Does the euro qualify as a sovereign currency?

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According to Wray, the notion of sovereign currency applies to nation-states only, in line with the principle of 'one nation, one currency'.[1] Basically this can be agreed, even if the notion of nation-state cannot be taken too literally. The rule also applies to empires under the roof of one unitary state, normally dominated by one of a number of nations or people, e.g. the Habsburg, Ottoman and Russian Empires or modern Russia and China. Nonetheless, the world system basically is a system of nation-states and, contrary to what is assumed in overdone globalisation hypotheses, will remain so for another long time.

There have been exceptions to the rule of 'one nation, one currency' from time to time, not just temporary currency pegs, but transnational currency unions such as the Latin Monetary Union from 1865, a common coin standard among Belgium, France, Switzerland and Italy, not including banknotes. Sooner or later, such arrangements ended in unhappy divorce. The question is whether the euro might be an exception to those unhappy experiences. The EU, and the euro area in particular, are out of line here in that they represent a still unsettled sort of confederate structure of nation-states in which certain sovereign rights are partially or fully ceded to EU institutions.

Occasionally, the monetary status of euro countries is compared to the status of federal states in the US. To a degree this may be appropriate, but with regard to other elements it is not. The EU's ideology of Europe à la carte, i.e. opting in or out of a particular European Community, results in an incoherent patchwork structure. On the other hand, and with regard to the European Monetary Union, the ECB and affiliated national central banks (NCBs) follow a pattern of concordance democracy representative of member states. These still do have NCBs, and if the ECB council agrees, they can carry out nation-specific monetary policies. NCBs can of course not devalue or revalue the euro in their country, but they can provide different amounts of reserves on varying terms. This has in fact become apparent with the measures taken in the course of the euro-area sovereign debt crisis starting in 2010. Seen like this, and according to Wray's definition, the euro could be seen as a sovereign currency, even if it is the currency of a community of sovereign nation-states who have a shared responsibility.

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[1] Wray, L. Randall 2012: *Modern Money Theory. A Primer on Macroeconomics for Sovereign Monetary Systems*, London/New York: palgrave macmillan, p. 40.

This is confronted by the fact that there are no supranational moral and emotional bonds to something like a 'European nation'. Europeans have an understanding of belonging to a common cultural sphere, but national patterns and predominant nation-state orientations persist. As is often said, Europe speaks in too many national languages, both literally and in the figurative sense. The EU, if not supposed to be a mere free trading arrangement, remains an intergovernmental superstructure managed by 'technocrats', hardly legitimised by a European parliament which remains nationally 'unplugged'. What has kept the Union together so far, beyond the common market, is a hope to retain some weight on the global stage which no single state could muster.

In addition, the euro system has its flaws, e.g. very disproportionate voting rights which are to the benefit of small and very small countries. This is a general pattern in the EU which invites separatism and parochialism. Furthermore, from the beginning the euro rules were badly violated by almost all of its member states, with Germany and France having taken the lead. They did not care about violating the legal 'Maastricht criteria' (60% sovereign debt-to-GDP ratio, 3% fiscal deficit) nor, and more importantly, about the no-bail-out clause of Art. 125 TFEU.

The underlying problem is long-term over-indebtedness of almost *all* euro member states, topped by an additional public or private credit and debt binge on the part of peripheral euro economies on the basis of unrealistically low interest rates. From 2001 through to 2009/10 bond markets believed in the euro convergence myth, actually a political tale based on wishful thinking, told by the ECB and willingly shared at the time by the credit rating agencies – a classic case of market failure on top of state failure.

On the other hand, the euro debacle does not necessarily prove widespread theses of so-called 'optimum currency areas'. All of the larger nation-states in today's world system display gross regional disparities of development, productivity, competitiveness and income that are at least as important as those in the EU. Disparities are not a fundamental currency problem unless one considers deliberate currency devaluation as an appropriate policy option in order to compensate for structural deficiencies and avoid reforms dealing with such deficiencies.

What really has proved to be a big problem for the euro as a 'sovereign' currency is the fact that EU member states lack a regular lender of last resort. Art. 123 (1) TFEU prohibits the ECB and the entire ESCB from directly contributing to financing

government.[2] Not even temporary advances are allowed.[3] Banks, by contrast, are bathed in central-bank reserves. If there is a need, they get emergency liquidity assistance from their NCBs. In addition, NCBs do not have to settle payment deficits with the ECB. One is appalled by the recognition of how 'experts' have designed such murky structures.

Art 123 (1) TFEU is an Enabling Law which entitles the banking industry to neofeudal privileges: it cedes components 2 and 3 of the sovereign monetary prerogative (creation of the money supply and seigniorage) to the banks, thus putting otherwise sovereign governments in a position of financial dependency on banks and bond markets, including dependency on the systemically relevant banks' wellbeing and survival when in distress. This is clearly an important component of monetary non-sovereignty which MMT refuses to acknowledge. I nevertheless agree with Wray's proposal: let the ECB directly buy government bonds.[4] One should add, though: let this only happen within the frame of well-defined monetary and fiscal constraints. Undoing Art. 123 (1) TFEU under such conditions would be an important step for the euro to become a sovereign currency.

If, however, the euro were bound to break up, there is a great danger of relapse into outright nationalism, including narrow-minded protectionism, so that even the concept of a common market based on common rules and standards might be at stake.

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[2] Art. 123 TFEU: '1.Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as "national central banks") in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments.'

[3] A minority faction of the ECB's council considers central-bank outright purchases of government bonds to misuse Art. 123 (2) TFEU and to undermine Art. 123 (1) TFEU on grounds that this would amount to directly fund government expenditure, forbidden by Art. 123 (1) TFEU. But buying bonds from banks or else on the secondary market, which is common practice in the U.S., is not forbidden by Art. 123 (2) TFEU. It was nonetheless strongly resisted by purist orthodox forces until the sheer pull of the crisis forced the ECB to do what needed to be done.

[4] Wray loc. cit. 183.