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Banking on the past, betting on the future with the single currency

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Sometimes I think the reason why central bankers speak enigmatically is because they know people will then pay attention to what they say. Exhibit A for this hypothesis is the fact that Mario Draghi recently said something so absolutely simple that nobody bothered to decipher it. And yet, in what he said lies the solution to the entire euro crisis.

What Draghi said, succinctly, was this: for the euro to have a future as a common currency, every member country needs to be better off inside than outside the eurozone. Draghi said this in the context of what needs to be done in order to complete the monetary union. Here is the full quote:
'…what does it mean to "complete" a monetary union? Most important, it means having conditions in place that make countries more stable and prosperous than they would be if they were not members. They have to be better off inside than they would be outside."

We could stop here and just go back to work to make this happen, because it really is as simple as that. But since it took five years of euro crisis for someone to finally state the obvious, we probable need to elaborate on it.

First, let's remember that this was exactly the premise on which the euro was sold to the people: we would be better off inside the euro. And this 'we' is crucial: not only some of us would be better off, not 'a part of the eurozone will be better off and the rest will be worse off', but indeed all of us would be better off. If one mentions this today, one risks being dismissed with comments like: 'How naïve! If only it were true that everyone would be better off with the euro!' But well, if this hadn't been the premise, nobody would have acceded.

That's the point about democracy: it's very difficult to have people make choices against their own well-being for an extended period of time. If you leave the public in the dark about whether the euro project will actually end up being good for all of us, you will undermine the trust upon which any currency is built. The Eurogroup went to great lengths creating a set of tools (some more effective, fair or realistic than others) in order to 'restore' the faith of the markets in the euro; now, time is running short to restore the faith of the citizenry of all member states in the common currency.

I can't deny that there is another version of this argument, one that I use often in debates in my country, Portugal, one which amounts to saying that we would be much worse off if we left the euro. I believe that this is a valid argument, but only up to a certain point. Given sufficient time, people will start to doubt whether they will have a future inside the currency or not. In sum, saying 'we could be much worse off' is a time-limited, and hence unstable, strategy.

There is, however, a basic misunderstanding about long-term strategies and how they work on a modern polity. The only way to have a credible long-term strategy is not to affirm what will happen and keep your helm aligned with those objectives, but to explain why we should choose these objectives and how we should go about them. Democracies, in this respect, are like individuals. In the short term, strategies need to answer to 'what' questions –questions that are very specific and object-oriented about pressing needs and current goals. When thinking about the long term, they need to shift to questions about the 'why' and 'how': 'why should I want this?' 'how do I accomplish it?' – if European society as a whole does not have good answers as to how and why we accomplish the project of a highly interdependent and cohesive economy based on a single currency, we will not be able to sustain the level of public commitment needed to advance this project, no matter how many short-term goals we set and sometimes achieve.

During the last few years, almost every head of state or government, as well as top Eurocrats, have said many times that 'country X' – usually, but not only, Greece – 'will stay in the eurozone', thus attempting to assuage fears about a euro breakup. Unfortunately, they never added 'because country X is important for the eurozone for such and such reason, and because its economy will find a worthy role inside the eurozone.' Countries, like individuals, only experience self-pride and dignity when they have a purpose. If the reason why they stay in the club is because kicking them out would create too much trouble for everybody, the situation will at some point become unbearable. If, on the other hand, every component of the eurozone counts and finds usefulness in its belonging to the club, then the eurozone will ultimately thrive.

In the last few years we've been living from deadline to deadline, summit to summit, trimestrial troika evaluation to trimestrial troika evaluation. That as such is expected: crises tend to put us on a short-term frame. But, perversely, short-term thinking has a tendency to exacerbate the crisis. True political leadership needs to provide the public debate with views that are cogent with the long-term needs of the community.

I started my participation in this blog with two exercises in what French historians usually call 'la longue durée'. The first one on the notion of a 'split Europe', the second one on the recurring secular rhythms of European history. I do believe that when you juxtapose the fact that Europe is (again) split, now between south and north, periphery vs. centre – more on that in my next post – or debtors against creditors, with the cyclical pattern of attempts at hegemony and subsequent conflict on this continent, and with the fact that we now have an unstable catalyser on top of all that – the euro – we will be able to sort this out only if we try to look at it from a distance.

While we are at it, I would also like to add some words on my third and most recent post which also harkens back to the past in quite a different way, by comparing the limits of eurozone central banking to the experience of enlightened despotism, or "benevolent absolutism", in European history. I want to make clear that identifying the similarities between these experiences does not mean defending enlightened despotism or any form of tyranny, for that matter. Vítor Constâncio, the ECB vice-president that I quote in that text, clearly recognises the need for increased democracy at eurozone and EU levels. In a speech at the Hyman P. Minsky

Conference on Financial Instability organised by the Levy Economics Institute and ECLA of Bard in November 2012, he emphasised, without much elaborating on the issue, the 'accrued importance' of '***the attention that will have to be given to the other form of political legitimacy referred by Scharpf the input legitimacy (government by the people) – that is, increasing citizens' participation in European decisions.***' The main concern here is that, without a legitimate and effective sphere of democracy at a scale comparable to the ECB, central bankers — even if they are democratic at heart — will end up performing as enlightened absolute monarchs.)

Currencies, in general, bank on the past and bet on the future. They bank on the past because – since money stopped deriving its value from a commodity such as gold – fiat currencies depend on the credibility of the community to make the political statement behind the currency, which in general depends on the continued trustworthiness of a state. And they bet on the future in the sense that each currency presents itself as the basis of an economy that is supposed to be dynamic enough to sustain it.

Keith Hart, an anthropologist, stressed this point in his book 'The Memory Bank', where he refers to money as mainly a statement about the past, namely the sovereignty and evolution of a state. This is maybe one of the reasons why coins and banknotes tend to portray monuments or great men and women or, in the case of monarchies, the monarch him- or herself. Since the times of the Roman coin bearing the portrait of the emperor, money seems to say: here I am, because the political power behind me says so.

'If the value of money does not lie in precious metals nor in the power of governments, where does it lie? We will conclude, after the following investigation, that money is mainly, but not exclusively, an act of remembering, a way of keeping track of some of the exchanges we each enter into with the rest of humanity. And that is what makes money an instrument of collective memory. British conservatives who feel that the replacement of the pound sterling by the euro involves the loss of an important part of their cultural heritage have a point, even if it is a narrow one in a world which increasingly uses English as its common language. Once freed of a spurious claim to objectivity, money is revealed as a creature of our shared collective life, as necessary to it as language. Moreover, interpreted in a certain way, its history points to the possibility of economic democracy.'
(http://thememorybank.co.uk/book/chapter-6/)

The euro is no different from this. Of course the euro is a currency without a state, and of course the monuments on euro banknotes – windows and bridges in different artistic styles –are imaginary. But they are no less grounded in the historical reality of Europe. With its grandiose and tragic history, Europe has 'suffered enough past' to vouch for a single currency.

In fact, it is the part about betting on the future that is lacking in the euro. During the last years, staying in the euro has been a 'just-so' kind of argument. In order to make good on that argument, choices were made, and these choices tended to reinforce the short-term framework in which we were working: one had to liquidate jobs, salaries and rights in order to produce a budgetary equilibrium as fast as possible. This was a reactive, not proactive, strategy.
If instead we had looked at the long term, we wouldn't be risking so much – politically – in order

to produce results now. The political choice we ought to be making shouldn't be about Greece being able to stay in the euro after the end of this month. After all, when we embarked on this euro adventure, we were supposed to enter into an irrevocable monetary union. After that, however, nobody has spoken about what we should be in, say, a generation from now.

This is what is not so simple about Draghi's simple statement. Finding a role for each economy inside the euro will require politicians, institutions and a public debate which are much better than the ones we currently have. This endeavour does not fit in any of the current narratives which assign blame to either the indebted or the creditor country, the periphery or the centre, individual states or the EU. Indeed, what Europe needs are better national elites, capable of redefining development models for their countries, and a more serious effort towards a pan-European debate. And, while we are trying to sort out what we should be doing in the long term, we would be much better off with a relaxation of austerity in the short term.

To put Draghi's simple appeal into practice will turn out to be actually quite difficult. But it is surely the only way to keep Europe – not the euro, not the Union, but Europe itself — together and to guarantee its future.