THE EURO: And its threat to the future of Europe

JOSEPH E. STIGLITZ *W.W. NORTON & COMPANY 2016*

Since the onset of the euro zone crisis, two schools of thought have emerged, offering different diagnoses of the single-currency area's woes. The first focuses on the supply side, namely, the rigidity of labour and product markets in many of the worst-affected euro zone economies.

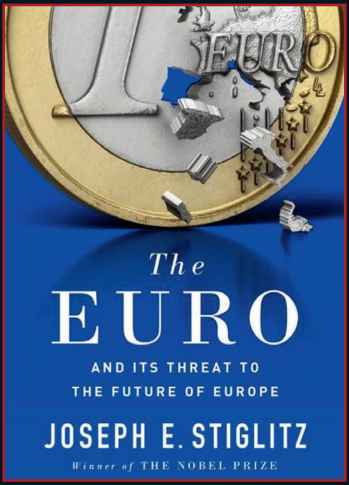
The second interpretation blames bad governance for the euro crisis. Without common mechanisms to address macro-economic imbalances, it is argued that the euro zone will be unable to spur investment and growth in many of its member countries.

The case made by the Nobel Prize Winner, Joseph E. Stiglitz, sits firmly within the latter school of thought.

In Stiglitz's view, the acuteness and length of the recession in the single-currency area can be explained by flawed structures – especially the lack of greater risk-pooling among member countries – and a counter-productive policy response.

He argues that so-called austerity, the emphasis on balanced budgets and structural reforms in the countries that have received external assistance – Greece, Ireland, Portugal, Spain and Cyprus – was an ideological choice made by technocrats with little economic backing.

Stiglitz further claims that the rules of euro membership, which restrict budget deficits and national debts, have prevented the expansionary fiscal response that was required to restore these countries to health, leading instead to mass unemployment and low growth.



The reasoning behind restricting euro governments' fiscal autonomy is to ensure that no country would find itself at risk of default, which would compromise its membership of the single currency and thus threaten the integrity of the euro zone itself.

This is indeed what happened when member countries, starting with Greece, were revealed to have had consecutive budget deficits well in excess of the 3 per cent limit. As investors began to fret over the likelihood of one or more euro zone departures, the future of the single currency became uncertain.

Yet, Stiglitz gives these arguments short shrift. He entirely overlooks the central role of public authorities in the years before the crisis, exemplified by the Spanish government's aggressive promotion of home ownership through public banks; the Greek administration's reckless borrowing to finance the expansion of the public sector payroll; and the dangerous nexus between private banks and the government in Italy.

He also fails to consider that, in the early years of the downturn, these same governments attempted to overcome their problems by increasing public expenditure still further. It was only when they lost their ability to borrow at competitive rates in international markets that they changed tack. By this time, some had entered into sovereign rescue programmes.

Stiglitz believes that the euro zone needs centralising reforms – such as the mutualisation of national debts and the introduction of controls on cross-country trade – to overcome its current predicament.

Otherwise, he would rather member countries give up the single currency and return to national monies. It is difficult to imagine governments agreeing to such a transfer of powers and mutual risk sharing at a time of continued economic weakness and increasingly unstable politics.

Moreover, Stiglitz's proposals would entail the abolition of the central building blocks of the EU, not least the free movement of capital. Those who disagree with Stiglitz's diagnosis and worry about the implications of his reform agenda can thus draw comfort from the fact that it is unlikely to become a reality in the near future.

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THE CASE FOR A 100 PERCENT GOLD DOLLAR

MURRAY N. ROTHBARD ***LIBERTARIAN REVIEW PRESS 1974***

Murray Rothbard wrote *The Case for a 100 Percent Gold Dollar* in 1962, initially as a contribution to a volume of edited essays.

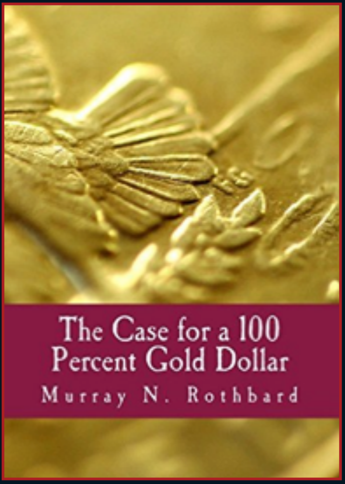
This was part of Rothbard's most productive year as he was putting together his overall socio-economic paradigm, which later came to be anarcho-capitalism.

Most of the essays in the book sought some form of system-wide monetary policy and policy transition. And most took the position that we need a change in or the relationship between monetary and fiscal policy.

Rothbard was the outlier here. He championed the full gold standard. His preferred policy was not a historical gold standard. To his mind, these had always been compromised by being government-established monetary systems with bailout guarantees for banks, government coinage, limited convertibility, unclear legal language concerning the status of deposits, and centralisation in general.

Rothbard's favoured gold standard was different. He believed in only private coinage. He wanted a clear legal distinction between instantly redeemable deposits and loan-banking in which the depositor is taking a risk in exchange for interest payments. He wanted banks to operate like any other business that would be subject to bankruptcy when they make entrepreneurial errors.

The vision is inspiring and he makes a powerful case that it could work, if only we were willing to give it



a try. Rothbard marches through the history of the government's destruction of the old gold standard. As imperfect as it was, it was better than what came after World War II, which was barely rooted in gold at all.

And here is the critical point: it is impossible to understand Rothbard's position on the gold standard without considering the system of monetary management in place when he formed his position. However vaguely and loosely, the dollar was still based on gold after the war. It was defined as 1/35 of an ounce. Rothbard wanted to take an existing system, dramatically improve it, clean up the legal regime behind it, and make it a permanent feature of a free-market economy.

Today we live in a very different world. The gold standard, even the small remnants of it that survived until the time Rothbard was writing 1962, has been obliterated from the world economy. There is a global market for gold today that exists in all its sophistication as an institution completely set apart from monetary management.

Hence, "returning to a gold standard" is not a matter of improving an existing system but of completely replacing our system.

My own sense, after long thought, is that none of this would be possible. More importantly, it might not even be desirable given the extraordinary innovation in cryptocurrency that works to realise the Rothbardian-style dream of sound money without reliance on gold.

We have the ability to reform the system today, not with top-down imposition but with bottom-up innovation.

Where, then, is the value in Rothbard's monograph? His history is compelling. His vision is persuasive. His institutional commitments are sound. His dream of a separation of money and the state is exactly right.

Ironically, however, all of this can be realised without insisting that gold be the foundation of it. Technology has given us the path to rescue the best parts of his theory while forging a much more realistic plan for a genuine free-market monetary system•

This essay is now available at: ***www.mises.org/library/case-100-percent-gold-dollar-0***

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