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Should Crisis-Hit Countries Leave the Eurozone?

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Introduction: the Eurozone crisis

The economic crisis within the Eurozone has led to renewed debate about the future of monetary union. Some ask: should Greece and Ireland voluntarily leave the Eurozone, reclaim their fiscal autonomy, and re-introduce national currencies either parallel to or alongside the Euro? What does the experience of citizen-led monetary experimentation tell us about the ability of civil society or subaltern groups to create their own forms of money when that provided by states fails? This is interesting as traditionally the left has been indifferent to the form of money, focusing on the exploitative nature of the relationship between worker and employer, or between the state and the mass of people during crises. Workers should struggle for more money, and better conditions. In a crisis, working people should refuse to pay the cost of a crisis they were not responsible for. Others argue for the abolition of money in favour of co-operation. But the form of money is rarely considered: we don't often hear about struggle for 'another' kind of money, even though there is a rich but hidden history of monetary contestation which goes back to Robert Owen in the UK, the Populists in the US, and the German and Swiss Freemoney networks of the Great Depression (North 2007). Could the Eurozone crisis give birth to a new politics of money? This paper discusses the options.

Progressive support for and critiques of the EU project

The left has always had an ambivalent and conflicted relationship with the European ideal. Social democrats in many European centre left parties have long been attracted to the internationalist and solidaristic elements of the European Union. The European ideal was of making wars between countries who had engaged in the brutal, prolonged and industrialised destruction of each other's populations within living memory impossible (Lieberman 1992).

Mechanised war over a whole continent involving the systematic aerial bombing of civilians and scorched earth policies by retreating German and Soviet troops left 61 million human beings killed and a continent devastated, and the socialists in the wartime European resistance wanted to ensure this would never happen again. They developed plans for European unity based on a brotherhood of many to replace the Europe of Nations which, many argued, merely led to endemic warfare. The new international social order would also eliminate poverty, disease and unemployment, as well as irrational belligerence and xenophobia. Economic warfare and protectionism was largely believed to have led to the Great Depression. The construction of the European Coal and Steel Community aimed at integrating France and Germany's war fighting capability, making belligerence impossible.

Now, war between European countries seems not only unimaginable, but, if theorists of economic integration are right, physically impossible when nation states do not control their national economies any longer. Other attractions for the left included the 'social Europe' of the Delors plan which was a concrete alternative to the decimation of the welfare state and opt out of the social chapter under Thatcher, a solid alternative the bleak argument that 'there is no alternative'. Post-1989, pan European internationalism expanded to the entry of former Soviet dominated-states. Thus, for the centre left, 'Europe' signifies internationalism and solidarity, as opposed to the little-England nationalism and xenophobia of the Eurosceptic right. Centuries of war have given way to a shared feeling of sovereignty, of which the euro is both "the most evident symbol and deepest material form of this shared sovereignty" (Mulhearn and Vane 2008).

More radical left voices have seen the EU more as a vehicle for corporate neoliberal forms of globalisation than as a utopian internationalist project (Baimbridge, Birkitt et al. 2005). Their concerns have focused on the single market as a tool for big business to reduce labour and environmental standards through an insistence on opening up procurement in the public sector to pan-European, to the benefit of multinationals willing to undercut local providers with higher standards. At a macro-economic level the growth and stability pact that accompanied the Euro is seen as a tool for 'disciplining' national economies that do

not sign up to the Washington Consensus of balanced budgets and fiscal 'responsibility' and 'stability' above job creation and the protection of working people's living standards. In another context, Dinerstein (2001), following Bonefeld and Holloway (1996), calls this the 'violence of stability'. Left critics argue that membership of the EU prescribes progressive nationalist projects like the Labour Left's Alternative Economic Strategy (Cripps, Griffith et al. 1981) or 'Local Socialisms' of the 1980s (Boddy and Fudge 1984; Mackintosh and Wainwright 1987), which looked to protect manufacturing industry from what we now know was the first wave of what Harvey called the 'spatial fix' of a crisis of capitalist productivity – the move of manufacturing to lower cost and lower regulated countries (Harvey 1992). The Cambridge economist Ha Joon Chang argues persuasively that weaker economies might just as much want to protect and nurture their growing economic resources from globalising pressures as a family protects and nurtures its children: we expect them to make their way independently at eighteen, but not at eight (Chang 2007).

Greens share the left's charge that the EU is more of a vehicle for neoliberal forms of globalisation than for internationalism and solidarity, but their concerns focus more on the role of the single market in privileging big, global business over smaller local firms trading in local markets and thereby contributing to local distinctiveness (Scott Cato 2005). The single market, greens argue, leads to a bland, standardised 'clone town' economy (nef 2010) dominated by global brands (Simms 2007). The benefits to ordinary citizens of a pan-European currency – more convenient European holidays – are less obvious. Greens also point to the absurdity of the carbon emissions and avoidable consumption of limited fuel resources associated with identical products been produced in one country and transported to another to be sold: for example, Dutch butter sold in the UK and British butter sold in the Netherlands (Woodin and Lucas 2004). They argue for a greater commitment to local, more self-reliant economies as opposed to avoidable global trade (Douthwaite 1996; Shuman 2001; Cavanagh and Mander 2004). Their attachment to the local should not be conflated with a commitment to autarky or to xenophobia. Rather they argue for trade subsidiarity: for producing things as close to where they are used as makes economic and ecological sense. Critics would argue that they underplay the benefits of international trade and communication associated with progressive conceptions of globalisation (North 2010).

In reality, concerns about the potentially restrictive and repressive nature of the growth and stability pact proved to be overblown as Germany and France, as well as the UK, studiously ignored its constraints by running up budget deficits and deregulating finance. In practice, no left wing or green government in the Eurozone attempted any radical alternative that required 'disciplining'. Rather, neoliberal globalisation seemed dominant. Dominant, until the financial collapse of 2007-8 beginning with the sub prime crisis in the US, spreading to the UK and thence to the Eurozone. Massive Keynesian reflation seemed to stave off financial collapse, but at the cost of huge sovereign indebtedness. Not for the first time, private greed in the financial sector led to huge losses which were socialised: private debts became sovereign debt, and the markets demanded cuts in public spending in the indebted nations to recover stability. The crisis hit Greece and Ireland the hardest, with Spain and Portugal in the danger zone. The newly elected coalition government in the UK used the threat of the market to drive through significant cuts in public spending and of working people's standard of living. Resistance across Europe varied, with significant mobilisations in Greece, Spain and Portugal, with a more muted response in Ireland and the UK. The question then raises its head: why put up with this 'violence of stability'? Should countries threaten to default on their debts and renegotiate terms on a more favourable basis, or actually default?

The Eurozone – an optimal currency area?

At this stage it is worth rehearsing the arguments for monetary union irrespective of the claimed pathologies or otherwise of a neoliberal politics of financial stability and the effects of the growth and stability pact. Mundell (1961) argued that an 'optimal currency area' is one where the benefits outweigh the costs. The argument is that replacing national currencies with a continent-wide Euro would be more efficient by reducing transaction costs for trade across borders, leading to more trade and, it is claimed, greater welfare. It would be easier to compare prices across space, so prices will be driven down. Less uncertainty about exchange rate fluctuations leads to welfare gains, so businesses can make long term plans. The result is less uncertainty about prices. Finally, opportunities for speculation on fluctuations between competing currencies will disappear, preventing otherwise functioning markets from being disrupted by herd behaviour. A bigger, more efficient market will encourage more trade, more

inward investment, more efficient location decisions, thus more growth and improved human welfare (De Grauwe 2000). National economic sovereignty is a chimera in an age of globalisation, and the benefits of integration by far outweigh any costs. Leaving the Eurozone would forfeit these benefits.

Against this, the Eurosceptic right argue that joining a single currency means that a country loses the ability to conduct national monetary policy (Redwood 2001). Its central bank ceases to exist, or has little power. It loses the freedom to revalue or devalue, or determine the quantity of money in circulation, or to affect the exchange rate with other currencies to make imports and exports more or less expensive. It can't affect interest rates to promote or retard borrowing and job/sme creation. For Eurosceptics, the loss of a national currency is equivalent to the loss of identity and of freedom. It is part of a broader move to an integrated Europe, seen as a centralised superstate. They have a preference for a Europe of Nations and free trade, and minimal regulation at EU level. Redwood also challenges the claimed peace building credentials of a single currency and of economic integration. He argues that war has been avoided as France and Germany developed democratic, peaceful values endogenously, and that NATO, not the EU, has kept the peace. If European Governments did want a war, he argues, "a small secretariat in Brussels would not be able to stop them". Redwood argues that the benefits of peace come from trade and free markets, not from a single currency, and that the rise of Irish, Flemish, Northern Italian and Catalan nationalism shows that, if anything, people want more, smaller countries, not integrated superstates. Small countries often see a currency as an essential element of sovereignty.

Both sides agree that a single currency means that national governments lose the power to affect the extent that consumers want to by domestic or foreign goods, or take account of local cultural, legal or socio-political characteristics that have an effect on the economy such as the rate of small business set ups, labour market flexibilities, the strength of trade unions and/or protest groups, or the extent that consumers spend or save. The result, as every geographer knows, is that differences across space means that growth rates may be different in different part of a currency union, with identical economic conditions at the continent level. Green critics argue that one monetary and interest rate and money rate means it can be too loose for surging regions, too tight for struggling ones. Jane Jacobs (1984) suggests the surging ones dictate it – their econo-

mies overheat, while lagging economies struggle. Jacobs argues that more localised currency circulations act as 'surge breakers', preventing crises reverberating around a large economic area, and enabling monetary policy to fit local conditions – harder in surging regions, softer in lagging ones. A continent wide currency like the Euro and US Dollar cannot fulfil this role. Echoing Jacobs, the new economics foundation's David Boyle argues that "big currencies pervert the accuracy of economic information fed back from local economies to the centre, and the consequent devaluing of local life."

Those who argue that the Euro is an 'optimal currency area' argue that over time the relentless drive towards efficiency and growth driven by a single European currency will force local and national economies into an equilibrium. People will move to where the opportunities are, putting pressure on wages and reducing pressure on surging economies. The then British Chancellor Gordon Brown consequently set out his five 'Economic Tests for Joining the Euro'. Before agreeing to join the Eurozone he wanted evidence (1) that the UK economy was harmonised with the Euro zone, (2) that there sufficient flexibility. If the UK went into recession with no control of monetary policy and with fiscal policy limited by the growth and stability pact, could it cope? The other three tests were that joining the Euro would have a positive effect on investment decisions, on financial services (given London's pre-eminent world role), and on growth and jobs. Brown thus argues that the Euro would demonstrably be working as an optimal currency area for the UK to join. As we know, the Euro failed the test in Brown's eyes.

Critics of the Euro argue that this is as the equilibrium mechanism doesn't work as effectively as it should in theory in a Europe of nation states speaking different languages, with different local cultures, and different economic conditions. Americans share political sovereignty and language, they argue, meaning they can move in a way that Europeans find more difficult. But also this can be overblown: some people can be dependent. You do get many young people from higher regulated European countries moving to lower regulated UK for work, while many American states in the deep South have entrenched poverty that is not mitigated by emigration or economic integration (Harvey 1992). A mass of reasons might make individuals and businesses, 'locally dependent', unable to move easily (Cox 1997). So the experience is that the European economies have not come into equilibrium over the past 10 years, while monetary policy has proved too

tight for countries, struggling with sovereign debt like Ireland or Greece, be it newly socialised or more structural. So should countries like Ireland and Greece call it a day and leave the Eurozone?

Should countries leave the Eurozone?

There are three possible scenarios. A country suffering economically within the Eurozone could leave, or be forced out through market pressure. National currencies could be re-introduced, and the country regain a measure of control over monetary and fiscal policy denied it by being within the Eurozone: either to boost the economy using Keynesian methods, or by allowing its currency to float against the Euro in the expectation that it will lose value, making that country's exports cheaper. The Punt or the Drachma would be like the UK pound: EU membership would be combined with monetary independence under the control of market surveillance. Crucial here would be the attitude of the markets. Would it be welcomed as a return to normality, as opposed to the aberration of participation in a single currency that was not in that country's interests? The parallel here would be sterling's expulsion from the ERM in 1992. The British Monetary Policy Committee and Bank of England independence operates within the same neoliberal paradigm as the Euro – fiscal rectitude and stability is key – thus providing a plausible neoliberal alternative to the Euro. Other central banks could do the same.

The other example from which to draw again is not strictly the recreation of a defunct national currency, but is worth consideration: Argentina's abandonment of the 'peg', linking the peso to the US dollar, in 1992. Here again, market pressure and a bank run forced the authorities to break the Peg and let the Peso float (Halevi 2002; Blustein 2005). It lost 75% of its unrealistic valuation against the dollar, but did provide a boost to Argentine exports, with the economy achieving credible levels of growth in subsequent years. Here, despite market disapproval, Keynesian policies worked for the country, against IMF advice. The country successfully renegotiated its debts.

A country leaving the Euro would be recreating its own banknotes and coins: a more considerable rupture than the examples above. There would be the inevitable costs of dislocation. The attitude of the rating agencies would be crucial. If they believe that the move is inevitable or beneficial, then the costs might be work paying; but there would be a penalty to be paid if the decision to leave was

deemed to be 'irresponsible'. Argentina, a globally peripheral country big enough to be able to make its own way in the face of the opposition of the rating agencies was able to make its policies work, perhaps as many of the agencies felt that the decision to leave should have been taken much earlier than it was. In that situation, the penalty for staying in could be higher than that of leaving. This is a political and economic judgement that needs to be made. Perhaps it is easier for more peripheral countries, like Argentina. Again the extent that Ireland, Spain, Portugal and Greece are 'peripheral' in relation to a Franco-German European heartland is a political call. The EU makes formerly 'peripheral' countries more central in the eyes of the market, as their actions can have ripple on effects for large, strategically more central countries like Germany. Leaving then would be a politically charged decision with costs and benefits that would need to be weighed.

A common, but not a single currency?

The second option would be to avoid the disruption of full withdrawal and revive a national currency or create a new national or (in larger countries) regional or more local currency to run alongside, rather than replace the Euro. This would circulate at a national or regional level alongside the Euro, allowing consumers to choose which currency met their needs better. National or regional agencies could engage in more Keynesian policies at a local scale, while the benefits in reducing transaction costs for international trade remain. This echoes calls for the introduction of the 'hard Ecu' by the Major government in the run up to the introduction of the Euro, or the situation in Argentina after the introduction of the peg in the 1990s where the Provinces, which have the right to issue currency under the Argentine constitution, did so (Cohen 1998). The difference is that the country would not leave the Eurozone, but would supplement it with its own currency.

Again, the attitude of the ratings agencies would be crucial. If they judged long term membership of the Eurozone to be problematic, and default inevitable, then provided that they felt that the new national or regional currencies were being issued responsibly and growth was restored, they might support the policy: or at least pragmatically tolerate it. The IMF tolerated Argentina's Patacones until they felt that their issuance was less local Keynesianism, but a mechanism for supporting clientelist practices (North 2007:173). There have been calls for Greece to temporarily introduce the Drachma on this basis. David McWilliams

argues that the reintroduction of the Irish Punt is the only way to avoid Irish collapse. The political call here is the extent that a national currency alongside the euro would be seen as credible, and that it would be seen as less disruptive than full withdrawal.

Given this, the likelihood of national governments reintroducing a national currency out of crises environments is low, if only as a result of fear or possible repercussions from the markets. Could other actors do so, within civil society? As Josh Ryan-Collins reported in a previous newsletter (Ryan-Collins 2010), the last twenty years has seen an effervescence of community-based local money networks from Local Exchange Trading Schemes and Time Banks to the regional Berkshares notes in the United States and Regogeld in the German Länder (North 2010). When governments failed to act, community groups have stepped into the void. However, these networks are generally small, and, while often valued by their members, it seems difficult to see them being scaled up to a level where significant levels of economic transactions are being carried out using them. LETS and Time Banks are networks of between 20 and a couple of hundred participants exchanging time and labour using a virtual currency, with no physical form. Argentina did see mass usage of similar local networks during the crisis of 2001-2 (North 2007), but this seems unique. Generally, community based currencies are too small scale to provide access to a wide enough range of goods and services that they can be considered as a real alternative to conventional money. Circulating at a small, local scale, they do not act as an 'optimum monetary area' for even small businesses that trade locally, selling locally produced goods and services. Even the more ostensibly small business-friendly 'transition currencies' in Totnes, Lewes, Stroud and Brixton have quickly come up against the limits of how little is produced locally in a globalised economy (North 2010).

There are some seeds of hope. Ryan-Collins (2010) discussed the experiences of the Swiss 'Wir' network, with thousands of business members and a history going back to the Free-work Movement of the 1930s. The EF Schumacher Society of Great Barrington's Berkshares are issued in partnership with local banks, and seem to be taken more seriously than a purely community-created currency by local businesses as a result. Germany's Regiogeld builds on strong regional and local tradition in a country that was only united from a confederation of states and city-states in 1870. The first regional currency, the Roland in Bremen, was established in 2001, followed closely by the Chiemgauer in Bavaria. In 2008 there

were 28 regional currencies across Germany, some run in partnership with local banks and co-operatives. Given that one of the fundamental characteristics of money is that they should be issued by a trustworthy institution if users are to have and maintain confidence in them, regional currencies issued by trustworthy regional institutions might be able to operate at a scale below that of the nation state, and thus avoid actual or potential surveillance and control by the ratings agencies: yet be robust enough and circulate in a large enough geographical space for them to be useful for significant amounts of economic activity. Countries with strong regional institutions, independent of the state, yet also responsible in their money issuance policies and accountable to those who spend it, might be a suitable vehicle for a new raft of regional currencies supplementing, rather than replacing, the Euro. This might be particularly appropriate for regions with a strong identity, with a tradition of independent political thinking and action, and endowed with enough locally-owned production such that a regional currency could circulate independently of national or continental currencies; Bavaria, Catalonia, Emilia-Romagna, perhaps Yorkshire, spring to mind. From small acorns, more robust local momentary institutions could emerge.

Conclusion

Ireland and Greece could yet default on their debt to the Eurozone, yet the likelihood of either country taking serious action to regain their economic independence seems far-fetched. The 'common sense', taken for granted benefits of the Euro and European integration seem incontestable outside the Eurosceptic right. Withdrawal seems a step away from the European ideal, a step back to the failed economic nationalism of the past, or even a concession to xenophobia. On the other hand, what matters is more national policy than the form of money. Britain's continued possession of a national currency has not protected elites from the perception that radical action is needed to reassure the ratings agencies of the country's solvency. Swingeing spending cuts are the order of the day in Euroland Ireland and sterling zone Britain. There seems little appetite for the reintroduction of national currencies. It might be more appropriate, then, to work at a regional level to develop currencies that operate alongside the Euro, but at a scale large enough for businesses to find them attractive. Germany's experiment with regional currencies is worth following to see if they can pass an empirical test of usefulness that has defeated smaller scale local experiments.

Peter North teaches Geography at Liverpool University in the UK. He first heard about alternative currencies while doing a Masters in Peace Studies in 1992, and has been exploring local money worldwide since then. He is one of the founder members of Transition South Liverpool. As well as books such as *Money and Liberation* (2007) and *Local Money* (2010), he is the author of a large number of research papers about alternative currencies, social movements, and ways we can move to a more enjoyable, vibrant, productive low carbon economy in which we all can flourish without it costing the planet.

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