WHY THE EURO CRISIS MATTERS TO US ALL

BY
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I have been writing critically about the euro for a decade, since I have long believed that a single currency cannot address the needs of such a large and diverse region. Moreover, the European Union's ambition to become a federal power in the world economy was based on yoking member states to a system whose logic harks back to the gold standard. The contradictions of this fixed exchange-rate regime, conceived of in the euphoria of the free market's "victory" in the Cold War, were disguised by the long credit boom. The financial crisis of September 2008 was at first represented by Europe's elites as largely an "Anglo-Saxon" problem. The Italian finance minister even joked that his country's banks were sound since their managers didn't speak English! The years since then have seen one inadequate half-measure after another, culminating in the European Central Bank's unlimited promise in September 2012 to buy back bonds issued by member countries with sovereign debt problems.

The conversion of the whole world to free market capitalism ("neoliberal globalization") in the early 1990s coincided with a digital revolution in communications. Wall Street took the lead in exploiting these new possibilities. After the dot-com boom crashed in 2000, a regime of low interest rates fuelled speculation in property. American bankers discovered that there was more to be made from lending to people without any money (through mortgages and credit card debt) than to people who have some, since higher interest rates and fees could be charged and assets could be seized on default. This led to the invention of "sub-prime" mortgages—lending to borrowers who could not hope to repay—then packaging these debts with other, sounder loans for sale in the capital markets with the highest credit ratings possible. The banks also insured against bad loans using new instruments such as "credit default swaps" and "collateral debt obligations." As the housing bubble continued to inflate, leverage rates escalated; some banks, and especially the insurance group AIG, became wildly over-exposed. Incredibly, the expectation that economic success would be permanent led to the use of computer models that had no place for falling house prices.

After 2005, it became obvious to some American finance houses that they should sell on the risky paper they had accumulated. But who would buy what they wanted to "short?"[1] Enter Europe's financial institutions. Wall Street was so absorbed with its own bubble that the European banks found they had a reasonably clear field, after the Cold War ended, in the "emerging markets" of Eastern and Southern Europe, Latin America, and Southeast Asia. Spanish banks alone made loans in Latin America more than double Wall Street's total commitment there. Austrian banks found a niche lending to Eastern Europe, sometimes encouraging mortgage loans to be repaid in hard currencies like the Japanese yen and the Swiss franc. The French and German banks lent recklessly to Southern Europe, and they also bought heavily into American sub-prime mortgage bonds in the years just before the crash. National government efforts since 2008 to determine the viability of their own banks have been little more than a cover-up. The sovereign debt crises of Greece, Portugal, Ireland, Spain, and Italy have escalated in this context. It was predictable that, of all the world's regions, the major and permanent loser in this economic crisis would be Europe.

Europeans now find themselves at the centre stage of the world economy, as they have not been since the 1930s, with financial markets hanging on each negotiation and election. The central problem is not even mainly one of credit and debt, but rather reflects a deep-seated shift in the world economy, with national and international political institutions now unable to influence a money circuit that has gone global. In what follows, I seek to explain the euro crisis in terms of the slow unravelling of the twentieth century's dominant social form, national capitalism. My purpose is to inform a more realistic political debate, drawing on my approach from economic anthropology.[2]

IN THE WAKE OF MARKET FUNDAMENTALISM

We have lived through an explosion of money, markets, and telecommunications for three decades and are now experiencing the consequences. This hectic period of "globalization" represents a rapid expansion of society far beyond the twentieth-century norm when society was identified with the nation-state. In order to live in the world together, we have had to devise new ways of doing things for each other that go beyond our attempts to achieve local self-sufficiency. So far this process has been closely linked to the extension of society by means of markets and money. But there are other means, and they may become more important as a result of the digital revolution in communications. Theories of exchange tend to abstract markets from history by insisting on their "natural" ubiquity in human societies. In the extreme this becomes a kind of market fundamentalism. Instead, I follow a number of writers—Marx, Simmel, Mauss, Polanyi, Keynes—who believed that new human possibilities for association depend on recognizing the plurality of economic options that already exist in our societies.

The last two centuries have seen a strident debate between capitalist and socialist camps over whether markets are good or bad for society. The socialists draw on pre-industrial apologists for landed rule whose leading exponent was Aristotle. Karl Marx considered money

to be indispensable to any complex economy and was radically opposed to the state. But his followers, when they did not try to outlaw markets and money altogether, preferred to return them to the marginal position they occupied under agrarian civilization and were less hostile to the nation-state, pre-industrial society's enduring legacy for our world. Karl Polanyi[3] falls within this camp, in that he acknowledged Aristotle as his master and considered "the self-regulating market" to have been the main cause of the twentieth-century's horrors.

A less apocalyptic version of socialism acknowledges the social damage done by unfettered markets, but would rather not lose the wealth they produce. Indeed all the leading capitalist societies at one stage or another signed up for Hegel's idea that states should try to mitigate the inequality and social misery generated by markets. The emphasis has since shifted over time between reliance on states and on markets for managing national economies, between social and liberal democracy. The general economic breakdown of the 1930s turned many American economists away from celebrating the logic of markets towards contemplating their repair, and the resulting "institutional economics" persists as the notion that markets need self-conscious social intervention if they are to serve the public interest. In this vein, John Maynard Keynes produced the most impressive synthesis of liberalism and social democracy in the last century.

The market's apologists likewise divide between some for whom it is a trans-historical machine for economic improvement best left to itself and those who acknowledge a role for enlightened public management of commerce. Classical liberals promoted markets as a source of individual freedom from the arbitrary social inequality of the Old Regime. But the industrial revolution brought about a shift to urban commerce leading a large labour force to rely on markets for food, housing, and all their basic needs. Especially in Britain, society itself seemed to retreat from view, replaced by an "economy" built on market contracts rather than household self-sufficiency. Others hold that society's defences are too weak to hold out against the rising tide of global money: you can't buck "the markets." Unregulated markets are engines of inequality, so their naturalization serves also to legitimize wealth and to make poverty seem deserved.

The challenge we face today is to discover what is valuable in the extension of society by means of markets and money, while devising more effective institutional means of regulating their abuse.

OUR MOMENT IN WORLD HISTORY

According to writers as varied as John Locke and Karl Marx, ours is an age of money, a transitional phase in the history of humanity. Capitalism's historical mission is to bring cheap commodities to the masses and break down the insularity of traditional communities before being replaced by a more just society. Where are we in this process? When a third of humanity still works in the fields with their hands and multitudes have never made a phone call in their lives, my guess is that capitalism has quite a way to go. Yet the rapid evolution of a world society driven by markets and money poses considerable risks to us all.

In the second half of the twentieth century, humanity formed a single interactive social network for the first time. Emergent world society *is* the new human universal—not an idea, but the fact of our shared occupation of the planet crying out for new principles of association. The task of building a global selfgovernment for the twenty-first century is urgent. Money is not simply a means of exploitation; it also has its redemptive qualities, particularly as a mediator between individuals and society. Money, and the markets it sustains, is itself a human universal with the potential to be emancipated from the social engines of inequality that it currently serves.[4] It allows us, especially in its modern digital form, to move wealth to where it is needed within seconds, for example.

In the late 1990s, I asked what future generations will be most interested in about our times and settled on the development of a communications network linking all humanity. This has two striking features: first, it is a highly unequal market of buyers and sellers fuelled by a money circuit that has become detached from production and politics; and second, it is driven by a digital revolution whose symbol is the internet, the network of networks. Since then I have explored how the forms of money and exchange have changed in the context of this communications revolution.[5]

Money has acquired its apparent preeminence because the economy has been extended rapidly from a national to a global level without any of the social regulation that existed before. Naturally, the financial specialists used their newfound freedom from the social democracy of the 1940s to 1970s to loot the world in scandalous ways that we will have to repair, if we can. But, in addition to drawing people *en masse* into unsustainable credit schemes, they also began to put in place some of the institutional mechanisms that will make the market work for all of us and not just for those with lots of money. Much of the wealth piled up in recent decades came from exploiting discrepancies (arbitrage) in a world market that was rationalized and made more unitary in the process. Capitalism has clearly been instrumental in the making of world society—unlikely to be the basis for its stable functioning, but it does get us some of the way there.

THE COLLAPSE OF NATIONAL CAPITALISM

The current crisis of the world economy is not merely financial, a moment in the historical cycle of credit and debt. The removal of political controls over money in recent decades has led to a situation where politics is still mainly national, but the money circuit is global and lawless. The crisis should rather be seen as the collapse of the money system that the world lived by throughout the twentieth century. This has been unravelling since the US dollar went off the gold standard in 1971, when a new regime of floating currencies emerged, and money derivatives were invented the following year. As the need for international cooperation intensifies, the disconnection between the economy and political institutions is undermining effective solutions.

There is still a tendency to see the potential disaster we are living through in economic rather than political terms. In this respect, by attacking the free market rather than the use of the state to siphon wealth to the top, neoliberalism's detractors often reproduce the ideology they claim to oppose. The flailing euro is by no means the only symptom of this crisis, but it may well be seen in retrospect as the decisive nail in the coffin of the world economy today. One way of approaching our moment in history is to ask not what is beginning, but what is ending. This is by no means straightforward. What is ending is "national capitalism," the synthesis of nation-states and industrial capitalism[6] whose main symbol is national monopoly currency (legal tender policed by a central bank).

It was the institutional attempt to manage money, markets, and accumulation through a central bureaucracy within a cultural community of national citizens. However, it was never the only active principle in world political economy: regional federations and empires are at least as old or much older.

National capitalism's origins lay in a series of linked revolutions of the 1860s based on a new alliance between capitalists and the military landlord class. These ranged from the American civil war and Japan's Meiji restoration to Italian and German unification, Russia's abolition of serfdom, the French Third Republic, and Britain's second Reform Act. At the same time, Marx published *Capital* and a revolution in transport and communications (steamships, continental railways, and the telegraph) took place. These new governments launched a bureaucratic revolution in the late nineteenth century and sponsored large corporations in a drive towards mass production. The national system became generalized after the First World War when states turned inward to manage their economies in times of war and depression. Its apogee was the social democracy built in the thirty years after 1945, what the French call *les trente glorieuses*.

People learn to understand each other as members of communities, and money is an important vehicle for this. They share meanings as a way of achieving their practical purposes together. Nation-states have been so successful in such a relatively short time that it is hard for us to imagine society in any other way. Five different types of community came together in the nation-state:

POLITICAL COMMUNITY
a link to the world and a source of law at home

COMMUNITY OF PLACE
territorial boundaries of land and sea

IMAGINED OR VIRTUAL COMMUNITY
the constructed cultural identity of citizens

COMMUNITY OF INTEREST
subjectively and objectively shared purposes in trade and war

MONETARY COMMUNITY
common use of a national monopoly currency

The rise and fall of single currencies is therefore one way of approaching national capitalism's historical trajectory.

At present, national politics and media are so parochial that we find it hard to think about the human predicament as a whole. But money is already global in scope and the need to overcome this limitation is urgent. Perhaps only a world war and all the losses it would bring will concentrate our minds once more on fixing the world we live in.

Mainstream economics says more about what money does than what it is. Its main function is held to be as a *medium of exchange*, a more efficient lubricant of markets than barter. Another school emphasizes money's function as a *means of payment*, especially of taxes to the government and hence on "purchasing power." It is considered by some as a *standard of value* or unit of account, with the focus again on government's role in establishing the legal conditions for trade. John Locke conceived of money as a *store of wealth*, a new form of property that allowed the accumulation of riches to escape from the limitations of natural economy.

Polanyi[7] argued that only modern money combines the four functions (payment, standard, store, and exchange) in a few "all-purpose" symbols—the national currency. Although his analysis was intended only to illuminate the history of money, Polanyi's approach offers profound insight into the causes of today's global economic crisis. Our challenge is to conceive of society once more as something plural rather than singular, as a federated network rather than a centralized hierarchy, the nation-state. The era of national monopoly currencies is very recent (beginning in the 1850s), and it took the United States, for example, half a century to secure an uncontested monopoly for its "greenbacks." However, "all-purpose money" has been breaking up for four decades now, since the US dollar was de-pegged from gold.

Since the Bretton Woods system of fixed parity exchange rates ended in the early 1970s, the world economy has reverted to the plural pattern of competing currencies that existed before central banks learned how to control national economies in the late nineteenth century. One aspect of the present crisis is that the international rule system imposed after the Second World War was subverted by the creation of an offshore banking system which brought the informal economy to the heart of global finance.[8] The separation of functions between different types of monetary instruments was also crucial to money's great escape from the rules of the Keynesian consensus. Central bank control was eroded by a shift to money being issued in multiple forms by a globally distributed network of corporations, not just governments and banks.

Some brief examples will serve to indicate the momentous changes that have overtaken money in the last few decades. In Switzerland today, euros are commonly accepted in shops alongside the national currency. If you pay with a card, you can often choose the unit of account (Swiss franc, euro, pound sterling, US dollar). But only francs are acceptable for the payment of local taxes. Are national currencies a store of wealth? Hardly. They have all been radically depreciated and may even disappear, hence the flight to gold—which could turn out to be the biggest asset bubble of them all. As for real estate, the collapse of subprime mortgages got us into the present mess. And I have not even touched on what credit default swaps and collateral debt obligations are used for, or who issues them. The shadow banking system—hedge funds, money market funds, and structured investment vehicles that lie beyond state regulation—is literally out of control.

Simmel[9] considered money's twin anchors to be its physical substance (coins, paper, etc.) and the social institutions supporting the community of its users. He predicted that the first would wither away, making the second more visible. The digital revolution in communications has been transforming money's substance for two decades now. But globalization has made national society seem a lot less self-sufficient than it did a century ago. Radical reductions in the cost of transferring information have introduced new conditions for engagement with the impersonal economy, and world society is increasingly driven by money, markets, and telecommunications. The

replacement of single currencies by numerous types of more specialized monetary instruments is one inevitable result of this.

This process of social extension beyond national boundaries is fraught with danger. We need to extend systems of social rights to the global level before the contradictions of the market system collapse into world war—but local political organization resists such a move. This dialectic of globalization is very ancient. Ours is becoming a multi-polar world whose plurality of associations and convergent income distribution resembles the medieval period more than anything since.

Simmel's prophecy has been realized to a remarkable degree, as the digital revolution accelerates and cheapens electronic transfers. But if the essence of money is its use in a community with shared social institutions, national capitalism has lost its grip on reality. We must therefore move from singular (national) to plural (federal) conceptions of society. The infrastructure of money has already become decentralized and global, so a return to the national solutions of the 1930s or a Keynesian regime of managed exchange rates and capital flows is bound to fail.

The idea of world society is still perceived by most people as at best a utopian fantasy or at worst a threat to us all. We need to build an infrastructure of money adequate to humanity's common needs, although this agenda seems impossibly remote right now. One move in this direction goes by the name of "alter-globalization,"[10] and the idea of a "human economy"[11] offers a bridge to that movement. The economy always has two faces, being pulled both inwards to secure local guarantees of a community's rights and interests and outwards by engaging with outsiders through the medium of money and markets of various sorts—not just our own.

THE EURO CRISIS

An editorial in *Libération* on 1 January 2002 celebrated the launch of the euro as a revival of the spirit of the Roman Empire under the heading "Rubicon." Whatever we may think of Rome's political system, the promise of overcoming the fragmentation of European sovereignty inherited from feudalism did indeed seem at first to be the huge symbolic prize conferred by monetary union. But Julius Caesar made his bid for power with an army. The euro was launched on a premise that politics, rather than being a precondition for economic integration, would follow free market logic. This neoliberal fantasy still grips Europe's political leadership and the euro crisis is its result.

At the same time, I published an article called "A Tale of Two Currencies"[12] comparing the euro with the Argentinian peso, which was then in disarray. The Argentinian default has since been celebrated as a success, and the country has commonly experienced annual growth rates of around 8% in decade since. Distressed national economies like Greece might be encouraged by this precedent, even if they don't match Argentina as a major food exporter in a period of booming prices. Here is an excerpt from the article:

> The euro's management is likely to be less democratically accountable to the public even than its national precursors. The twelve central bank governors of the participating countries represent what is in effect a league of states. The euro may not be a national currency, but it does aim to be a federal state currency, like the the dollar. The

> essence of state money is that currency of little or no worth is offered to a people by the government in payment for real goods and services, as the sole legal means of exchange within the territory and with the obligation to pay taxes on all transactions using it. Central banks jealously guard their monopoly, policing the banks who actually issue most of the money and restricting circulation of rival currencies to narrow spheres of exchange.
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> The legacy of Maastricht is that the economic destiny of 300 million Europeans is now tied to the fortunes of a single currency whose management cannot possibly meet their varied needs and interests. The euro is in principle a throwback to the Bretton Woods era of fixed parity exchange rates, at least for the participating countries, and it does not take much imagination to figure out that the deflationary consequences for some parts of the European economy could be unpleasant. The constituent governments of Euroland will come under pressure from their own people for more flexible instruments of economic management. The euro cannot do the job all by itself.
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> The euro involves only a limited break with the territorial principle. Its logic is still that of a central bank monopoly within an expanded territory. There are other democratic possibilities. We can make our own money rather than pay for the privilege of receiving it from our rulers. Europeans may not yet be reduced to the desperate measures of the Argentinians, but we too have some way to go before we can afford to rest content with the money forms at our disposal.[13]

The monetary crisis that has overwhelmed the Eurozone of late needs to be seen in this context. The apparent triumph of the free market at the end of the Cold War induced two huge political blunders, both of them based on the premise that society should be shaped by the market economy rather than the other way round. First, the radical privatization of Soviet bloc public economies ignored the common history of politics, law, and social custom that shored up market economies in the West, thereby delivering economic control into the hands of gangsters and oligarchs. And second, the European single currency, which was supposed to provide the social glue for political union, was adopted without first developing effective fiscal institutions or economic convergence between northern and southern Europe.

The big mistake was to *replace* national currencies with the euro. An alternative proposal, the "hard European Currency Unit" (ECU), would have floated nationally managed currencies alongside a low-inflation European central bank currency. Countries that didn't join the euro, like Britain and Switzerland, have in practice enjoyed the privilege of this plural option, but Eurozone countries cannot devalue and so must reduce their debts through deflation—or default. The euro was invented when money was already breaking up into multiple forms and functions. The Americans fought their Civil War before centralizing their currency; whereas the Europeans centralized their currency as a means of achieving political union. In this sense, the EU is a neoliberal experiment based on the dogma that markets logically precede politics. In the wake of market failure, the state becomes once again the lender of last resort. But the national solutions of the 1930s or a renewed Keynesianism are bound to fail. So where are the levers of democratic power to be located, now that globalization has exposed the limitations of national economic management? The cultural logic of national capitalism has led the political classes who got us into this mess to repeat the same mistakes. Politics has become a dialogue of the deaf, between those who absolutely deny the need for any political regulation of the market and others who remain trapped in the outmoded model of state money.

It is obvious enough that member states of the Eurozone have been denied the option of devaluation as a means of reducing national debt. In an eerie echo of the 1930s, when Britain left the gold standard before mainland Europe and thus had a more lenient depression, the UK this time also took early advantage of a massive devaluation, while countries of the Eurozone could only deflate or default. The lessons of the 1930s and since make it hard to understand why austerity policies are being universally pursued when they can only intensify the depression. The economist Paul Krugman[14] has argued forcefully that a Keynesian approach would end the current depression. If he is right at the level of economic theory, he still has no political explanation for why Europe's rulers are doing the opposite. All the evidence points to the dominant interest in this crisis being the financial institutions; and since politicians are addicted to money, it is hardly surprising that their policies favour the banks at the expense of the bulk of the electorate. The fact is that a very few people benefited from the credit boom and those few will sacrifice the rest of us to retain their power. Austerity is good for disciplining the masses and keeping them cowed, certainly better than expanding demand and regulating capital flows. It is up to us to show them they are wrong to think so.

The key problem for the Eurozone is the democratic deficit which has led governments to be accountable to finance rather than to their own people, as they largely were during the decades of social democracy after 1945. Examples of alternative trajectories are not hard to find. Iceland suffered more than most countries from the financial crisis because three banks yoked their small island economy to the credit bubble.[15] A new government, incidentally dominated by women, rejected British and Dutch pressure to repay bad debts incurred in those countries, let the banks fail, limited household debt to a proportion of their existing assets, and put the former prime minister and the bankers on trial. The result is that their economy is now growing at 3% a year (compared with less than 1% in the Eurozone) and the country's sovereign debt rating has been raised, with the approval of the IMF. David Graeber[16] has won widespread attention in the United States and Europe for his argument that a wholesale cancellation of debts for the masses is needed now on the model of the ancient *jubilee*. The small Baltic states have also shown that the deflationary route can be politically viable. A prime example is Latvia, whose head of government was re-elected after instituting savage austerity and still wants to join the Eurozone. Throughout the twentieth century, the Scandinavian countries and Switzerland showed that democratically accountable political elites could ensure among the highest rates of economic growth in the world.

The economic stalemate in the Eurozone has political sources and could be resolved if the terms of public debate acknowledged contemporary social realities. It is unlikely, however, that the ruling elites who brought the crisis about will introduce effective solutions, since their prime responsibility is to save their own skins and those of their financial backers. To the idea of economic crisis and its antidotes, we must add the possibility of political revolution, as Europe has again become a focus for mass insurgency. The European Union was a bold political experiment that had some prospect of making regional federation the next stage in the making of world society. But its monetarist premises never allowed for the expression of economic democracy, and that is now coming back to haunt them.

The euro crisis is pushing Europe's rulers inexorably along a path of social polarization, between a corporate bureaucracy and a population rapidly being stripped of the political, legal, and economic powers won after 1945. The whole story is a Greek tragedy in both the ancient and contemporary senses, where even the best intentions can no longer remedy the consequences of past mistakes. The tragedy is that, by granting undemocratic powers to the European Central Bank, the EU has ensured that the euro's stability will be achieved only at the cost of general economic hardship. Mass political resistance will be the inevitable result, thereby further undermining the stability of the currency.

Just as it was always a mistake to imagine that a single currency would lead to political union, so too attempts to prevent the crisis from unravelling now persist in trying to fix the euro when the problem is the political union itself. Europe's rulers have grown so accustomed to hiding behind an economic fiction masquerading as democracy that they have no political solutions. Finance gets national politicians elected and gives them power once they are in office; nothing intrudes on their complicity. The European Union itself, designed as it was to address global economic problems through a regional federation, will go down and the euro with it. The resulting disaster may eventually lead to a genuine reconfiguration of world politics of the sort that occurred after 1945. ❍

Image source: http://roarmag.org/2011/06/pictures-athens-austerity-vote-protests-riot

ENDNOTES

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