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Debate on the Eurozone: a New Contribution from France

Notes on Aglietta and Leron, The Double Democracy: a Political Europe for Growth, Seuil, Paris, 2017

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Executive summary

The necessity of deep changes in the EU and the eurozone, denied by dominant economic and political groups for many years, is now winning increasing recognition. The recent book, La Double Démocratie, by the eminent economist Michel Aglietta and his co-author Nicolas Leron, makes a very useful contribution to the debate on a re-foundation of the European project. The notes here follow closely the French text. The argument begins with a political pathology of the EU as it exists. Aglietta and Leron characterise the political dynamic of the existing structures as entropic, as leading to increasing disorder across both EU and member state polities. This political analysis is then used to explore the economic malfunctions of the eurozone, interpreted through Aglietta's theory of monetary systems as expressions of sovereignty. Finally a programmatic section advocates a democratisation at the European level, centred on the introduction of a modest but significant budgetary capacity under the control of the European Parliament, or of the sub-set of parliamentarians representing eurozone members. Although the specific reforms proposed by Aglietta and Leron (see the final page below) are similar to those advanced by other commentators, the synthesis of economic and political analysis in which the reforms are presented is both original and interesting.

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Michel Aglietta has devoted a life-time to the theoretical, empirical and historical study of monetary systems. His first major work on monetary questions, La Violence de la monnaie, with André Orléan, published in 1980, was a succès de scandale. Many readers recognised its deep originality although its reliance on the more than suspect doctrines of René Girard made it very difficult to accept as it stood. Since that date his work on money – ranging across detailed technical questions of monetary policy, anthropological accounts of the origins of money, analysis of international monetary regimes and critique of mainstream monetary doctrines – has built up a body of work unique in its scope, its depth and in the challenge it mounts to today's orthodoxies. For Aglietta, gradually distancing himself from Girard to adopt sociological theories closer to those in the Durkheimian tradition, the basis of money is not that it facilitates exchange in what can be assumed to be market economies. Money precedes market exchange because it establishes and reinforces the social bonds which market exchange presupposes. On this basis Aglietta sees money in modern societies as linked to the state and to the social contract established between state and citizens while the issuance of money is seen as essentially political, as an act of sovereignty.

From this point of view he has on several occasions addressed the crisis of the eurozone and attacked the failing ideological basis of the monetary union as a supposedly depoliticised, purely economic, structure. For Aglietta, the monetary union is radically incomplete because the currency has no ties to a sovereign authority. He sees the drastic move to activism by the ECB, when it was faced by an existential threat to the system, as an act of sovereignty which reflects and responds to the deep inadequacy of the institutional framework of the EMU and which points the way to the political structures which are needed to ensure its survival and development.

Aglietta's latest book with Nicolas Leron lays out a fully developed centre-left programme for the re-foundation of the EU. It may well influential in the coming attempts by Macron to persuade the Germans to reform the EU and the eurozone. It contains detailed arguments on both politics and economics but privileges the political side, seeing the macroeconomic failures as the consequence of a dysfunctional political system. The first chapter examines the political decline of the EU in detail. Active public policies to provide public goods in accordance with democratic choices are blocked at both member state and EU levels. This empties political life and the competition among political parties of their meaning. Eventually these processes erode the institutional and legal structures of the European project themselves while impairing the member state polities. The second chapter deploys Aglietta's theory of money as sovereignty to explore the deficiencies of the monetary union. As the crisis deepened the ECB was led into asserting sovereignty by key moves beyond its mandate. The third chapter is programmatic – for the reassertion of active public polices both at EU level (financed by EU level taxes) and at national level.[1] It is perhaps this third chapter which is most questionable – would it be politically possible to bring about the reforms proposed? However that may be, the work will be of considerable interest to anyone concerned with the future of European construction.

The notes below follow the structure of the book itself:

Introduction

The Mutation of the Growth Regime and the Spectre of Secular Stagnation

The threat of stagnation is discussed in the context of the degeneration of the finance-led growth model while a new growth model, based on the production of global public goods, is only emerging. The following text asks why Europe is the worst affected region in this global transition. The absence of a public power* and the incomplete nature of

[1] A difficulty: Aglietta and Leron advance a political project in which the EU would become a "puissance publique". Puissance is usually translated as power but it is critical here to distinguish it from pouvoir, also translated as power, which would denote the exercise of sovereignty. I use "power*" here to signal "puissance". There appears to be some literature on this distinction but I'm not familiar with it.

the monetary union explain the inability of Europe to escape from stagnation.

"Today, like yesterday, Europe seems obviously to be the right level on which to reply to the great challenges of our time. But the accumulation of frustrations threatens the EU with decline into deconstruction." (p9) The Monnet method can no longer work. "Today it is necessary to reconstruct the political agreement constituting the EU." (p10) The following analysis tries to move away from predominantly economic accounts of the EU crisis to emphasise the political dysfunctions of the EU.

For a European Public Power (puissance)

"The European budget, as a starting point and not a hypothetical point of arrival according to a neo-functionalist teleology of little steps, constitutes in our opinion, the lever to work with, that is the central issue in the great historic renegotiation between member states, and, in the first instance, between France and Germany," (p13)

Chapter 1: The Entropy of the European Political System

Political theories about the nature of the EU are not very useful. It is more useful to look at its political architecture and its dynamic. The latter will be characterised as entropic – referring to growing disorder, to increasingly indistinct messages, to a degradation of both the form and the substance of democracy.

The European political system as a complex game on two levels

"Complex because the European political system involves in a very intense way both at EU and member state levels, the three dimensions of th political, that is the regime or juridical-political order, public policies and political life in the sense of competition for power" French: le politique, les politiques, la politique. English: polity, policies, politics.

All six elements in this matrix interact with the others. Aglietta and Leron argue throughout the chapter that these interactions give rise to a negative, entropic, dynamic.

Level	Three Dimensions of the Political		
EU	Polity	Policies	Politics
Member States	Polity	Policies	Politics

"The institutions count as a system of constraints and opportunities. They also count as a normative framework and, more fundamentally, as a cognitive framework, that is, as a space of thinkable possibilities. At the macrostructural level, the institutions play on the levels of decisional processes, of electoral participation and of the legitimacy of the whole system, each of these political dimensions interacting with the others." (p20)

The EU: a juridical-political order without political life or public policies

Aglietta and Leron address first the element: politics at EU level: this is where there is wide agreement among commentators on the absence of a European public space, of political debates at European level, etc. The various theoretical approaches to this state of affairs are discussed. One view is that the EU is to be regarded as essentially functional – giving rise to mutual benefits from certain collective structures. This was the approach of Monnet in the era of the Schuman plan. It could give rise to "output" or "functional" legitimacy to the extent that the EU can help to find solutions to problems on a European scale ("at the risk of appearing as itself the problem rather than the solution"). (p21)

The EU constitutes a system in which three legitimacies are balanced: democratic legitimacy embodied in the Parliament, state legitimacy represented by member state governments and the legitimacy of the European project carried by the Commission. Then the delegation of power within the system can disturb the equilibrium. In fact, a purely functional approach is inadequate because certain policies result in winners and losers. However, positive compromises are difficult: "The logic of compromise and the tendency to maintain the status quo because of the multiple veto points surrounding the decision-making process tend to produce centre-right policies, often unrelated to the preferences of European citizens." (p23)

In spite of some politicisation of the European parliament, "the public space remains obstinately at the national level." Very low and falling turnouts at European elections are presented as evidence.

The EU as a Juridical-Political Order without Public Policies

The argument now moves in to another element of the matrix: public policies at the level of the EU. Although commentators often refer to policies without politics, "It has to be recognised that the EU is less and less capable – if it ever has been – of producing structural policies to counterbalance the effects of the single market – while the market becomes deeper and deeper – or to respond to economic crisis. The EU cannot offer any proof of a positive impact on the daily life of the citizens." (p27) There is a reference to Fritz Scharpf on "negative integration."

The Strength of Negative Integration

The predominance of negative integration can be related to the acknowledged supremacy of the Court of Justice. It has established its competence over a very wide range of policy areas – including, citizenship itself. But this supremacy is almost always exercised in a negative direction. "But this capacity of EU law to infiltrate the most exclusive aspects of national jurisdictions is nevertheless carried out in a specific way: that of sanctioning member state rules (regulatory, legislative or even constitutional) when these are contrary to EU law. Negative integration is then a powerful machine for the deregulation of member state regimes which in the eyes of EU law amount to so many obstacles or difficulties for free circulation within the EU. And from the fact that negative integration rests essentially, on the one hand, on a signed treaty which is very hard to modify and, on the other hand, on a supranational jurisdiction over which the member states have little hold and whose institutional interest is to extend the field of application in order to enlarge, automatically the range of its own juridical power, it has a powerful dynamic which has been at work since the start of European construction." (p29)

The Weakness of Positive Integration and Regulatory Competition

Weakness of positive integration: "There are many actors with veto power and they have diverse or even irreconcilable, interests and preferences, notably when major actions are debated. The machinery is cumbersome and inefficient when it comes to tackling subjects such as fiscal harmonisation or national social protection regimes." (p30) The Commission has the role of overcoming divergences and promoting the common good. "But it is still the case that positive integration, that is, the capacity of the European legislature (Council of Ministers and EP) to decide and to act remains much less dynamic compared to negative integration (the capacity of independent European institutions to act by regulation)." (p31) Fritz Scharpf contrasts the ability to harmonise the quality of traded goods with the inability to harmonise wage systems, tax systems, business law etc. With some exceptions the absence of harmonisation creates pressures to reduce the level of regulation in such matters. The inadequate budget also blocks positive integration – the member states arguing for a smaller budget usually prevail over those arguing for more expenditure. The exceptions – CAP, Structural Funds – tend to date from Treaty negotiations which give them a more secure foundation.

The Dominance of the Status Quo and the Functional Impotence of the EU

Decision-making by qualified majority or unanimity remains necessary to avoid decisions contrary to the preferences of member state electorates and to the institutional interests of governing groups. But this reinforces the status quo. "In a systemic way the relative inertia of positive integration in the EU leads to a certain diminution of its ability to find solutions for the problems of European citizens as more member states are admitted and attempts at law-making impact on increasingly sensitive issues." (p34) But without functional legitimacy, "A juridical-political order only working for itself and for the rule of law tends to transform itself and to be seen as a cold monster, an alien bureaucracy: Europe as 'them' rather than 'us'." (p35)

Very adverse trends in people's perception of the EU are then detailed. But the member state political level must be impacted by this absence not only of politics but also of positive public policies at EU level.

The Negative Politicisation of Member State Democracies

The next element of the matrix to be attacked is public policy at member state level.

Member states remain sovereign and so it might be thought that the EU's lack of democratic legitimacy is not critical: member states continue to embody democratic legitimacy. "However, a number of factors suggest the opposite. The substantial reinforcement of member state executives over their own parliaments via the EU – the parliaments being required most of the time to ratify decisions taken by the executives in Brussels – the weakness of the EP, which rather acts as a possible veto than as a true European legislator, without forgetting the perception of European elections as secondary national ones with a low and declining level of participation….. Even more problematic, the growing domination of the juridical-political order of the EU over the member state political level tightly constrains the scope for action of the latter in putting into place the major policies desired by the citizens. There follows a dynamic of negative politicisation of national democracies. This becomes manifest by a retreat (recul) of the left-right division accompanied by a loss of credibility of governmental parties and the concomitant rise of neo-populist ones." (pp37-8)

The Pressure of the EU's 'Ordo-liberal' constitution on National Public Policies

In contrast to the weakness of politics and policies at the EU level, the EU juridical-political order is very strong and rules of free circulation and non-discrimination inhibit all three elements at the member state level.

The constitutional doctrine of the Court of Justice or the theory of the specific (propre) nature of community law

The assertion of the primacy of community law and of its direct effect within member states began early, when only a few sectors were covered by European Treaties. The Court of Justice invented, through its own judgements, the juridical order of the EU and made that order autonomous and effective. The Court declared in 1964 that the EEC Treaty had given rise to its own (proper) juridical system which imposes itself on member state systems. By 1986, it claimed the Treaties amounted to a 'basic constitutional charter.' "…the Court has thus substantially increased the effectiveness of EU law, its domain of application and thus its supremacy over national law and thus contributed in a decisive way to the juridical construction of Europe – what was called above negative integration." (p42)

The 'European Economic Constitution': genesis and expansion

The eurosclerosis of the1970s, where law-making was blocked, encouraged the process of 'competence creep'/'invading effects'/'spillover effects.' Issues can be subjected to EU law and the ECJ regarded as competent by 'communitarian linkage' – that is, if some connection can be established with the four freedoms. Very wide definitions of 'commodity' and 'worker' make it possible to see obstacles to free circulation in many cases. The obstacle is supposed to be more than hypothetical but could be indirect or merely potential. Ironically, the ECJ does not protect individuals subjected to discrimination by their own government because this does not block inter-state movements. "The Court subsequently resolved to extend to the maximum the notion of an obstacle to the freedoms of economic circulation to the point that almost any national measure – regulatory, legislative or even constitutional – seems exposed to the axe of EU law." (p45) Derogations exist but are narrow and limited. The Court also sometimes displays prudence on very sensitive issues.

"The 'European Economic Constitution' represents the material architecture of the juridical order of the EU. The primacy of what the Court calls the 'fundamental freedoms', that is the free circulation throughout the internal market of economic factors, but also non-economic factors with the free circulation of EU citizens, constrains the scope for action by national legislation and national public policy.

European Competition Law: the Primacy of the Imperative of Market Efficiency over the Goals (enjeu) of Industrial Policy

The same kind of competence expansion as for the four freedoms is to be found in the sphere of competition law and the prohibition of state aids. For example there is a very wide definition of an economic enterprise as 'any entity exercising an economic activity regardless of the juridical status of this entity or of the way it is financed.' Derogations linked to public services, 'Services of General Economic Interest' are narrowly circumscribed and under the control of the Court. "The EU, which has no continent-wide industrial policy except through its competition policy and its policy of protecting intra-community investments, stifles, by its regulatory framework as it is fashioned by the Court, the industrial policies of the member states." (p52) "Now the EU experiences a triple process of European deindustrialisation, of the reallocation of productive activity across European countries, with territorial specialisation along with a concentration of competitive activities in the major metropolitan areas and a relegation of low value added activities to the European periphery and with the transformation of value added chains, with the out-sourcing of business services. This dynamic, in a very classical way, of the absorption of value added by a central region – let's say by Germany to be brief – and of anaemia in the periphery – the European South – profoundly destabilises the cohesion of the European political system and consequently calls for a re-composition of the European production chain by sectoral diversification and the use of differences among regions as a positive force.." (p53) "The difference in the speed of circulation of capital and labour – to the disadvantage of the latter – generates pockets, localities (basins) and then entire regions of structural unemployment." (p53) The socio-geographic consequences can be seen in the Brexit referendum and in the support for Le Pen.

The Creation of the Eurozone and the 'European Budgetary Constitution': Emergence of a European Interest and the Constitutionalisation of Austerity Policies

The Treaty of Rome and the Single European Act placed member states in a position of regulatory competition. "Each is tempted… to put in place a supply-side policy, notably by measures aiming to weaken labour law and to reduce the taxation of enterprises." (p53) In fact the single market is far from complete as regards services and may never be completed but the new regime added to other forces making for the slow but cumulative erosion of the welfare state.

Monetary Union takes this process to a new level. However, it should be noted that, in contrast to people's distrust of the EU, the euro is generally accepted. The elites do not recognise this advance in European society because their ultra-liberal ideology blinds them to monetary phenomena. The divorce between attitudes to the euro and to the EU means that, while citizens have tested the social linkage of the euro and legitimise it by their acceptance, "…. They cannot approve of an intergovernmental political governance which does not relate to any common interest and the failure of which to develop policies able to respond to the challenges which Europe faces degrades their way of life." (p55)

The Growth and Stability Pact attempts to compensate for the incomplete institutionalisation of the monetary union. It further constrains member state policies but these constraints are much tighter for some countries than for others. With the eurozone crisis and the threat of its immediate implosion emergency rescues were agreed for Ireland, Portugal and Greece but accompanied by a series of directives and regulations but also new rules promulgated outside the framework of the Treaties: Stability Pact, Treaty on Stability, Coordination and Governance, 'Golden Rule' (0.5% deficits), six-pack, two-pack, European Fund for Financial Stability, European Financial stability Facility, European Stabilisation Mechanism. This subjects the budgetary power (pouvoir) of national parliaments to an increasingly constraining tutelage. – “a new level in the structural weakening of the capacity of member states to put forward major alternatives in macroeconomic policy. “All in all, the trap of joint decision-making (le piège de la decision conjointe) in the EU political system benefits the liberal-conservative right, as social-democracy cannot carry out a progressive programme except by overcoming the bias in favour of the status quo which characterises the European political system.” (p58)

From Classical Opposition to Opposition on Principle

Having shown how the element, member state level public policy, is impaired by EU constraints, Aglietta and Leron argue that the entropic process continues with member state politics, unable to shape policies, starting to undermine the EU polity. If alternative policies cannot be carried out then classical opposition *within the polity* is replaced by opposition in principle *to the polity itself.* “The growing success of the discourse ‘UMPS’ in France (running together the initials of centre-right UMP and centre-left PS, JG) and of populisms in Europe, the inexorable increase in abstentions and the fragility of parties in government are symptoms of a classical opposition which is fraying and slowly but surely changing into an opposition of principle, directed first of all against the EU.” (p60) The survey of populist forces which follows is out of date as it supposes that Renzi was successfully resisting populist pressures. JG)

However, it is not just the EU polity which comes under threat. The member state level polity itself may lose legitimacy – Aglietta and Leron cite the Scottish and Northern Irish resistance to Brexit, and the attraction of anti-democratic, authoritarian models in many countries.

“Only the attachment (loyalty) to that which constitutes and represents the identity of the basic political unit (the national polity) permits the system to keep a foundation (assise) of legitimacy but at the risk of a nationalist regression with all the dangers that brings, firstly the temptation to find a scapegoat, inside or outside the polity.” (p64)

The Tendency towards the Dissipation of Democratic Legitimacy within the European Political System

This final major section of chapter 1 sees the remaining elements of the matrix affected as member state politics becomes dysfunctional and promotes antagonism between the two polities (juridical-political orders) at EU and member state level.

There are latent conflicts between the claims of member state and EU judiciaries as when the Verfassungsgericht asserted the right to assess the validity of the Lisbon Treaty. The Constitutional Council in France does likewise, “invariably claiming ‘for the internal juridical order’ of the French Constitution ‘a place at the summit of the internal juridical order.” (p65)

“The nature of the complex game at two levels of the European political system, which is characterised by the entanglement of the political levels of the EU and the member states, scrambles up completely the circuit of political legitimation between governed and governing, to the point of producing a double feeling of generalised impotence of national political powers (pouvoirs) and of creeping technocratic authoritarianism in the European institutions.” (p65)

The Disconnection between Political Responsibility and Democratic Representation

“The constraint of joint decision-making and of the regulatory framework of the EU (four freedoms, competition law, budgetary rules) leads to governments depoliticising their actions” (p66)

- Political parties become agencies of the state
- Parties replace their representative functions with a narrow focus on elections
- Multiple constraints on policy and the pressure for effective government complete the dynamic of decline in the representative function of national democracies

Elites favour accountability before their European peers over accountability at home to their domestic electorates. “The quasi-mythological figure of the troika illustrates to perfection this complete divorce between European decisions and electoral sanctions.” (p68) In the EP the dominance of national allegiances over European party formations prevents the parliament from becoming an autonomous democratic sphere. In classical federalism the federal level is directly legitimated while obedience to the federal government is indirect, mediated by member state governments. In the EU this is reversed – the upward link of citizens to the federal level is indirect but the impact of EU decisions is direct and immediate. “This inversion of democratic flows (courants) inevitably produces a legitimacy deficit at the EU political level, the impression of a distant, external power (pouvoir) imposing its laws in an almost anonymous and implacable way.” (p71)

The Double Resistance of the National Democratic Principle

Political resistance takes the form of the move from classical to principled opposition as in Brexit or in Greece. Constitutional resistance is exemplified by the assertion of its own supremacy by the Verfassungsgericht. Such claims are radically rejected by the ECJ which asserts its own primacy, So far the two juridical systems have avoided a direct clash but the continuing progress of negative integration makes this balance increasingly fragile. A major crisis of the EU polity is now conceivable.

The Neo-Functionalist Impasse and the Structural Democratic Deficit

“A positive politicisation of the European political system, organised around a classical opposition instead of an opposition on principle, can only really prosper on condition of modifying Europe’s constitutive agreement, that is, by displacing one or several of its pillars, by bringing about a shift of the edifice.” (p80)

The ‘Monnet method’, of small functional steps, is finished. The functionalist approach presupposed the gradual emergence of a political dynamic to accompany economic integration. This did not happen: interest does not create identity. Beyond a certain point efficiency gains no longer justify the real or imagined loss of identity which is feared.

Chapter 2: The Eclipse of the Sovereign in the Eurozone

In practice there is uncertainty about sovereignty in the EU. Member state constitutional courts, especially the Verfassungsgericht, and the ECJ both claim supremacy. So far neither of them has pushed these rival claims to the point of a constitutional crisis, but such a crisis remains latent. This tension over the location of sovereignty is greatly aggravated by the monetary union. Member states have transferred to the ECB their control of money which is a central characteristic of sovereignty, but without constituting a political community at EU level. But sovereignty was thereby not eliminated but only eclipsed. When Draghi promised to do whatever was necessary to defend the currency union he asserted the right of the ECB to determine by itself the extent of its competence: this was a sovereign act. The German representatives within the ECB, two of whom resigned, objected to this move (there were subsequent German protests against ECB quantitative easing and other ECB policies) but again the issue was not pushed to the point of an open juridical conflict.

The Rupture of the Organic Link between Money and the National Sovereign

A long discussion presents the historical background to the single currency. The democratic sovereignty of European states post-war was impaired by the end of the Bretton Woods regime. Financial expansion without limits … “was incompatible with the multilateral post-war order because it did not respect the autonomy of the nation-states.” (p89)

Financial expansion without limit carries an ideology which undermines all the institutions proceeding from sovereignty –

ultraliberalism. “According to ultraliberalsm, it is individuals who, as economic agents, are sovereign…. In fact, according to the extreme conception which imposed itself theoretically in the anglo-saxon countries in the 1970s and politically in the 1980s the hypothesis of rationality pushed to extremes can regulate the entirety of social connections… The state should wither away.” (p89)

Ultraliberalism should be contrasted with the ordo-liberalism which was influential in Germany. “The latter is a pole of resistance to the pressures (impulsions) of the Commission because it establishes an indissoluble link between political institutions and economic organisation. In ordo-liberalism juridical norms are at the summit of political sovereignty. Ordo-liberalism takes a pessimistic view of the self-regulation of the market.” (p90)

Ultraliberalism’s doctrine of self-regulation is linked to the notion of efficient financial markets and, correspondingly, to the notion of money as neutral, so that the only role for the central bank is to block inflation.

“In instituting the euro, seen as the coronation of financial Europe, the Maastricht Treaty therefore did not marry ordo-liberalism but ultraliberalism.” (p93)

“The neutrality of money is an untenable hypothesis which is inherent in the concept of pure economy, separated from all social links. The installation of the economic and monetary union according to these principles could only lead to the surging dysfunctionalities which precipitated the European crisis starting in 2010… We have to show, before discussing any idea of a re-foundation of Europe, that money, public finances and the organic link between them are the attributes of sovereignty in the economic order.” (p95)

For an Institutional Theory of Money

Money at the Basis of Social Relations (Appartenance)I

Of Schumpeter’s alternative theories of money, the first, money as a commodity, leads to the theory of pure economy, while the second, money as debt establishes money as a social linkage, based on general acceptance and confidence rather than any objective individual utility. It is the existence of social linkages which makes it possible to understand the immediate acceptance of the euro by European consumers. Monetary exchange establishes value as an abstract measure – value does not pre-exist exchange.

“To understand the operationality of money let us represent the market economy not as a set of goods to be exchanged but as a set of separated producers who have to tie links of debt in order to participate in the division of labour. These debts allow them to draw resources from society (notably human resources) anticipating that their sales revenues will allow them to repay their debts and will put them in a position to contract new debts, perhaps on a larger scale….. What is the architecture of payments which makes this representation possible?

I. The first element is a common unit of account which institutes a numerical language.
II. The second element is a way of issuing debts; liquid or transferable debts will constitute private money. Liquidity is a purely social quality which results from the general acceptability of money. There must be a process to check whether a private means of payment is a transfer of unanimously accepted money. This is…
III. … Settlement (règlement): payment in central bank money confers universally acceptable liquidity on the settlement.. Payment becomes settlement and is final. Settlement every day of interbank debts in central bank money guarantees the finality of the payments made in commercial bank moneys.

Universal acceptance of central bank money cannot be taken for granted. Central banks have to maintain confidence amid the contradictory expectations of debtors and creditors and this responsibility requires them to interact with the other entity arising from sovereignty – the state.

The Necessary Link between Money and Public Debt

The public debt is the counterpart of the public goods provided by the state, the social capital. Long-lasting public goods establish the cohesion of society over time. "The legitimacy of taxes is the counterpart of this collective capital." (p100) Because taxes are settled in central bank money, money can act as final settlement for all debts in society. The state must always have the capacity to monetise its debts and thus to put them outside the market. Thus state debt gives rise to riskless assets in the financial markets. "They are always in demand and act as a pivot in the financial markets." (p101) *"It is not markets which 'discipline' states. It is political control over the social debt which establishes the reference starting from which finance can be stable."* (p101)

For debt issued in domestic currency there is no question of solvency, only of sustainability. There is no optimal level of public debt – its sustainability depends on the interest rate, the rate of growth and the rate of inflation. Debt consolidation is a matter for the long run, or the very long run. The key variable is the net value of the public sector. If this is comfortably positive, taxes can be reduced or expenditure increased. If it is negative the situation is unsustainable.

The Eurozone Faced with the Crisis of Public Debts

Policies for Consolidation of Public Debts in the Eurozone: the True Golden Rule

The "golden rule" of the TSCG (public sector deficit of at most 0.5% of GDP) is an absurdity unless either there will be no growth in the future or public investment contributes nothing to growth. A meaningful golden rule would require the measured deficit to exclude public investment. Also, rules should act as a point of reference in budgetary coordination, but if they become a trigger for automatic sanctions they become a source of endless discord and opposition.

In effective consolidation, "The key to success is to be found in a rate of growth steadily higher than the average real rate of interest payable on the public debt. Consequently a stable rate of inflation sufficiently high to give a negative real rate of interest during at least part of the period of consolidation, would be of great help." (p107)

The economic and monetary union as a special case of international monetary regime

The single currency is generally accepted but its key institution, the ECB, is not placed under the sovereignty of a constitutional order, guaranteed by a parliament expressing the general will. Should we therefore treat it as an international monetary regime?

Three conceptions of such regimes: neorealist – cooperation very difficult, hegemony possible but in this case rejected by Germany the potential hegemon; neoliberal – states treated as rational actors able to identify and correct externalities but with no link to political dynamics; constructivist – a political approach involving paradigms, programmes and frameworks. There is however a conflict of paradigms between German ordo-liberalism and the view that Europe is a political power. This conflict prevents the emergence of European citizenship. But paradigm renewal is possible – several examples are offered, including the club Jean-Moulin in France which prepared the way for the re-foundation of the socialist party. This could happen around the issue of the euro, "which is not a full money uniting citizens under the aegis of a sovereign parliament conferring legitimacy on the central bank in its organic links with the state. But it is more than an international currency and, in the crisis, developed beyond its mandate to adopt the sovereign role of lender of last resort." (p113)

The disappearance and reappearance of the lender of last resort

"The conception which stipulates that it is for the capital markets to bring about economic coordination in the EU …. has had a great influence within the European Commission. That is why the eurozone disposed of neither means of common action, nor of foresight of political leaders nor, above all, of the democratic legitimacy needed to assert the long term interests of European construction faced with the devastating shock of the financial crisis." (p115)

After the slow ECB reaction to the crisis and the mistaken attempt to push interest rates back up in 2010-11, on the edge of the abyss there was a complete reversal of policy at the end of 2012. ECB purchases of long-dated securities became necessary because at zero interest rates there is no difference between cash and short-dated treasuries so that standard monetary policy ceases to be effective.

The principle of the lender of last resort: an act of sovereignty

"The operation of lender of last resort suspends, in effect, the constraint of the obligation to settle, which is the fundamental rule for coherence in the payment system…. The loan of last resort suspends the logic of the market economy by an act which is carried out to ensure the survival of that economy. By nature it is an act of sovereignty." (p117) However it gives rise to moral hazard among those banks which expect to be rescued in an emergency. The principles of lender-of-last-resort actions: they must be temporary; they must aim at the stability of the financial system and not the rescue of failed financial institutions; they need resolution procedures involving private creditors other than insured depositors; they cannot, however, exclude recapitalisation using public resources. In practice credit should be extended without limit to all healthy borrowers, whether banks or not. Loans must be backed by collateral acceptable in normal times, with haircuts to raise the cost of access to emergency loans.

The Restoration of the Authority of the Central Bank: the First Initiatives under Adverse Fire

2010, Securities Markets Programme – start of QE with first ECB purchases of public debt of Greece, Portugal and Ireland[2]; 2011-2 in response to a credit crunch ECB lends a trillion euros to the banks at zero interest rates (LTRO). Shortly thereafter the financial crisis intensified.

The Restoration of the Authority of the Central Bank: the Crucial Decisions and Conflicts over Sovereignty

European Council of June 2012 goes for Banking Union. This is incomplete – it does not move supervision, resolution and deposit protection fully to the federal level. "Even incomplete this decision was the first to be structurally adequate for the resolution of a structural problem…. It was a question of a transfer of power (pouvoir) to the federal level which made possible a systemic approach to the supervision of banking risks and which rendered the ECB capable of including the goal of financial stability in its missions." (p120)

June 2012, agreement on Outright Monetary Transactions, making possible, under strict conditions, the purchase of bonds issued by countries in trouble. This has not yet been used but , at the end of July 2012 we have Draghi's famous declaration, that he would do all in his power to defend the euro and 'it will be enough.' "This speech worked like a magic wand" (p120) in the financial markets.

But the economy remained stagnant and the risk of deflation increased. June 2014, a new LTRO for banks which extended credit to the non-financial private sector. Objections from conservative milieux in Germany, and especially from Wolfgang Schäuble. QE and low bond yields were hurting the middle class. German pension funds and insurance companies hurt by low interest rates. Commerzbank hit by lower gap between long and short rates. Pressures also on the savings banks. Deutsche Bank still with bad debts from its speculations in the US.

Schäuble: ECB is pillaging the German middle class.

Draghi: the German current account surplus is depressing the eurozone.

The EU rules say that surpluses should not be higher than 5% of GDP, but the Commission says nothing about Germany. "In thus accumulating year after year foreign assets with no corrective measure in its economic policies, Germany accentuates the polarisation between creditor and debtor countries. The result is that the crisis of confidence deepens and the latent conflicts in the eurozone become more bitter." (p123)

In spite of monetary actions the threat of deflation remains. The rules require the ECB to purchase assets in proportion to the GDP of the member states. The purchase of

[2] [Sterilised by sales of shorter run securities, JG]

German assets thus aggravates the imbalances. "It is easy to perceive the damage caused by the lack of political cooperation in Europe and the absurdity of the regulatory framework." (p124)

The Economic Polarisation of the Countries and the Inability (impuissance) to Cooperate

Three disastrous decisions provoked by pressure from conservative German leaders: failure to clean up banking systems immediately; forcing the adoption of simultaneous austerity policies; refusal to recognise the insolvency of Greece. The impaired position of the banks blocked the private sector recovery that was supposed to accompany public sector austerity. The failure to write down Greek debt pushed down bond prices in the South and brought the eurozone to the brink of collapse.

"The three errors led markets to anticipate persistently low inflation, bringing about the negative interest rates which the same markets feared. Far from encouraging risk-taking, this psychological climate reinforced risk aversion, especially as the disordered state of the banking system in Italy, in Spain, but also in Germany did not facilitate financial intermediation." (p125) Persistent disequilibria in the eurozone linked to misaligned wage costs and Germany's current account surplus – reaching 8.5% of GDP in 2015, feed into political discord. These discords are not accidents – they are all related to the absence of mediating institutions and the incompatibility of member state budgetary policies. "This reality will have to be recognised for a core of member states to commit themselves to a genuine economic and monetary integration." (p126)

The eurozone is threatened by low productivity growth and low economic growth. It has to correct the imbalances in competitiveness. But it is also necessary to launch a major programme of public investment, to establish an investor of last resort. "…. For money has two faces: a link of confidence among the citizens, independently of the executive power (pouvoir) of the state on the one hand; on the other the *medium* in which the social debt is honoured through taxes. The state guarantees in effect the cohesion of the nation over time by supplying the collective capital which produces public services. The counterpart of this wealth is the social debt, the debt of each citizen regarding the society as a collective power*, the organisation of which is a condition of individual life. The social debt is honoured by the flow of tax revenues, the legitimacy of which rests on the recognition of the common good. The public debt, that is the financial debt of the state in a broad sense, results from an intergenerational transfer when the state decides to assume debts in order to produce public goods and thus to finance them by deferred taxation." (p128)

"True political Europe can only exist if public goods of common interest are produced on a scale sufficient to make a European level of citizenship emerge. The coexistence of European and national public goods gives rise to a double level of democracy, of which the institutional coherence is studied in the next chapter.

The European Council as Collective Sovereign?

Sovereignty did not disappear – it was only eclipsed and reappeared when the ECB asserted its monetary sovereignty. But what about political sovereignty? The European Council cannot play this role – it only reacts when the EU is on the brink of disaster. Sovereignty in the EU remains and will remain structurally indeterminate. This indetermination presents us with an alternative – to lock ourselves into the sovereignty issue to founder there or, on the contrary, to emancipate ourselves from it, intellectually and politically, and to think of political Europe through a new perspective: that of democracy." (p131)

Chapter 3: Establish European Democracy, Restore Public Power (puissance)

As against federalism or withdrawal, this chapter advocates a double democracy, based on a European public capacity – this makes the issue of the European budget central. This public capacity will make for a European society.

Europe as a Public Power (puissance)

The alternative – federalism or death – is a dead end.

Many economists see thoroughgoing federalism as the only solution but "there is not and there will not be within any reasonable time horizon a leap to federalism which is possible in political terms, that is democratic, chosen and accepted by European citizens. The only leap possible and it has now taken place – is exit from the EU, that is throwing off the uncomfortable clothes of a member state to put on those of a fully sovereign state in the classical sense – at the risk of the illusion that power has been recovered." (p135)

Such an alternative has to pose the alternative of federal or national sovereignty but "Sovereignty, which is conceptually and symbolically unitary, cannot provide the terrain for a forward-looking resolution of the European political crisis. It blocks any substantial advance in integration and at the same time presents itself as a temptation to a nostalgic return to the full – and illusory – power (puissance), lost or corroded with entry into the EU." (p136)

Leave the paradigm of juridical competence for the paradigm of public power (puissance)

The issue of competence is a red herring. Although the areas where the EU has exclusive competence are restricted there are many areas where competence is shared as in education where the EU is competent to organise Erasmus exchanges. The limit here is not competence but resources; only 1% to 1.5% of EU students can benefit. To generalise the programme so that European students as a whole benefited from it there would have to be more budgetary resources. "The crisis of Europe is first of all a crisis of public power (puissance), otherwise put, of its capacity, at the EU level as well as at the level of the member states, to deliver to the citizens answers to their concerns, to put into effect public policies which change their life-course, that is to say which confer on the vote, on the elector, on the citizens their democratic reality" (p138) "The flesh of the political is the budget." (p138)

Every Political Community is a Double Transfer Union

In establishing free exchange within the state territory European countries released powerful centripetal forces which worked to transfer wealth to the centre (Paris, the South-East in England etc). To become political communities states must introduce a centrifugal counter-movement. Thus political communities are double transfer unions – with market transfers corrected by redistributive policies. "It follows that the principle of forbidding any transfer union which is one of the pillars constituting the economic and monetary union, analysed in the second chapter, must collapse (sauter) because it prevents, both conceptually and in practice, the advent of political Europe." (pp140-41)

The question of the political form of Europe as a public power*: a double democracy

"In Europe it is the member states which are sovereign. They are and remain the masters of the treaties. They possess the right to quit the EU and the strength to do so. To dispossess the states of their sovereignty to transfer it to the EU would call for a constitutive act at the European level which is out of the question, at least for the foreseeable future.

"Once the temptation to tie Europe to a principle of sovereignty has been put aside, thinking political Europe requires us to confront head on the duality which constitutes the European political system. But for this it is also necessary to abandon an approach in terms of juridical competences which unavoidably also leads back to the question of sovereignty." (p142)

Aglietta and Leron want to start from the actual political architecture, "starting from democracy and not taking democracy as a vague institutional objective, or indeed as a way of resolving a problem of macroeconomic coordination….. The European political system puts into play, in reality, both the democratic level of the EU, which calls for a European public power endowed with its own budgetary capacity to permit the opening up of an authentic democratic life at EU level and the democratic level of the member states which must recover their own budgetary capacity in order to restore democratic substance to national political life.” (p143)

The European Budget, Foundation of European Democracy

“In democratic societies, which postulate the juridical equality of individuals, the public debt is a debt of the citizens with respect to the society which they constitute. It is said to be a vertical debt as opposed to the horizontal, contractual debts which individuals agree voluntarily. It is the counterpart, in fact, of public goods, it is the cement of society under the responsibility of the sovereign, in other words, in a democratic society of the parliament elected by universal suffrage.” (p144)

Aglietta and Leron develop an interesting analogy with the US after its war of independence when a mutualisation of state debt, successfully promoted by Hamilton against Madison established a strong social link to the Union and at the same time attracted investors to the new nation.

European public goods should be financed by a budget under the control of European parliamentarians, to begin with involving only members oof the monetary union.

Endow Europe with a European Budget to Transform it into a public power*

There has been a continuous decline in public investment in the eurozone which a meaningful eurozone budget could help to reverse. Taxation should also be at eurozone level, not via member states. A financial transactions tax and a carbon tax are suggested. This could raise the EU’s budget to some €500 billion or 3.5% of EU (not counting the UK) GDP. “This budget would be enough to produce public goods on a European scale and to serve as a catalyst for private investment mediated by a restructured financial system giving a substantial place to responsible investors.” (p150)

There have been some timid moves towards a European investment programme but they are inadequate in scale and not focussed on a new, solidaristic, growth model or on the innovations needed to support it. Aglietta and Leron propose to focus expenditure from an increased budget on “a European Energy Community with as goals a drastic reduction in carbon dioxide emissions and security of supply for all countries of the EU.” (p152) Eurozone investments could also be funded by bonds issued on international financial markets – “that is to say the issue by the countries of the eurozone of common obligations, which amounts to introducing a form of debt mutualisation.” (p152)

The Inadequate Framework within which European Instances Impose Adjustments on Member States

The “structural reforms” which have been imposed with austerity derive from an ultra-liberal ideology and the unstated goal of dissolving the postwar mixed economy. In practice these measures have increased the danger of secular stagnation : productivity growth has collapsed and a major reason for this is the general decline in investment in the West. More positive reforms should rest on a re-examination of the links between the financial system and investment by non-financial enterprises.

For a European Investor of Last Resort

“Every political community institutionalises itself and transforms itself into a public power*. The intergenerational link which perpetuates society is the public debt. The European level of citizenship in a two-level democracy will not see the light of day unless the EU borrows from itsef.” (p156)

Two-level democracy not the same thing as a Federation – the member states are not subordinated to the centre – public goods are decided on by parliaments at both levels. At the EU level, the main theme must be investment. “In fact, investment can be at the same time both a vector of growth and a factor of positive redistribution, if priorities are well defined and care is taken to achieve a social pay-off for Europe as a whole.” (p157)

Europe for a Policy of Sustainable Growth

Aglietta and Leron put their investment strategy in the context of successive industrial revolutions, related to different growth models. They foresee a model based on environmental innovations which can also draw on the mature stages of the information revolution. "In order to benefit from sustainable growth, it is necessary that the principle guiding public policies in the long term is clearly seen. The energy transition in a broad sense, undertaken in the perspective of climate change, that is to say, including energy efficiency throughout production processes, but also in the fields of transport and habitation, will lead to long-term investment which can both raise the rate of growth and modify the growth paradigm." (p160)

A European Programme Combining (articulant) Public and Private Investment

The failure to use public investment in the short-run to sustain activity was disastrous but long-run negative effects from the neglect of public investment are equally important. Public and private investment are complementary: education, infrastructure and network systems raise the productivity of private investment. Infrastructure, education and training provision, R&D at the same time make for an awareness of citizenship – which markets cannot do.

The Juncker plan is totally inadequate but could be developed to reach appropriate scale and more coherent content. The low interest rates prevailing at present make public investment particularly advantageous. Similarly the European Investment Bank could see its competence enhanced and its scale increased to support an investment programme. With a capital of €60 billion, a programme of €500 billion could be financed drawing on "responsible investors." This requires the ECB to accept as collateral the bonds issued to finance the programme.

Promoting a New Model of Finance

The private sector cannot handle the uncertainties linked to very long-run investments. Since public investments generate external economies their social yield is higher than their financial yield – it is just for that reason that private finance is difficult to raise. Public Development Banks – at member state and international level, whose capital is provided by sovereigns can be key actors in a new model of finance displacing the Wall Street model. There follows a brief survey of such banks in Europe, such as the Kreditanstalt für Wieferaufbau in Germany.

The Role of Responsible Investors

These are investors who widen their investment criteria to include environmental, social and governance factors and who recognise the external impacts of their actions. There are some signs that their number is growing but the awareness needs to be generalised. This development can be supported by central banks which pay attention not just to financial risks but also the physical, juridical and transitional risks associated with environmental threats and the investments needed to respond to them.

For an Intelligent and Democratically Legitimate Growth and Stability Pact.

The proposed EU budget could not on its own provide adequate macroeconomic stabilisation. It is also necessary to coordinate budgetary policies across member states. The actual macro policies enforced in the crisis were disastrous and worked to increase public debt. "It's a question of linking the short-term of macroeconomic stabilisation and the long-term of public debt sustainability while avoiding a confusion of these two types of adjustment." (p169)

Theoretical Clarification on the Sustainability of Public Debt

States which borrow in their own currency can always monetise their debts and so, unlike private debtors, can never be insolvent. We consider not their solvency but the *sustainability* of their debts. States borrowing in a foreign currency can be bankrupted just like private debtors. This was the situation for eurozone members since the ECB was not allowed to act as lender of last resort to governments. The ECB of necessity took back this role despite its mandate.

The condition for debt sustainability is

Primary surplus = (rate of interest – nominal rate of growth) x (level of debt)

If the nominal growth rate (real growth rate plus inflation rate) exceeds the rate of interest any level of debt can be sustainable with a public sector deficit of appropriate size. There is no evidence that some limit exists beyond which debt impedes growth. Sustainability can never be a question only of the public sector budget – the growth rate and the interest rate are key determinants.

The Lessons of History on Public Debt Consolidation

This section draws on a study by Aglietta and others, "Dettes publiques en zone euro: enseignements de l'histoire et stratégie pour l'avenir"

Historical episodes of debt consolidation:

- After a gradual build-up of debt; the success of consolidation depends on a sustained effort, over several electoral cycles and on re-establishing growth before consolidation starts.
- After wars: growth over a long period, often reinforced by negative interest rates/devaluations.
- After financial crises – necessary to deal with the build-up of private debt before consolidation of the public sector accounts.

In this light the errors of eurozone consolidation are spelt out, the worst case being of course, Greece. "If Germany managed to pull its chestnuts out of the fire, this is because it was able to avoid recession thanks to its capacity to export to the rest of the world, this capacity itself being the fruit of long established comparative advantages. To encourage those of its partners who faced unbearable pressures (étaient pris à la gorge) to do likewise was a provocation. If the eurozone wants to survive it cannot permit another such fiasco." (p180) The US, which gave priority to the financial state of the private sector recovered much faster than the EU.

How to Implement Policies to succeed in reducing the Public Debt/GDP Ratio?

"After a financial crisis which has seriously degraded the factors of production (slower renewal of fixed capital, less intense R&D in the enterprises, loss of effective human capital with long-term unemployment) the relaunch of investment on the basis of a new growth regime is an absolute priority." (p181)

Failure in Greece and Portugal: "We arrive at the paradoxical outcome that the countries which made the biggest effort at structural adjustment are those where public debt has increased most because of the recession which resulted." (p182)

In countries with successful consolidation (e.g. Sweden in the 1980s) revenue has increased partly through higher taxes but mostly through growth.

Macroeconomic Stabilisation in a Group of Heterogeneous Countries: from coordination by rules to collective action

How to deal with asymmetric shocks? Rules won't work because they are inflexible and not contingent on actual events. "Therefore it is necessary to change methods and political organisation to develop the Treaty on Stability, Coordination and Governance." (p184) An independent European agency should evaluate the budgetary and macroeconomic situation, taking interdependence into account. Using this as a basis a budgetary commission, with representatives from member state parliaments can elaborate a coordinated (concertée) policy to be validated by the Council and put into effect by member state governments. The European semester would have this procedure as its new content. Three stages:

- Identify the overall macro situation.
- Define policies to share out the policy response in a symmetric way.
- Use a counter-cyclical fund (neutral over the cycle) to support the countries with the most adverse conditions.

The aim is "a budgetary union structured by a double democracy, European and national." (p185)

Conclusion: Rediscover the Historic Dimension of the European Project

"European construction is above all a geopolitical project inscribed in the history of the continent and of the world. Europe, considered in its geographical space, is still an economic, scientific and cultural giant; but it remains a political dwarf…. It is its responsibility to contribute to overcoming the disorders of financial capitalism and to invent a new model of development – in a word, to civilise the process of globalisation." (p187)

"Without a common budget, there is no parliament worthy of the name; there is therefore no democracy. At present there is no European budget. In consequence the European political entity is not a democracy" (p188)

Summary of Proposals

- A European budget of 3.5% raised from its own fiscal resources (notably a carbon tax and a tax on financial transactions).
- The ability to borrow on the international financial markets in the form of Euro-bonds.
- A role of investor of last resort, with the deployment of a European programme uniting (articulant) public investment and private finance.
- The promotion of the role of public development banks and the of responsible financial investors.
- Macroeconomic stabilisation at two levels, Eurozone and member states by a reform of the procedures of the European semester, to promote symmetric adjustments, involving: the creation of a European budgetary agency, which would evaluate the macroeconomic situation, define the aggregate budget needed for counter-cyclical policy and propose an allocation of the budgetary adjustment in function of the situations of the member states; the introduction of a parliamentary commission composed of members of national parliaments which would give a democratic dimension to the procedure by making recommendations which the European Council would have to take into account

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