character reveals itself during times of severe financial duress, and therefore, its supposed independence can be seen for the illusion/utopia it really is. During financial crises, both private sector financial assets and banking sector liabilities not backed by government guarantees cease to convey value, and sovereign solvency is severely eroded. The definition of a failing sovereign is precisely one that cannot perform redistribution policies (direct taxation and targeted spending to ameliorate the conditions of the producers of value), stabilization measures of aggregate demand, and structural (state-building) investments. Hence, the central bank must support the value of otherwise illiquid sovereign debt so that capital markets do not implode at the first sign of systemic market turbulence[28] –not at all uncommon in credit and monetary production economies–, but also in accordance with its duties to the entity from which it derives its charter and legitimacy as the ultimate purveyor of liquidity and currency –i.e., the state.

VI. Unification under a continental project

In the best of cases, it is short-sighted to base a monumental endeavor aimed at unifying regional markets on cutting transactions costs. According to one of Europe's foremost proponents of continental unity, Friedrich List, for whom saving on transactions costs –internal tariffs, at the time– was nevertheless key, the purpose of a customs union was structural change and ultimately, sovereignty. As stated above, only structural change could lead to economic independence by securing regional markets as a home base for catching up industrially.

[28] See note 22. Minsky understood that capital markets largely function on the foundation of safe assets provided by the state and are thus reliant on the central bank as the purveyor of liquidity in exchange for these assets. Liquidity operations involving the central bank thus both sustain and bolster the banking system, as well as support the value of public debt. This dual role of liquidity operations is at the root of the 'doom loop' dynamic where bank risk and sovereign risk intertwine.

Ensuring sovereignty would be unthinkable without structural change designed to counter powerful free-trade interests seeking to take over markets for their own benefit. Thus, a customs and currency union ultimately serves not only to take advantage of cost reductions in both cross-border transactions and domestic interest rates, but more importantly to capitalize on economies of scale, especially on the demand-side, that could more than compensate for the loss in local domestic control of monetary policy. Exploiting the demand-side scale effects from a customs and currency single market, with largely unified capital markets, holds the potential to vastly increase economic sovereignty. Namely, by increasing the size of the European domestic market, a space for realization is carved out in which 'internal exports' (or government deficits [Kalecki 1954]) can help overcome a major contradiction of market economies –viz., that production itself rarely creates a sufficient level of demand to consume produced goods–, gradually eliminating a degree of dependency on international export markets[29]. In other words, the possibility of forging a region-wide macroeconomic and full employment[30] strategy becomes a reality.

Additionally, the large and internationally relevant nature of the ECB, covering the single largest economic union in the world, has the clout, prestige, and virtual limitless liquidity to contain a *systemic* financial crisis precisely due to the size and affluence of the market it oversees. Minsky (1979, 16) citing R. S. Sayers' classic study on central bank operations, would state '[i]t is the duty of every bank and most of all the central bank to be rich', denoting how banks' wealth was a product of their sustained contractual payment inflows from clients.[31] In other words, banks were supposed to be rich because their clients' projects were lucrative, reflecting due diligence by bank appraisers. Without a doubt, the EZ is a place where wealth creation is a reality, thus making the ECB, in minskian parlance, a very rich bank –despite not being a profit seeking institution. In essence, the wealth of the continent is the bedrock of wealth for the ECB. In addition, Minsky also stressed that central banks not only had the duty of being rich (on ledgers and financial statements), but of *acting* rich, viz., injecting large amounts of funds to backstop a systemic crisis. Hence, the ECB allowed the EU and EZ authorities the prerogative to decide the course of action it deemed best during the systemic crisis

[29] Pressuring the domestic economy to increase exports is, in a way, a sign of economic dependency. During the Gold Standard promoting exports was a requirement to bolster market confidence.

[30] As stated above, full employment policies are fundamentally a development problem to the extent one sector absorbs redundant labor force from another, i.e., the manufacturing sector absorbs hidden unemployment from the countryside, and the service sector absorbs redundant labor from the industrial sector.

[31] Minsky also believed that in normal times banks structure their balance sheet so that the flow of funds from debtors is relatively constant and low-risk. Furthermore, the axiom was used in support of the real bills doctrine, that bank credit was only minimally inflationary if and when geared toward hedge and speculative projects. An investment portfolio mainly comprising the latter projects increases the likelihood of staying rich, i.e., ensuring a reflux of funds in the bank's favor at the end of the payment period.

without *necessarily* having to submit to external actors, such as the IMF. The decision to make the IMF a part of the crisis resolution process was a political decision. It was by no means a decision stemming from a lack of funds[32].

Therefore, the ECB has shown itself capable of managing financial difficulties by administering multiple rounds of QE including targeted support for sovereigns[33]. Policy options of such magnitude, and the sheer disregard for quantitative limitations they imply, would be unimaginable even for most G-7 nations as history shows. For instance, in 1976, the UK was forced to approach the IMF for a loan to pay back its creditors after drawing heavily on a credit line arranged by the US Treasury and other official lenders under the aegis of the Bank of International Settlements (Burk and Cairncross 1992). The UK, on its own, was unable to counter a run on the pound caused by a myriad of factors including the international oil crisis, the increasing government deficit and the deteriorating external balance. At the time, their application for funds was the largest single application for an IMF loan in history. In contrast, the international standing of the euro is an order of magnitude above any national European currency. Today, the euro's global share of disclosed official currency reserves stands at over 20%, while its share of global trade payments flows accounts for almost 36%, just shy of the dollar's 40% share (European Central Bank 2018). The combined size of the economic union shields members from having to use foreign currency in either official reserves holding, or the invoicing of trade --both of which are demand-side economies of scale. This in turn makes them significantly less vulnerable to the spread of financial crisis triggered by the depletion of foreign reserves[34], at one time not an uncommon occurrence in Europe (Burk and Cairncross 1992, Mitchell 2015).

In the post-Keynesian tradition, especially in the work of Minsky, a foundational macroeconomic tenet is that market economies, in which investment decisions are made by private firms, regularly experience difficulties, at times quite severe, and will collapse in the absence of strong non-profit seeking and public purpose institutions. 'Capitalism, which is driven by profit seeking activities, is inherently evolutionary: strong institutions which sometimes bind and constrain and which other times promote and induce entrepreneurial activity are necessary if capitalism is to be a viable economic

[32] It has been known for decades that the inclusion of the IMF in financial crisis resolutions is often more about cloaking the proposals with a veil of multilateral legitimacy than for an actual need of funds.'The Fund's multilateral character enables it to make suggestions which, if coming directly from the US or other creditors, would be rejected as interference in the affairs of a sovereign state.' (Burk and Cairncross 1992).

[33] Its participation in crisis management as part of the Troika is a different story.

[34] Additionally, it effectively shields EZ members from the more aggressive manifestations of hybrid warfare such as economic sanctions, by controlling a regional financial network at their disposal for their trade and to clear payments even with trade partners falling out of favor with global superpowers.

order.' (Minsky 1993, 15). These institutions[35], part of Minksy's oft cited 'ceilings and floors', are designed to counter economic trends potentially leading to severe dislocation (boom and bust cycles), but can also promote recovery once a crisis takes hold. Minsky believed these 'binding and promoting' institutions and tools were at the root of the resiliency of the US economy and banking system –resiliency that also buttressed the rest of the capitalist world (Minsky 1979)– after WWII and came in the form of government deficits, 'refinancing actions' by the Treasury, central bank interventions, and regulation of certain ponzi-like credit arrangements leading to financial fragility. At the international level, initially the US's large aid and capital flows followed by large current account deficits were the major stabilizing force in absence of such institutional ceilings and floors at the international level. However, these demand-side economies of scale were only available for a select few. The US, as the largest economy in the world, with the largest consumer market, had the capacity to unleash powerful fiscal and monetary policy instruments without regard for the effects on its external balance.

Though Minsky never discussed in depth the economic significance of the demand-side economies of scale --mainly, when the sheer size of the domestic economy is such that access to its markets define international solvency[36]-- he undoubtedly comprehended it. Minsky believed the US's role as the provider of liquidity and income flows to sustain the international dollar liability structure was attributable to its considerable decoupling of effective demand from the performance of the current account (Minsky 1983, 1986; Ramirez Cisneros 2018). This significant relaxation of the balance of payments constraint provided unparalleled freedom of maneuverability during a crisis. However, according to Minsky, other core countries, were called to exploit their demand-side economies of scale to temper hyper-competitive trade strategies causing damaging international financial instability, '[t]he United States has provided an umbrella for the economic growth and stability of Europe and the rest of the capitalist world in the years since World War II…', however '[i]t seems clear that in any future financial crises involving international banking, the [the enactment of] lender of last resort operations, and the generation of large scale government deficits, will have to be shared…' (Minsky 1979, 28). In other words, the US's deficit in trade had been the main guarantor of stability in the international economic arena, but other core nations, especially Western European powers and Japan, would have to step up to the plate (Ramirez Cisneros 2018). Thus, already as far back as 40 years ago, Minsky was calling for Europe to do more. Namely, European allies had to contribute in the generation of income flows by

[35] In the US, institutions such as the FDIC, in charge of providing insurance for depositors, the SEC, tasked with oversight of securities markets, and, for instance, many of the institutions established in response to the financial difficulties of the Great Depression.
[36] Other demand-side economies of scale include having your currency at the top of the international currency pyramid, and consequently, having your debt at the top of the international liability pyramid.

dual deficits (fiscal and trade) for the rest of the world. The current scale of the currency union gives Europe the capacity to take on its long awaited responsibility to bolster international economic conditions conducive to worldwide financial stability and resiliency. As a regional bloc, it could also largely decouple from burdensome current account constraints usually associated with smaller economies.

From the perspective of macroeconomics and the fiscal faculties of the state, continental unification adds yet another important component. Most if not all state-building investments happen to be of a ponzi nature. Not, of course, in the sense of a fraudulent pyramid scheme –*a la* Madoff–, but rather to the degree payments to shareholders and creditors occur well in advance of the first scheduled revenue flows. In Minsky's words, 'every long gestation investment scheme is a Ponzi scheme'[37]. Hence, state-building projects in particular, all of which are 'long gestation' ventures, require large fiscal expenditures that often overwhelm even G-7 nations' fiscal prowess. Regional unification is key in enhancing the ability to undertake the development and modernization projects required by all modern economies, projects the private sector cannot venture into without substantial effective or shadow underwriting by the government. By enlarging markets to the point of self-sustainability (List 2017), unification thus summons the large reservoirs of funding capabilities needed. Long gestation state-building ventures are not at the disposal of all sovereigns. In fact, the need to establish a World Bank with a view to help fund basic infrastructure projects for fiscally challenged, i.e., *underdeveloped*, nations illustrates the strain long gestation projects can have on sovereigns.

Furthermore, the scale of the customs and currency union creates new opportunities for furthering strategic projects to strengthen regional sovereignty beyond fiscal policy. The foreign minister of Germany recently pointed out '"Europe United" means this: We act with sovereignty at those points where nation-states alone cannot muster the level of power a united Europe can' (Maas, 2018). Besides collaboration in military projects[38],unification has allowed official promotion of the use of the euro in energy markets (European Commission 2019), as well as the yet unsuccessful attempt to launch Instex, an alternative to the worldwide payment platform controlled by the US known as SWIFT. Both projects, pioneered by official European organizations, have received support in the belief they would further promote much needed European

[37] This included, in his view, real estate projects and the financing of plants. '[I]f the financing of a plant that takes a long time to build is separated from the finances of the owning corporation (Minsky 1979, 23).'
[38] A case in point would be the new European fighter jet project; a typical state-making project and a boon for private contractors (Brzozowski 2019).

sovereignty vis-a-vis the US[39], till now, the guarantor of economic affairs for the region – as can be seen still today in its opposition to Nordstream 2.

VII. Limitations of the 'Keynes Plan' and its implications for EZ constituents.

For Keynes, the limitations to economic sovereignty weighed heavily on his mind in designing the Post WWII financial system. For this reason, his main apprehension was whether core nations' could endure the difficult transition from war to civilian economies without a relapse into 'autarky'[40]. This imbued his analysis and proposals that laid the groundwork for an international financial system with an expansionary bias (Keynes 1980). Keynes evidently foresaw the difficulty the United Kingdom would face in regaining its footing as an economic powerhouse having exhausted itself financially in two World Wars. Additionally, the effects from clause VII of Lend-Lease (Skidelsky 2000) lead to the de facto dissolution of the Sterling Bloc. In other words, his main concern lay with the sovereignty of a core capitalist industrial and financial powerhouse (Kregel 2019), Great Britain. Over-indebtedness, and the loss of its imperial territories, significantly undermined British sovereign solvency –and hence a weakened implicit bargain.

Keynes's design of the international clearing union, devised primarily out of patriotic duty, sought to ensure Britain could rebuild after the war without extending the hardships from a wartime economy to peacetime (Skidelsky 2000). The system he designed was meant to eschew austerity as a policy for overcoming heavy debt burdens at the macroeconomic level. By creating a framework that established clear channels of reflux from creditors to structural (long-term) debtors, the onus of financial stability was placed on the commercially dominant nations (Davidson 1985, Kregel 2019). The cited international reflux channels proposed by Keynes were designed precisely to encourage the pursuit of macroeconomic policies put forward in the *General Theory* (Bibow 2017, Ramirez Cisneros 2018). In other words, the advocated reflux mechanisms offered countries financial support at the international level enabling them to focus on elevating national income without immediate concern for the balance of payments. In doing so, multilateral commerce would avoid falling prey to hypercompetitive trade strategies between European powers that in the interwar period had created segmented areas of commercial privilege (a German area, a British dominated area, a Franco-Benelux

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[39] 'The outstanding aim of our foreign policy is to build a sovereign, strong Europe. Only by joining forces with France and other European nations can a balance with the US be achieved.' (Maas 2018).

[40] It would seem that rearmament was one of Keynes's main concerns for the post-war period. He designed his international clearinghouse proposal so that deficient levels of world-wide liquidity would not hamper reconstruction by deficit core countries leading to restrictions in trade. This would go a long way in avoiding some of the more hostile commercial and industrial policies that were common in Europe in the lead up to the Second World War.

region, etc.). Hence, under an international framework guaranteeing reflux of surpluses, countries could prioritize domestic economic issues –specifically, for Keynes this meant tackling inequality and unemployment– without kneeling to hard-currency type international financial constraints that inevitably lead to systemic breakdown. For Keynes, macroeconomic demand management was the best way to tackle systemic problems inherent in market economies (inequality and unemployment) instead of the customary curtailment of consumption and government expenditures to attempt to create the savings to (re-)build an export sector. The Keynes plan would have led the way forward to an unparalleled degree of economic sovereignty for nation-states.

Keynes's envisioned international financial system gave a select group of nation-states room for maneuverability to focus on domestic economic programs based on a 'practical best' for market systems (Minsky 1993) –namely, functioning at an approximation to full employment. Pointedly, during the Gold Standard, countries were unable to pursue macroeconomic policies that could bring a certain level of control over the often painful fluctuating conditions of the economy[41]. In holding the exchange rate within the margin of gold points, both private consumption and public expenditures were curtailed to keep domestic prices and imports from adversely affecting the external balance. Precisely, herein laid Keynes's abhorrence of the Gold Standard: adjustment meant *deflation*. In a word, Keynes viewed the Gold Standard as an obstacle to economic sovereignty understood as the capacity of states to counter the inherent faults of monetary accumulation in capitalist systems, for which accumulation of money balances (or reserves) introduced a deflationary bias into the economy. Therefore, his designed international financial framework sought to bolster sovereignty by encouraging collaborative multilateralism. As a result, nation-states could use directed expenditures to mitigate inherent flaws in the system, like hoarding, instead of the default strategy: diminishing consumption and public investment. His proposal for an international clearing union also envisioned the economic hegemon leading by example, i.e., spending its way out of crisis, and in doing so, overriding traditional concerns regarding sovereign solvency.

Hence the encouragement by Mitchell and Fazi for constituents to re-adopt their national currency as a measure to regain some of the sovereignty lost to the EZ supra-national institutions does not consider that outside the common currency, it is doubtful a collaborative multilateralism exists today[42]. The most likely scenario for sovereigns after currency fragmentation would be pegging to stronger currencies among them the euro, along with the de jure full conversion of euro denominated debt into foreign debt.

[41] The traditional form of the trilemma taught in textbooks suggests mainly monetary policy was constrained under fixed exchange rates. In fact, fiscal policy was equally limited if not more so, much as it is in the EZ today.
[42] One can confidently state that outside the EZ, after default, the exiting nation would come under the control of ruthless multinational agencies as the history of debt restructuring processes has proven time and time again.

Pegging to a foreign currency is often times not a sovereign decision at all, but rather an imposed constraint in a strategy to attract foreign direct investment[43]. Hence, peripheral members would most likely fall deeper into export-led development strategies in the context of deteriorating terms of trade. However, and leaving aside for a moment whether there is space for new exports in a world where incumbents dominate established export markets, the increasing nature of industrial assembly is that of increasing integration of value chains (Kregel 2019). Hence, the import content of finished exports can greatly reduce the actual effect of a persistently undervalued currency or a one-off devaluation (Toporowski 2013).

Arguably, during the interwar period, when commercial bilateral blocs formed due to the failure to find a suitable substitute for the Gold Standard, the economic sovereignty of certain peripheral countries strengthened to the extent they had more freedom from international pressures to play by the deflationary rules of the game. During this period, countries were pushed to partially delink from the international financial system and pursue policies that reestablished a minimum level of domestic demand to counter the collapse of international trade in large part due to the failure of the system: the liberal Gold Standard, obstinate in enforcing non-viable economic austerity (Toniolo 2005). The Soviet Union, long marginalized from the international financial system by then, was itself pursuing the domestic route to bring its economy into industrial maturity (Rostow). Ramping up military production was, like with others, one of the main ways to achieve the goal. Though full employment or approximations to full employment were achieved in blocs of countries turning their backs to the international financial system years before the Keynesian era, Keynes realized that the autarkic rout had carried the threat of military conflict between core capitalist states (Skidelsky 2000). Cooperation on the other hand, could lead to better outcomes. However, the economic hegemon had to lead by becoming the consumer market of choice for exporters and the engine of international demand.

The plan for the clearing union was undoubtedly set up by Keynes, the loyal servant of the crown, to support his nation after the demise of the empire. He was well aware that clause VII of Lend-Lease implied Great Britain would no longer lead the commonwealth nations and all other countries formerly tied to sterling. Naturally, this implied Great Britain could scarcely expect to have its negative external trade balance compensated by its old allies and client states, as had been the case. Great Britain would have to play by the new rules made in the interest of the true winner of both world wars, the United States, and its pursuit of multilateralism (Kolko and Kolko. It would have to compete with

[43] The reason most countries with weaker currencies peg to a stronger currency is to promote external competitiveness (to counter Dutch disease), reduce currency risk for investors, and to keep domestic purchasing power in check. Exiting the euro would thrust nations back into abiding by all three considerations.

other core industrial nations in a more level playing field. Even its role as the main financial entrepôt in the West –perhaps nowhere else was it easier to raise capital for different international ventures (Burn 1999)— was eventually surpassed, though much less so than the loss of its currency share in total official reserve assets would suggest .

Writing in this particular historic setting, Keynes did not *explicitly* take into account the needs of peripheral countries and the effect this would have on the stability of the international financial framework. His overriding priority was avoiding the zero sum game in trade between world economic powers, a concern shared by the US (Kolko and Kolko). In a response to a critic of his international currency proposal for the Bretton Woods negotiations, Keynes explicitly stated "[t]he Currency Plan aims at providing reserves to tide over short-term fluctuations[,] an orderly method for altering exchange rates when necessary, and for ensuring multilateral clearing of current trade transactions" (Chandavarkar 1987, 140). In other words, his framework lacked the immediate aim and ambition to support 'convergence', or to promote new industrializers. As the financial crisis in the EZ has shown, the convergence[44] or catching up aspect was also not prioritized in the institutional design of the EZ, to the detriment of the region as a whole.

As history has shown, if a country, currency union, or financial system does not address the long term lenders situation, as was the case even with Bretton Woods, it risks major turmoil. Typically, the financial sectors of highly industrialized countries step up to fill the void of long-term credit to perennial debtors –with few exceptions convergence countries are structural debtors. The latter then become unstable when investors finally realize the Ponzi nature of the capital flows to debtors (Kregel 2004, 2006)[45]. Even more so than the Keynes Plan, the EZ was conceived mainly as a financial scheme to promote trade among the core powers, with the fundamental difference that the Keynes Plan was envisioned as a full employment and growth biased scheme (Skidelsky 2000). The EZ, on the other hand, harbors an oligarchic deflationary bias, and its main actionable agency at the macroeconomic regional level pursues price stability above all else. As a result, the EZ has learned the hard way that it ignores the long-term debtors situation at its own peril.

A further limitation of the Keynes Plan relevant to the EZ situation today was its focus on a 'hard law' program, especially so in the first drafts (Skidelsky 2000). The intention

[44] Historically, convergence has been at the root of development theory ever since the Mercantilist era, and has been crucially important for countries with an established agricultural sector needing an expansion into manufacturing to dispense with agricultural surpluses (List 2017, 75-6)

[45] Typically, this occurs when their heroic growth projections do not come to fruition. Decades of economic deflation follow, in which the debtor nations fight to regain competitiveness through a combination of contractionary fiscal and monetary policies designed to shrink domestic markets.

to put into writing a series of binding regulations that would compel the US to recycle (or relinquish) their gold surpluses were struck down during negotiations with the US's Treasury representative, Harry Dexter White. Scholars studying the negotiations in detail acknowledged that the only hard law ordinance making it into writing, embodying the intention to counter the long-term accumulation of trade surpluses, was the scarce currency clause, a dead letter according to experts (Skidelsky 'Resurrecting Creditor Adjustment', Chandavarkar). The cited clause would presumably enable deficit countries to discriminate against goods from surplus nations that made no effort at promoting a reflux of their currency to nations they were, nonetheless, content to trade with. The attempt by Keynes to establish a 'hard law' regulatory framework for a multilateral institution that would contribute to overcoming European proclivity toward extreme forms of mercantilism –originally espoused as a reaction to cosmopolitan free-trade British policies— was undoubtedly a noble purpose. However, it required US deference to a leading-by-growing strategy that never fully materialized in the form Keynes thought best --that being, a supranational organization binding the main creditor nation to recycle its surpluses. Nevertheless, once its geopolitical interests were weighed against its creditor interests, the US eventually became aware that it would have to establish clear currency reflux mechanisms in order to prevent another European retrenchment into autarky (Davidson 1985, Ramirez Cisneros 2018).

Be it a strategy for negotiation or perhaps real reluctance by the new economic incumbent, the United States, to enter into binding international treaties, it became clear that even amongst wartime allies, the way to achieve a harmonization of economic policy within a shared ideological framework would be negotiations and diplomacy leading towards cooperation --not 'hard law' obligations. In the end, the US would go to great lengths to guarantee its currency would not become scarce (Davidson 1985, Minsky 1986, Ramirez Cisneros 2018). This was especially so in regards to its support of strategic partners in Western Europe and Asia, to whom funds were distributed by aid, and later were the beneficiaries of strong commercial ties. Regarding the EZ, 'hard law' has the benefit of enshrining rules to the effect that not even the regional hegemon could escape adherence. However, for this very reason, it is difficult to gain the approval of all parties, especially surplus nations, and may take years to achieve. In the meantime, ad hoc measures and collaboration between constituents must ensure nation-states can perform their implicit bargain. The alternative is a failed customs and currency union, rather than a union of countries charting a potentially unparalleled prosperous regional market.

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