The function of money economics essay

Economics

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ABSTRACT

The current sovereign debt crisis that spread throughout the eurozone leads to a questioning of the original motives behind the creation of the single European currency since the latter failed to provide the financial stability that it promised to bring. The existing literature on European monetary

integration, often, approaches the reasons behind the creation of the European Monetary Union in terms of the political and economic benefits that the union would provide to member states. However these benefits are often taken for granted and abstracted from the framework of social relations in which they belong. This essay will attempt to provide an alternative open Marxist approach to European monetary integration. It argues that the European Monetary Union (EMU) project can be best understood within the framework of the global restructuring of labour-capital relations that was initiated in the 1980's. In this perspective, the EMU consists in the restructuring of labour-capital relations within the European territory which signifies an attempt to contain European labour within the new parameters of global accumulation. In order to support this argument, the first part will examine how the global economic conditions and the growing competitiveness of US and Japan capital vis-as-vis the European capital influenced the initiation of the single currency project. The second part will argue that these growing external pressures led to the institutionalisation of economic policies through the EMU whose aim is to discipline labour. The last part will reinforce the argument that the EMU consists in the restructuring of capitalist social relations by examining how the EMU entailed a restructuring of state activities in order to further decrease the political influence of labour in the economic decision making process.

INTRODUCTION

The current turbulent period of economic turmoil in the eurozone and the efforts of peripheral states to undertake austerity measures in order to maintain their country in the eurozone, inevitably, raises the question of why was the Euro created and adopted by them in the first place and if these motives are still viable and valid today. Indeed, it is important to understand why a monetary union was created between countries with so divergent economic structures and which after ten years in effect proved to be unstable. In the literature the creation of the European Monetary Union (EMU) is often portrayed as the result of a grand Bargain between France and Germany prior to the Maastricht Treaty in which the rest of European states sought to participate in order to get a share of the political benefits and status that this monetary union would provide them. Other approaches focus on the purely economic benefits of the adoption of a strong European-wide currency. However, these approaches not only treat the political and economic realms as two distinct and independent realms but, also, their conception of these realms is very narrow. The politics of EMU are reduced to interstate relations whereas the economics of EMU are analysed in terms of the evident benefits that price stability and the anti-inflationary policies of the European Central Bank (ECB) provides. This essay will attempt to provide an open Marxist analysis of the motives behind the EMU project. The aim is to overcome the narrowness of mainstream approaches by analysing the emergence of the EMU within the wider framework of the restructuring of global capitalist relations which was initiated in the 1980's. It will be argued that the EMU can be better understood as a restructuring of social relations within the European territory. This restructuring of labour-capital relations aims at disciplining and containing labour in order to increase European's capital global competitiveness. In order to support this argument this essay is divided in three main parts. The first part will argue that European monetary integration can be better understood in the light of the increasing international competition that European capital faced by the US and Japanese advanced capital. The second part will argue that the intensification of global competition led to the institutionalisation, through the EMU, of neoliberal economic policies which aim at facilitating and rendering more efficient surplus value extraction from European labour. The last part will reinforce our contention that the EMU does not simply consist in the adoption of a single currency but entails a restructuring of labour-capital relations, by arguing that the EMU project also aimed at the restructuring of the European states' form through the supranationalisation of monetary policies and the institutionalisation of strict budgetary policies.

THE ARGUMENT

In mainstream approaches the motives behind European Monetary integration are situated either at the political or at the economic level. At the political level, theories of European integration are mainly represented by intergovernmentalism and neo-functionalism. The former situates the reasons behind EMU on the grand bargain that occurred between France and Germany, whereas the latter situates them on the functional necessities for further (monetary) integration that the creation of the single market created. On the other hand, economistic approaches that focus on the economic costs and benefits of EMU take for granted the positive aspects of budget deficit reduction and anti-inflationary policies that accompany the EMU and justify member states adherence to the EMU on this basis. Overall, these approaches focus on the formal and institutional aspects, in short the appearance, of the EMU rather than its social essence[1]. However, in this essay we will attempt to overcome the eclecticism of these approaches by not privileging either the political or economic aspects of EMU but instead we will stress the complementary relation of the political and economic processes as a necessary precondition for the understanding of monetary integration. Furthermore, in this essay, the political economy of EMU is not understood simply as a process that involves only European supranational institutions, European national governments or some sectoral interests. The main default of the approaches that include only these actors in their analysis is that they neglect the role of labour and conceive it as an unimportant and adaptable actor in the process of European Integration[2]. It is thus the aim of this essay to situate the emergence of the EMU in the wider context of capitalist social relations and to conceive it as an attempt to reproduce these relations within the European territory. Furthermore, since capitalist social relations are global it is impossible to conceive the motives behind the EMU by focusing solely at the level of European territory, but have to be understood within the context of international developments in capitalist relations. Therefore, monetary policy here is not conceived isolated as the technical management of national currencies by states[3]. Instead, it is examined in its wider social framework and as a mechanism to accommodate capitalist relations within the parameters of the global developments of the latter. As an attempt to reproduce capitalist relations within the Euro area, the EMU does not consist in, simply, the introduction of a single European currency but as more complex process of restructuring of labour relations[4], of state and institutional activities and ideological stances. Therefore, the aim of this essay is twofold since on the one hand, it attempts to clarify the global conditions of accumulation that surrounded the initiation of the EMU project and on the other, it aims at tracing the particular form of the restructuring of social relations that the EMU involves.

PART 1

One way of starting the analysis of the reasons behind the creation of the single currency is by asking if the project for monetary union was a radically new start for the European Union or if it was the natural continuation of the project for the unified single market. A (Neo-)Functionalist reading of the EMU project would apply the concept of " spillovers" in order to explain it. This approach claims that integration in a particular area of the political or economic spectrum would create the necessity for integration in other areas in order to be able to successfully achieve integration in the first area. In the case of the monetary union this approach would stress that the latter is the logical outcome of the Single European Act of 1987. In short, the solidification and unification of the European Market created the functional need for the adoption a single currency which would materialise all the benefits of a single internal market. This functional link between the internal market and a single European currency was the official explanation of the Commission for the EMU project[5]. This concept of the " spillover effect" offers a causal or path dependence explanation of monetary integration and European Integration appears an end in itself. It is analysed as a project that reinforces itself and that could, ultimately, be analysed by focusing only on the developments of the European integration process itself, disregarding the historical conjunctures of the world economy. Therefore, the functionalist theory fails to answer why the 1992 project was initiated at that particular period. Furthermore, while it stresses the doubtless correlation between the consolidation of the internal market and the rise of the single currency it fails to give the causal explanation which it seeks to give. As Sandholtz stresses, the single currency is not the only mechanism which could guarantee the effective functioning of the internal market since, even with the existence of multiple European currencies the simple possibility of currency volatility would induce governments to maintain confidence in their currencies by pursuing the low inflation policies that the single currency aimed at achieving[6]. In fact, it is difficult to discern any economic theory that would justify the necessity for a single currency zone within the European territory. For instance, Mundel's " Holy Trinity" model explains that a government cannot, simultaneously, pursue policies that favour capital mobility, exchange rate stability and autonomous national monetary policies: only two of the above options can be pursued. But again, when applied to the case of the Eurozone this model does not explain why, in the face of rising capital mobility that characterised the world economy from the 1970's and on, would a country choose exchange rate stability over autonomous monetary policies and, more importantly, why would this exchange rate stability take the form of a single regional currency. Even by following the optimal currency are theory it is difficult to discern a strong economic argument that could explain the decision to establish the single currency in the European area. Indeed, this theory argues that for a region to be considered as candidate for a single currency, it has to have not only factor (i. e. labour and capital) mobility[7]but also to be characterised by similar production structures[8]. These are necessary preconditions because the movement of capital and labour can serve as adjustment mechanisms for shocks experienced in a particular country's economy. However, the eurozone does not constitute neither an area of perfect labour mobility, since this is met with linguistic and cultural barriers, nor a economically homogeneous region because of the uneven development of capitalism in Europe which created a division between the productive structures of the more developed and technologically more advanced core countries and the less developed periphery. The uneven economic development of members of the euro area could be offset through the, above mentioned, movement of capital and labour but also through fiscal transfers[9]. Such fiscal transfers occurred after the unification of Germany from the West to the East part and permitted the adjustment of the less developed Eastern part which was facing productivity and budget deficit problems[10]. However, fiscal transfers from the surplus of core countries to the countries of the periphery with constant deficits would necessitate a deeper kind of political union which entails the obstacle of national political sovereignty which member states are not, yet, ready to give up completely[11]. So far we witnessed, that the above mentioned economic theories as well as Neo-Functionalism cannot offer a compelling argument for explaining the creation of the euro. This is so because by focusing solely at the European Level or by applying economic models to the EU, the crucial importance of international historical context that surrounds the creation of the single currency is often neglected or treated as a coincidental factor. Therefore, we will attempt to understand the wider international context that surrounds the creation of the single currency. Indeed, by looking at the " big picture", at the international development of capital accumulation we might understand how factors that appear external, in fact, influenced the creation of the EMU. In order to do so we need to enlarge the technical conception of currencies as an affair of central banks and financial markets. Instead, we need to reassess the wider role of national currencies within capitalist society. The function of money is not the simple circulation of commodities or financial products but its peculiar aim is the realisation and appropriation of value. Thus, national currencies, as the concrete national expression of the abstract money form, do not escape the law of value. Indeed, the exchange rate of currencies is not simply determined technically by global financial markets for foreign exchange currencies, but in fact reflect the capacity of each national currency to appropriate the globally produced value. More precisely, the more highly valued is a currency means that for one unit of national currency more foreign currencies can be exchanged and appropriated by holders of the national currency; that is they can appropriate more capital/value in its money form[12]. However, the exchange rate policy is not an end in itself but is a reflection of the changing conditions of the real accumulation of capital. Indeed, as accumulation progresses and the organic composition of capital increases, productivity levels necessarily increase. The capitals with the more efficient methods of production and technological innovations will have higher rate of profits since the cost of production of their commodities is significantly lower than the world market price, compared to capitals with the average or below-average productivity levels. This technological competition among capitals is also internationalised which means that countries whose capitals experience higher productivity than those in other countries will have higher rate of profits. These higher rate of profits will be appropriate through the medium of higher exchange rates of their national currency. The increasing productivity of that particular nation's capitals will create an increasing demand for their commodities and thus for the national currency by foreign countries which leads to a higher price of the national currency and a greater capacity to appropriate internationally created value[13]. Therefore, we observe that the appropriation of international value through high exchange rates necessitates an increasing competitiveness through, among others, high national technological levels as well as a competitive export performance. Turning now back to the international context that surrounded the so-called 1992 project, as Sandholtz argues Europe was facing an increasing competition in the technological, trade and money areas by the US and Japan[14]. In addition, " European competitiveness had fallen by 3. 7 per cent since 1980, while US competitiveness had risen by 2. 2 per cent and Japanese competitiveness had increased by 0. 5 per cent"[15]. While the more advanced capitals of Europe , especially German ones, had the technological and trading capacity to compete with the US and Japanese capitals this was not enough in order to compete also in " money matters". More precisely, under the then circumstances the Mark did not have the capacity to become an international currency which would permit the increase of German capitals' profit rates through a greater appropriation of international value. As a consequence the adoption of a single European currency reflects the needs of the most competitive and advanced European capitals. It, furthermore, reflects an attempt to boost the use and demand for that currency which would in turn increase the amount of international transactions made in euro currencies rendering it able to compete with the yen and the dollar and reach the status of an international currency[16]. Thus we can conclude that the creation of the euro is, partly, the result of the internationalisation of the law of value and the intensification of the competition between European, Japanese and US capitals in their quest for appropriation of internationally created value. What results from this analysis, and is of the utmost importance for the contemporary debates surrounding policy in the Eurozone , is that the single currency does not simply aim at reinforcing German interests since states do not appropriate value for themselves. Instead, the monetary policies of the ECB and the single currency reflect the interests of the most advanced European capitals which lie in their majority in the German territory.

PART 2

The last statement, thus, refutes the intergovernmentalist/neo-realist accounts of European monetary integration which attribute the latter to a grand bargain between the most powerful states of the European Union, namely Germany and France. More specifically, Baun[17]argues that the creation of the single currency is an attempt to reconcile the national interests of France and Germany. On the one hand, France was fearing that the reunification of Germany in 1990 would increase the economic and political power of the latter which would disinterest it in further European integration and turn it to a powerful and unapproachable competitor. On the other hand, according to the intergovernmentalist argument, Germany was sceptical of a Monetary Union that would not provide the stability of the Deutsch Mark. Thus the grand bargain of the Maastricht Treaty consisted of the commitment of Germany to further integration and of the modelling of the single currency around the anti-inflationary and low-budget deficit policies that characterised the German model[18]. Thus the national interests of both the great powers of the EU were safeguarded. The neo-realist/intergovernmentalist approach makes a clear and radical distinction between " high" (i. e. national interest) and " low" (e. g. economic and social aspects) politics, treating the latter as factors of much lesser importance[19]. It thus makes a dichotomy between interstate politics and all other aspects of society which leads to a, de facto, partial and eclectic analysis[20]. By neglecting the importance of all other economic and social European actors apart from member states themselves the neo-realist/intergovernmentalist analysis makes itself compatible only within a framework dominated by states[21]which is incompatible with the utmost importance played by the interests of European advanced capital mentioned in the previous part. Another shortcoming of the neo-realist/intergovernmentalist approach is that by focusing solely at the bargain made between the powerful states and the crucial role of their national interests in shaping the future of monetary integration it omits (or takes for granted) the interests of states of the periphery in joining the EMU. However, it is often argued that the political advantages in participating in the EMU is that a closer and more deeply integrated Europe would offer less powerful states a say and participation in the international political and economic arena that they could not have if they had stayed outside the single currency project[22]. However, again the problem with such an analysis is that these interests are taken for granted because the state is treated as a reified and ahistorical entity leaving aside the question of social form or, in other words, how the state came to acquire its particular contemporary form[23]. In a similar vein, when the creation of the EMU is approached from a more economic perspective, the benefits of the single currency for the member states are presented as self-evident. Indeed, the direct economic benefits of the EMU consist of: price stability (which is guaranteed by the monetary policies of the ECB), the lower interest rates that this anti-inflationary environment permits, the elimination of exchange rate fluctuation, elimination of the transaction costs that exist between different currencies and the budget deficit and debt restrictions of the Stability and Growth Pact, which accompanies the single currency project[24]. However, as in the neo-realist/intergovernmentalist the economic is separated from the political and the economic desirability of the above effects is taken for granted and as an end in itself. In order to overcome the ontological reification of the political and economic realm offered by economistic and realist approaches we need to analyse the dynamics of capitalist relations that underpin the single currency project. This will help us understand why these economic objectives became so desirable in the 1990's. Mcnamara argues that the EMU project was initiated by a European-wide perception of the failure of the Keynesian model of growth and its replacement by a neoliberal consensus among member states (backed by the success of German rigid monetary policy) which led to a " convergence of policy preferences"[25]. This convergence is manifested especially with the Maastricht convergence criteria and the Stability and Growth Pact. Indeed, the latter imposes clear limits on the member states' budget deficit and government debt which should not exceed 3% and 60% of GDP accordingly. However, the convergence that could be achieved between dominant member states and the periphery could only be nominal, that is a convergence at the policy and institutional level, rather than at the level of the real economy of these countries. How can we thus explain the monetary integration of less developed countries without contradicting the claim of the first part that the single currency reflects the interests of the most advanced strata of capital? The answer can be found by introducing the concept of social form: by analysing the dynamic evolution of social relations that shaped the EMU project. From such a holistic viewpoint we can see that it is not the, potentially, different interests of peripheral and core European capitals that matters but their common aim which is their effort to increase the extraction of surplus value from labour[26]. To understand this we need to see the use of deficit financing or devaluation policies that could be pursued by member states prior to EMU, not as simply technical economic tools but as a way to accommodate capital accumulation within the parameters set by class struggle[27]. For instance, the credit expansion and deficit financing that characterised capitalist countries during the Keynesian consensus were an attempt to satisfy the labour dissatisfaction and demand for welfare and wage increases as well as to permit the profitable continuation of accumulation at the productive level without an increase in the exploitation of labour (i. e. in the rate of surplus value)[28]. Devaluation of currencies, especially in the peripheral countries of the EU, which cannot increase competitiveness through technological innovation, was used to increase the competitiveness of their exports in the world market when this could not be achieved by a greater exploitation of labour. In a similar vein, the inflation that devaluation brought aimed at decreasing the relative value of labour power[29]. Therefore, credit expansion, deficit financing and devaluation were not neutral economic policies but an instance of the contradictory labour-capital relation in the form of economic categories. These policies aimed at maintaining the rate of exploitation (or increasing it) without directly confronting labour through wage cuts, layoffs, flexibilisation of labour market etc. However, the inflationary tendencies of credit expansion and deficit financing lead to the so called fiscal crisis of the state and, furthermore, had a negative effect on the value of currencies. In the light of the expansion of financial markets and the liberalisation of capital flows this could lead to speculative attacks to a national currency. In addition, within the context of the internationalisation of the law of value and the intensification of competition surrounding the appropriation of internationally created value, devaluation entailed a, de facto, loss in the value-appropriation capacity of a national currency. Therefore, the EMU attempts to eliminate the possibility of pursuing these policies through the, de facto, fixed exchange rates that the single currency imposes and the deficit and debt limitation that the Stability and Growth Pact demands. The ultimate aims is to permit the increase of surplus value extraction within the parameters set by the increased capital mobility and the volatile character of foreign exchange currency markets. This explains the common interest of all European capitals (in the core or the periphery) in increasing surplus value extraction directly at the level of production through austerity policies[30]rather than indirectly as with devaluation and credit expansion. In this sense, the single currency is not a development simply at the monetary level but implies a whole restructuring of class relations: it signifies the beginning of a new cycle of class struggle[31]within the European territory. This restructuring of social relations implies that the EMU consists of a disciplinary mechanism over states in order to contain the " disruptive power of labour" which manifested itself through the pre-EMU national fiscal and monetary policies[32].

PART 3

The common desire of European capital to contain labour through the EMU project led to the institutionalisation of neoliberal economic policies at the EU level[33]. The limits on government deficit and debt as well as the single currency itself imply a curtailment of member states' ability to pursue autonomous national monetary policies as under the Bretton Woods or the European Currency Snake[34]. Therefore, the restructuring of social relations under the EMU imply also a restructuring of the state form itself[35]. This restructuring consists of a process of depoliticisation of economic/monetary policies[36]or, as Gill arrgues, an instance of New Constitutionalism[37]. By allocating the responsibilities of monetary policies to an independent body, namely the ECB, the EMU aims at freeing the conduct of these policies from the political interference of national governments or the European parliament and, most importantly, from the influence that domestic pressures from labour can have on them. Therefore, the single currency project is also the result of the capital accumulation's need to restructure political relations at the state level through the process of depoliticisation and the decrease of democratic accountability. Not all students of European monetary integration would agree that the EMU led to a lessening of democratic accountability. From a liberal intergovernmentalist perspective[38], the ECB's monetary policies would fall in the category of supranational economic policies that do not necessitate democratic participation. Indeed, Moravscik argues that there is a " division of labour" between the member states and the supranational institutions of the EU- in this case the ECB- with the latter specialising in " neutral" macroeconomic policies (e. g. exchange rate, interest rates) in which they are more efficient than national governments and which do not require the participation of European citizens[39]. However, others would argue that within this " division of labour" the supranationalisation of economic policy in the EMU has not been effective because the institutional framework of the EMU leaves governments too much room to manoeuvre their own fiscal policies and leads to a divergence in macroeconomic policy[40]. Indeed, according to this point of view, the Stability and Growth pact is too lax since it provides mainly a surveillance framework rather than a enforcement mechanism, and thus, still, permits states to conduct their own budgetary policies[41]. However, these approaches tend to adopt a legal positivist view on the question of economic national autonomy of member states. Indeed, the debate that surrounds the Stability and Growth pact focuses on its legal formulation and the formal attribution of fiscal policy responsibility to national governments themselves. This consists of a purely liberal interpretation of the EMU and the Stability and Growth Pact and a negative interpretation of liberty since it interprets state autonomy as the absence of a legal constraint. Indeed, t does not take into account the constraining context in which member states operate and the disciplinary character of the EMU which imposes a particular conception of what a good fiscal policy is[42]or as Gill argues a " normalisation and surveillance" framework[43]. It, thus, overall omits that in fact member states are free to pursue only those fiscal policies that are considered to be sound by the EMU[44]. This confusion over where economic sovereignty lies shows that the EMU was not created simply to attribute economic governance to a surpanational body, but to create a " nebuleuse" governance framework, to use Cox's terminology. Indeed, on the one hand, the policies undertaken by governments, especially if we consider the contemporary austerity measures imposed by the Troika to countries caught in the debt trap in the eurozone, appear as if they are dictate by a technocratic supranational commitee[45]. On the other hand , with a legal positivist reading of the Stability and Growth Pact national governments appear the sole responsible of domestic economic policies. Therefore, it is difficult to discern the real source of policy-making which labour could pressure for the satisfaction of its demands[46]. The ultimate aim of the depoliticisation of the economic realm within the EMU territory is to permit the ECB to follow policies that appear to be neutral and aim at the pursuit of the desirable objective of anti-inflationary credibility towards financial markets and holders of the Euro. The logic is that the more technocratic and democratically unaccountable is the institution responsible for monetary policy in the EMU, the more it can guarantee a stable economic environment in the European territory and a constant protection against the potential speculative attacks against the euro. Baines goes as far as to argue that in fact the supranationalisation of monetary policy and the creation of the single currency is an attempt of European states to, collectively, reassert control over the volatile character of currency movements and speculative attacks[47]. However, two points should be raised, firstly, even though the creation of a single currency, indeed, eliminates monetary crisis within the EMU it only changes the appearance of crisis, as the recent eruption of the sovereign-debt crisis in some countries of the eurozone showed. Secondly, the creation of a stable monetary environment within the EMU does not reveal any re-assertion of the EU's authority over the financial structure as Baines argues but in fact reveals the subsumption of the EU to the internationalisation of the law of value. It is thus, contradictory to talk of a politically neutral conduct of the EMU's monetary policies when the creation of a single currency reflects the interests of the most advanced European capital[48]. If national exchange rate policies are the law of value imposed on national governments[49]it follows that a single European currency represents the imposition of the law on the ECB at the supranational level.

CONCLUSION

The aim of this essay has been to show that the adoption of the single European currency cannot be understood as simply a development in the technical management of the economies of member states but as an instance of the global restructuring of capital that occurred during the 1980's and 1990's. As such the EMU project becomes the European expression of this global restructuring of capitalist social relations. The ultimate aim of this restructuring is to impose a new disciplinary mechanism over labour. The first part tried to show how the intensification of global competition in the struggle of capitals to appropriate internationally created value set the parameters for the introduction of the single European currency. We argued that the introduction of the Euro would provide advanced European capital a competitive tool for the appropriation of international value. The second part argued that the enhancement of the competitiveness of advance European capital through the single currency implied an abandonment of the previous Keynesian policies which aimed at accommodating European capital accumulation without directly confronting labour at the level of production. The new policies of budget discipline and anti-inflation aimed at increasing surplus value extraction directly through the institutionalisation of austerity measures. The last part argued that all these developments entailed a fundamental restructuring of European states since the supranational activities of the ECB created a disciplinary framework for the conduct of national economic policies.