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Transfer Union or Common Bond? On the Moral Economy of the Eurozone

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For the past year the eurozone has been facing a crisis that some observers predict will not pass until the basic structure of the monetary union is transformed. One of its member-states could be ejected for 'breaking the rules,' while others face a strict insolvency regime and a set of fiscal controls that further compromise their sovereignty. If this is 'Phase 2' of a global financial crisis, it has a distinctive European flavour as arguments about who (or what) is to blame go to the heart of what the euro was all about in the first place. In this note we want to highlight one aspect of the debate, namely, the claim that the eurozone has become a transfer union. Framing the eurozone in terms of a notion 'moral economy' drawn from Bataille, we argue that this claim is misjudged.

'Transfer union' has become part of the euro lexicon only recently.¹ Examples of its use include Jörg Krämer, chief economist at Commerzbank, claimed that the eurozone 'has moved away from a monetary union and towards a transfer union' (*New York Times*, May 11 2010); and Columbia's Economics Professor, Jagdish Bhagwati, who in an interview with *Frankfurter Allgemeine Zeitung* published on 20 June 2010, said: 'It is possible that the monetary union turns into a transfer union,' he said, 'if the weak countries have problems and everyone gets worried about the Euro, the question rapidly becomes political. It is in the end not good for Europe if countries such as Greece default. There will therefore be a transfer of money in such situations – to a certain extent they will be forced to do so'. The notion of a transfer union is generally used in such instances as a proxy for aid programme, and invoked to describe redistributive functions that – so it is argued by critics – were never intended for the euro. As Ralph Atkins writes in the *Financial Times*, 'the ECB's critics believe buying government bonds even on a small scale blurs monetary and fiscal policies, favours the fiscally irresponsible and risks turning the eurozone into a "transfer union" in which richer nations support poorer rivals – all of which are against the terms on which Germans thought they had joined the euro in 1999' (7 July 2010).

The idea of a transfer union is expressed, for the most part, in negative terms. In this article, we offer an alternative view and propose a re-framing of the idea of a transfer union in terms of arguments about moral economy – particularly by Mauss and Bataille² – that suggest that the notion of a transfer union is not as problematic as it presently appears. Indeed, elements of such a union have arguably been a crucial feature of the eurozone from its very inception. The article is divided into three main sections. The first part will lay down the basic theoretical arguments about the concept of a transfer union, using the work of Bataille as a starting point. In the second part, this concept will be further developed with regard to current (and, we suggest, misconceived) arguments about winners and losers within the eurozone. The last part of the paper will consider one possible development of the eurozone which addresses some of these issues, namely a common euro-bond.

General Economy

Bataille uses the notion of gift exchange to develop a highly distinctive interpretation of 'political economy'. His main contention is that gift exchange conforms to a model of economic life, which he calls *general economy*, which contrasts with our own (neoclassical) model of *restricted economy*. Whereas restricted economy starts with the problem of scarcity and focuses on 'particular operations with limited ends' (1949: 22), general economy starts with the problem of excess. For Bataille, gift exchange is never a matter for purely 'economic' calculations, but rather 'political' ones: 'More often than not it is the solemn giving of considerable riches, offered by a chief to his rival for the purpose of humiliating, challenging and obligating him.³ The recipient has to erase the humiliation and take up the challenge; he must satisfy the obligation that was contracted by accepting' (ibid., 67). Moreover, 'a good many of our behaviours are reducible to the laws of potlatch; they have the same significance as it does' (69). A similar argument is put forward by Mauss in *The Gift*, where he describes the potlatch among the Indians of the American northwest as a contract whose collective nature is crucial to its position within a more general system of 'total ser-

vices' in society. Material and moral life, and exchange, function here 'in a form that is both disinterested and obligatory' – a sense of obligation which, Mauss says, is 'expressed in a mythical and imaginary way or, one might say, symbolic and collective' (1950: 42).

Bataille does not simply explore gift exchange and sacrifice among the Aztecs, but somewhat surprisingly, addresses the Marshall Plan in the book's final chapter. Formally known the European Recovery Programme (ERP), the Plan (named after George Marshall, the US Secretary of State) was put into operation in 1947-51 to support the postwar reconstruction of the European economy – some US\$13 billion worth of economic and technical assistance (as against a US GDP of \$258 billion in 1948) were given via the Economic Cooperation Agency (ECA) to those European countries joining the Organization for European Economic Co-operation (OECD). Transfers under the Plan operated as loans: American suppliers were paid in US dollars credited against ERP funds. They were explicitly *not* gifts: the European recipients had to repay the monies in local currency, which was then deposited by the government in a counterpart fund. This money, in turn, could be used by the ERP countries for further investment projects. The Marshall Plan was significant for the development of the international monetary system. It was instrumental in the establishment of the European Payments Union (EPU) in 1950, lifting the majority of capital controls in Europe while encouraging a system of fixed exchange rates and a degree of trade liberalization. Moreover, drawing rights connected to the EPU were supported by ECA funds, and facilitated the process of establishing full convertibility under Bretton Woods.

Describing it as 'an investment in the world's interest,' Bataille saw the Plan as an answer to general economy's fundamental problem: excess. He characterized its payments as *condemned wealth* (182) that had been generated by an economy 'so developed that the needs of growth are having a hard time absorbing its excess resources' (179). In making this argument, Bataille drew on François Perroux's 1948 text, *Le Plan Marshall ou l'Europe nécessaire au monde*. Perroux, a Professor at the Collège de France, drew a distinction between 'classical' and 'general' economy which maps onto Bataille's basic framework. According to Perroux, in 'classical' economics we make calculations according to isolated interests, as against a general interest to which the 'national point of view' was 'irrelevant' (cited in Bataille, 1949: 189). How, though, might such discussions about the postwar reconstruction

of the European economy be relevant to the present-day plight of the eurozone? The differences are, of course, significant: the Marshall Plan consisted of funds from outside Europe, and for all Perroux's talk of the general interest, the motivation to resist Soviet interests in Europe was an important part of the rationale behind the Plan as it was eventually put into operation. Nevertheless, Bataille's framework can be used to place the idea of a 'transfer union' in rather more positive light.

Winners and Losers

The description of the eurozone as a transfer union has been provoked and sustained by the 'bailout' of Greece: the 'stabilization facility,' worth some €750bn., that was set up in May, drawing on funds from the IMF (up to €250bn.) contributions from euro zone member states (€440bn.) and the EC (€60bn.). A bond supporting this facility has been established, backed by member-state guarantees, and was rated AAA by Standard & Poor's and Fitch in mid-September. One significant function of the eurozone stabilization facility is that it merely renders *visible* economic asymmetries that have existed all along. As the existence of this stabilization fund suggests, the current crisis in the eurozone is being inextricably linked to an underlying problem of imbalances among member states. But the imbalances that necessitate what looks like 'aid' from some member-states to others did not emerge suddenly, their basic contours have been present in the eurozone ever since its inception. They are also part of long-standing debates comparing the eurozone to Mundell's (1961) model of an optimum currency area (OCA). Although Mundell was largely positive about monetary union in Europe – and even about a world currency (1968) – OCA theory has been invoked mainly by the euro's critics.

Now, more than a decade since the euro's inception, discussions of OCA theory have given way to arguments about transfer that focus directly on perceived losses and gains between surplus and deficit countries incurred as a direct result of their membership of the eurozone. According to Sinn, for example, Germany has not only been a net contributor to the EU budgets but has lost out from its inclusion in the eurozone. His argument focuses on finance, and suggests that convergence in interest rates provoked an 'investment' boom elsewhere in the euro zone (e.g. Spain and Greece) which not only starved the German economy of investment but fed rampant consumerism and booming house prices elsewhere. According to

this view, German net investment was very low between 1995 and 2008, with the consequence that Germany had the second lowest growth rate (behind Italy) in the eurozone between 1995 and 2009.

Sinn's account has not gone unchallenged. Wolf, author of *Fixing Global Finance* (2010a) and one of the FT's most influential columnists, argues that German investment was kept low by a combination of weak domestic demand, structural rigidities and globalisation – *not* its eurozone membership (2010b). If the outflow of savings from Germany to countries on the periphery of the eurozone fed consumption and growing current account deficits, these can hardly be described as 'gains' but rather present very short-term 'booms' whose damaging consequences are now being experienced by citizens in those very same countries. The contrary argument, that Germany has in fact *gained* from its membership of the eurozone, rests on the fact that a relatively high percentage of its exports – two-fifths – go to other eurozone countries. Moreover, its surplus position has been helped by the euro's stable value, whereas an independent German currency that appreciated in value would have reduced its competitiveness.

As this debate suggests, the euro project has always been driven by a complex interplay of individual and general interests. According to Dumas, for example, those countries in the eurozone that are now in account surplus have been benefitting directly from the deficits that have been accumulating elsewhere: 'In effect, these economies have been taking a free ride, generating income and building up assets by selling into the domestic demand of the deficit economies, fuelled by borrowing that should not have taken place' (2010: 160). Dumas applies this analysis to Italy (where real consumption rose by 3.5% between 2001-9, as against 0.5% in Germany) as well as Greece: 'without those Italians spending away,' he claims, 'German output, jobs, incomes and consumption would have been even worse. The folly of the miser indeed' (ibid., 169-70).

Significantly, any 'Keynesian' solution to the crisis in the eurozone – using expenditure to stimulate aggregate demand – tends to be viewed as contrary to the interest of those states deemed to be strongest because it would mean surplus countries saving less and spending more. Saving may seem 'virtuous' when considered in isolation – as may a balanced budget, which Dumas regards as the key ideology underpinning Germany's economic policy (ibid., 168) – but under the circumstances that prevail in the eurozone, where there are significant current account

imbalances between core and peripheral states, there is a classic paradox of thrift:

In the Keynesian scheme of things, what appears to suit a firm, for example cutting wages, may seem damaging for all (including the firm) if applied generally throughout the economy, if aggregate incomes falls and with it demand and profits. Similarly, what seems prudent for an individual – or even an individual country – may not prove prudent if too widely practised. In the modern world economy, an apparently prudent saver may ultimately prove to be imprudent, even assessed from the most narrow, selfish standpoint. And in the process of saving too much, the globalized economy and system have been strained, with reduced willingness to sustain globalized markets, especially free trade, on which savers, especially saving countries, depend. (ibid., 11-12)

According to Dumas, the eurozone faces precisely this dilemma between the interests of individual member-states and what is in the collective interest, and this relates to the problem of maintaining the integrity of the system as a whole. This mirrors exactly Bataille's perspective of general versus restricted economy. Indeed, Dumas suggests that the euro will fail if 'the countries that are competitive – in Europe, Germany and its immediate surrounds – *refuse to spend their income*' (ibid., 155, italics added).⁴ The problem, in other words, is one of *expenditure*.⁵ Following, Bataille, what seem like rational economic strategies when viewed in isolation – 'austerity,' or the denial of expenditure – may turn out to be anything but, even when viewed 'from the most narrow, selfish standpoint'. Viewed with the collective interest in mind, such behaviour may cause long-lasting damage.

The Eurobond

The stabilization facility – which Bataille might characterise as condemned wealth – is a temporary compromise. Driven by a collective interest in avoiding the fall-out from any Greek default as the crisis was in full swing earlier this year, the facility merely delays the crucial decision about how – not whether – the eurozone should be reconstituted. One significant aspect of this decision should be to address the financial architecture of the Euro. This has been flawed from the outset. When the Maastricht Treaty was signed in 1992, the eurozone got a central bank but no central treasury. It was never the aim to establish fiscal integration – politically, this was always a step too far. Less widely discussed at the time was the other side of sover-

eign financing: not tax, but bonds. When it came to sovereign credit, here, too, eurozone members were apparently on their own: they were to be part of a collective *monetary* arrangement while still needing to make their own independent *financial* arrangements. Until the present crisis, however, things did not quite work out this way. As the chart below indicates, the introduction of the euro coincided with a *de facto* 'unification' of government bond yields. Member-states were borrowing at similar rates, as if they were exposed to the same underlying degree of risk. Given their collective interest in ensuring that monetary union was a success, and given that there was no provision for any member to exit the euro, perhaps this was a reasonable assumption.

The impact of this 'unification' on Greece is especially striking: starting with a yield of over 11% in the beginning of 1998, it declined constantly to about 6% in mid 2000 and even further to a low at 3.3% in September 2005. Similar examples can be seen with both Slovenia and Slovakia experiencing a rapid lowering of bond rates. All of this implies that one significant benefit of eurozone membership for these states was cheaper government borrowing.

See appendix, graph 1

Writing early on in the eurozone's lifetime, Aglietta and Scialom suggested that rates reflected a common 'benchmark' of German interest rates:

Government bonds have been converted into Euros since the first day of EMU ... The process has included outstanding debt as well as new issues. By the second half of 1998, interest rates of the same maturity bonds had already converged, with very low spreads. This was an indication that the market was unconcerned about the sustainability and solvency of government debt in participating countries. German bonds provided the benchmark because their market was deeper and broader ... It is as if a single yield curve has been established. (2003: 52)

One implication of this is that the eurozone could be seen as an arrangement that has *already* worked as a 'transfer union' as regards sovereign borrowing. That is to say, some member-states benefited from easier credit conditions – through the bond markets and filtering through into private corporate and household debt – specifically because of their membership of the euro. So why have rates diverged? One answer is that debt has been used in a different way since the global crisis. De Grauwe, for example, points to the 'flight to safety' of investors dumping

private debt and turning to low-risk sovereign debt. Crucially, this means that those eurozone governments with a stronger reputation have enjoyed a *lowering* of rates, while those countries considered weaker could not draw the same benefit. Spreads have therefore increased. And yet as he points out, some states – Greece and Ireland, particularly – saw their rates actually rise, and he views this as a function of perceived credit risk: 'This has probably to do with the fact that some of these countries (e.g. Greece) have high levels of debt, and others, like Ireland, experienced a fast deterioration of their government debt levels' (2009: 243).

In light of this, the underlying rationale of the eurozone is up for questioning once more. But the current crisis seems particularly intractable not simply because the different member states lack the political will or ability to resolve it. Rather, it is especially difficult for them to do so because the euro's configuration as a *monetary* system is at odds with the financial architecture that supports it. Although member-states' debts are in their own 'domestic' currency (euros) their lack of independent control over that currency severely limits their options when dealing with sovereign debt. This is due to monetary integration. On the other side, some member-states are confronting serious difficulties in raising debt through bonds. This is a form of financial *disintegration*. The result is a confused mixture whereby sovereignty is both pooled and not pooled. One currency, sixteen state debtors.

In the current crisis, the pursuit of self-interest by eurozone member-states will probably lead nowhere. In order to go *somewhere*, on the other hand, the logical choice seems to be between a) integrating the euro's financial architecture, b) reducing the eurozone's size, or c) dismantling it altogether. While option b) is favoured by many, there is no guarantee that it will work without attending to a) at least in some form. Indeed, one could argue that a) has been happening anyway, up to a point. As we have noted, member-states were largely borrowing as *if* there was a common rate prior to the present crisis, and the stabilization facility has its own dedicated eurobond. If it is to survive, member states within the eurozone need to pursue objectives that are framed by collective interests. Arguably, a eurobond is the logical extension of this argument in the sense that it would, for the time being at least, be the most tangible and concrete – and, above all, achievable – embodiment of a eurozone not only conceived but operating according to collective interests.

Discussion of the eurobond has been minimal. Prominent interventions on the issue include those by Issing and Soros, who take opposing views, but there has not been much debate. According to Issing, the eurobond looks attractive only as a short-term solution to the crisis, i.e. as a means of deleting the interest rate spread and providing guarantees that the weaker states – the PIIGS – cannot default. But the longer term consequences would be damaging, according to Issing: ‘the argument that some countries are in such a terrible situation that they will be unable to get out without substantial help from their neighbours is ... unconvincing [and] would turn against a common bond,’ he says, before concluding: ‘It would be hard to find a clearer case of free riding’ (2009: 78). Likewise, it would be hard to find a clearer case of a discussion of the eurobond issue that is so tightly framed by the emaciated logic of restricted economy.

Soros, by contrast, argues that the absence of a eurobond is a ‘structural defect’ of the eurozone. However, he envisages a common bond not as a replacement for bonds issued by individual states but rather as an addition – which, presumably, is a role the stabilization bond now fills. For one thing, it would lend credence to the rescue of the banking system and allow additional support to the newer and more vulnerable members of the EU. For another, it would serve as a financing mechanism for co-ordinated counter-cyclical fiscal policies. Properly structured, it would relieve Germany’s anxiety about other countries picking its pocket.

The main use of monies acquired by this means would be to fund infrastructural projects such as gas and oil networks that would both increase member-states’ independence, while also fulfilling what Soros refers to as a ‘counter-cyclical’ function – presumably, this means providing stimulus at times of crisis. (‘The eurozone needs a government bond market,’ FT, February 18 2009)

Soros’s eurobond proposal is something of a halfway house, whereby member-state governments borrow collectively without conceding their additional capacity to borrow as independent states. One clear advantage of such an arrangement would be that it avoids what Issing regards as the greatest danger of the eurobond, which is that the strong states face higher borrowing costs. A similar compromise is envisaged by De Grauwe and Moesen, whose proposed a eurobond would be a means of reducing the ‘distortions’ and ‘externalities’ created by divergent bond yield spreads. However, in order to placate German fears

that a eurobond would generate moral hazard problems – i.e. ‘weaker’ states would borrow freely in the expectation of a bailout – they propose a system of differential pricing: ‘the interest rate (coupon) on the euro bond would be a weighed average of the yields observed in each government bond market at the moment of the issue’ (2009: 134). This would be a transfer of security – there would be an underlying collective guarantee for the bond – but not of resources. So the free-rider problem that Germany fears is circumvented whereas the bankruptcy issue is solved. Greece would benefit nonetheless: the possibility of being shut from the market would not exist any longer – money would always be available.

De Grauwe’s fear – shared by Issing – is that without differential pricing there would be a problem of free riding or moral hazard. In Issing’s article, one paragraph stands out that both expresses this fear while arguably exposing a flaw in the reasoning behind it:

Supporters of the European bond idea argue that this would mean that the “strongest” guarantee for the “weakest”, and ask whether this isn’t exactly what Europeans mean when they talk of solidarity? (2009: 77)

The question appears to be rhetorical – but arguably, the answer to it is ‘no’. ‘Solidarity’ in the context of the eurozone is not simply a question of strong taking care of weak – doing so is ostensibly in the interests of the latter but against the interest of the former – but rather of a pooling of resources according to the collective interest. Issing’s case – and, to a lesser extent, that of De Grauwe and Moesen – takes an isolated, restricted economic view of the eurozone which arguably starts from the wrong place. From a different, general economic perspective, as Dumas has said, the stronger states ‘beggar’ as well as ‘subsidise’ the weaker states within the euro zone: a strong exporter such as Germany needed its ‘irresponsible’ Greeks and Italians. Once the problem is viewed in this way, the free rider argument looks less self-evident, and the moral judgements that are so often attached to the distinction between ‘strong’ and ‘weak’ states appear somewhat myopic. In practice, the euro operates as an elaborate system of wealth distribution whose underlying asymmetries have been laid bare during the current crisis. In this sense, the critics are only half-right after all when they say that the euro is a transfer union. It always has been, and must continue to be if the euro is to survive, let alone thrive. In this sense, we would agree with Eichengreen:

Only when a homogenous debt instrument with a euro wide market comes into existence, when it is backed by the full faith and credit of euro area governments as a group, and only when it is backstopped by the ECB will the euro be in a position to seriously rival the dollar as a reserve currency. (2009: 17)

Concluding remarks

'It will be said that only a madman could perceive such things in the Marshall and Truman plans. I am that madman,' Bataille wrote (1949: 197 n. 22). As things turned out, the formula he proposed for the Marshall Plan was very close to that which was adopted six months later (Surya, 2002: 377). Using the same reasoning, the 'madman's' solution to the eurozone – if it is to survive on anything like its present scale – must involve deeper union, and this requires some form of financial (not just fiscal) integration. The alternative is a different kind of madness: the all-too-familiar pattern of serial crisis-and-compromise as we are left speculating about whether specific member-states – Greece now, Ireland next? – will still be part of the eurozone in a year's time.

Endotes

¹The word 'transfer' comes up four times in the original Maas-tricht Treaty - see Articles 73h and 205 - and never in line with current usage.

²Although Bataille is not widely cited in economic sociology, ideas closely related to his work, focused mainly on gift exchange, are widely used and have featured in recent issues of this newsletter (e.g. November 2009 issue). In relation to money, the notion of gift exchange has been used successfully by Keith Hart, who has been interviewed for this Newsletter (November 2007). Mauss is cautious about applying the gift exchange framework to contemporary society, but does occasionally turn his attention to contemporary phenomena, as in discussions of Friendly Societies and the morality of the 'liberal professions' (1950: 89). 'We touch on fundamentals,' he says.

³Space prevents us from going into the aspect of *rivalry* that is so important to Bataille's approach, but suffice to say it seems to be readily applicable to the political dynamics of the eurozone. As we are seeing at present, only the finest of lines separates co-operation from open rivalry and conflict. However, it is the collective interest underpinning *institutions* in the general economy framework that we wish to bring out: this is fundamental to Bataille's remarks on the Marshall Plan, and to our interpretation of the eurozone's current predicament.

⁴In any case, budget deficits in the eurozone's periphery undermine the immediate prospects for any Keynesian stimulus, in so far as 'investor confidence requires tightening the budget in small countries with proportionately large deficits, especially those with outstanding debt already' (ibid., 157). The stabilization fund has served merely as a stopgap in this sense, enabling Greece to fund its deficit for the time being but – according to Dumas – undermining the 'spirit' of the euro project sufficiently to cast doubt on Greece's continuing membership and, more generally, on whether the logical next stage – 'fusion into a proto nation-state' (ibid., 158) – will ever be achieved.

⁵Bataille invokes Keynes just once, referring in the 'Preface' to *The Accursed Share* to the 'mystery of Keynes's bottles' (1949: 13) – an example from Chapter 10 of *The General Theory* (1936) dealing with the use of expenditure to stimulate demand.

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Appendix: graph 1

