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# The Euro Must Be Abandoned to Achieve European Monetary Integration

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*Abstract:* This article explains why the euro has to be abandoned in order to integrate the euro-area member countries monetarily. It first recalls the negative consequences of the adoption of a single European currency by a number of countries whose economies are still too different on structural grounds to support the financial constraints elicited by the fiscal and monetary policy straightjacket. It thus points out the lack of fiscal transfers between these countries and the dogmatic attitude of the ECB regarding its own policy strategy and objectives, both of which affect the (un)employment level as well as the degree of financial (in)stability across the euro area. The article then suggests a way out of this area for those countries whose population cannot support the burden imposed by austerity policies with no foreseeable positive effect for the large majority of the people. It thus proposes the reintroduction of national currencies in these countries, for which the euro will still be available but as a mere supranational currency used by their national central banks only, in order for them to settle international trade and financial-market transactions carried out by residents in their countries. This monetary–structural reform will increase financial stability and employment levels across Europe, thereby also inducing positive effects for public finance.

**Keywords** Euro area; financial crisis; supranational money; TARGET2 system

The euro-area crisis has exposed several shortcomings of the European Monetary Union (EMU). Some of these were already pointed out before the introduction of the European single currency in 1999 or shortly thereafter (see, e.g., Dahrendorf 1997; Échinard 1999; Hankel et al. 2001; Rossi 1997). Indeed the original sin of the euro is to be “a currency without a State” (Padoa-Schioppa 2004: 35). This means that the euro lacks economic governance at the EMU level, since the single monetary policy carried out by the European Central Bank (ECB) is not accompanied by a structurally integrated set of economic policies decided for the euro area as a whole. This particularly concerns fiscal policy, which remains in the hands of national governments despite a straightjacket (the Stability and Growth Pact, later reinforced by a series of fiscal constraints as a result of the euro-area crisis) that ignores the importance of policy coordination across a single currency area. In fact, as Kenen (1969: 45–46) had already

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noted in the 1960s, “fiscal and monetary policies must go hand in hand, and if there is to be an ‘optimum policy mix,’ they should have the same domain. There should be a treasury, empowered to tax and spend, opposite each central bank.”

## THE EUROPEAN SINGLE CURRENCY IS A FACTOR OF SYSTEMIC CRISIS

The euro-area crisis has revealed that the EMU is not an optimum currency area (OCA). Indeed, the criteria to form an OCA (see Mundell 1961) have so far never been met by euro-area member countries, both when that area was established with eleven countries and at the time of this writing (with its nineteen member countries). The most difficult criterion to be met in that regard is labor mobility across national boundaries. Even after the crisis erupted, at the end of 2009, the geographical mobility of euro-area workers remains low in comparison to the United States (which also has a single currency for all its member states). The comparison with the U.S. federal system is telling on several counts. Both its fiscal and monetary policies are very different from the EMU’s on institutional grounds. They indeed consider unemployment issues across the federation of U.S. states, so much so as there are fiscal transfers between the latter in order for better-off states to support a reduction of unemployment rates in those states most in trouble. The Federal Reserve is also involved in this respect, because—according to the Federal Reserve Act—it has “to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates” (Board of Governors of the Federal Reserve System 2014a: section 2A). This so-called dual mandate should inspire the ECB, but most certainly a variety of political leaders in “peripheral” EMU countries, in order to revise the statutes of the ECB so that the latter adopts a similar mandate for the euro area as a whole. This will be necessary at the latest when the EMU sets up a European Treasury, with the power to tax and spend, as explained by Kenen (1969) and recalled by Bibow (2013). In the meantime, the ECB’s mandate should be amended, in order for the latter to include a requirement for the ECB to purchase government bonds from any member country that is experiencing major financial troubles, as revealed by the spreads on these bonds with respect to some better-off country that provides a benchmark in this regard (e.g., Cesaratto [2015] argues in favor of the issuance of Eurobonds by a federal Treasury, to be set up at the European level).

As a matter of fact, the euro changeover led financial markets’ participants to speculate that a single European currency was the best guarantee against exchange-rate risks, thus eliciting an increasing volume of capital flows into peripheral EMU member countries. Their “country risk” was thereby neglected, considering that the euro area is “too big to fail” as a whole, notably because of the ECB role as lender of last resort. In this regard, mainstream economists argue that “the introduction of the euro eliminated the exchange rate risk and induced investors to disregard country-specific bankruptcy risks, given the unlimited firing power of the ECB” (Bertola et al. 2013: 58). In fact, as Cesaratto (2013: 364) pointed out, the elimination of the exchange-rate risk within a single currency area such as the EMU is not enough to dispose of interest-rate spreads across that area, as became plain once the euro-area crisis erupted. Indeed, during its first ten years, the EMU witnessed an unsustainable increase in bank lending to the private sector of a number of “peripheral” countries—particularly Spain and Ireland in regard to their real-estate sector—which financial markets’ participants largely ignored until the credit bubble burst.

In this framework, the single monetary policy carried out by the ECB in fact exacerbated the situation because its “one-size-fits-all” stance contributed to inflating the credit bubble that, once the euro-area crisis erupted, also devastated the balance sheet of a number of banks also in the “core” EMU countries. The policy rates of interest set by the ECB have proved to be too low for “peripheral” countries, in which they have therefore inflated a credit bubble that initially benefited both their economies and their creditors’, but that eventually has induced a systemic crisis across the whole euro area. As Vernengo and Pérez-Caldentey (2012) pointed out, monetary union and financial deregulation allowed “core” countries within the euro area to exploit their export-led economic growth strategies as a “beggary-neighbor policy”: the huge savings formed in these countries as a result of their net exports have been lent to deficit countries. This made it easier for the latter countries to finance their current account deficits before the crisis burst, without the need to resort to the unlimited lending capacity of their domestic banks only.<sup>1</sup> This debt-led economic growth in “peripheral” countries supported aggregate demand in their economy, thereby allowing “core” euro-area countries (particularly Germany) to record persistent current account surpluses until external imbalances became unsustainable for the weakest EMU countries—in the aftermath of the global financial crisis that erupted in the fall of 2008 after the collapse of the U.S. investment bank Lehman Brothers (Rossi 2013, 2015).

Now, rather than supporting crisis-hit EMU countries with (higher) fiscal transfers from better-off national economies within the euro area, the latter, led by Germany, imposed an array of “fiscal consolidation” measures to the most severely hit euro-area countries, within a time span that, in fact, contributed to exacerbating the situation rather than eventually solving the euro-area crisis. These austerity policies reduce public spending (first and foremost in crucial domains such as health, education, and social security) and increase taxes (on consumption rather than on wealth and financial-market transactions), thereby depressing domestic demand, both in the private and public sectors, particularly in those countries where demand should be enhanced to support economic growth, employment levels, and tax revenue. The negative effects of austerity policies also concern the labor market, because the downward pressure on wage levels further worsens the economic situation, rather than improving the country’s “competitiveness,” thereby sustaining its economic recovery. As a result, financial market participants increasingly fear that the country under fiscal consolidation will not be able to repay its debt when the latter is due, therefore increasing the spreads affecting this country’s bonds with respect to some (German) benchmark, and/or the pressure on this country’s government to adopt further austerity measures in a never-ending negative circuit. A recessionary spiral thus affects the whole euro area because it abundantly diminishes intra-euro-area trade (hence, also employment levels and fiscal revenues) as time goes by (Mastromatteo and Rossi [2015] elaborate on the deflationary impact of austerity policies in this crisis framework).

On the whole, the neoliberal economic policies implemented before as well as after the euro-area crisis erupted cannot solve the problems that they have themselves induced. This is, in fact, essentially a matter of logical thinking. Therefore, only a logical understanding is in a position to lead both economists and policymakers to address the ultimate factors of the euro-area crisis, in order to overcome the latter eventually. Let us expand on this in a new section dedicated to the monetary–structural reform that is urgent and necessary for the most dramatically hit countries regarding both the euro-area crisis and its neoliberal “exit strategy.”

## A MONETARY–STRUCTURAL REFORM TO ACHIEVE EUROPEAN MONETARY INTEGRATION

Paradoxically, the EMU is not a single currency area. This is so, not because—as EMU critics argue (see, e.g., De Grauwe 2013)—the euro is a foreign currency in each EMU member country, since the latter transferred its monetary sovereignty to the ECB. The lack of monetary union across the euro area results from the area-wide TARGET2 payment system that lacks a settlement institution between national central banks involved (Rossi 2013). Before the eruption of the euro-area crisis in 2009, the positive TARGET2 balances earned by trade surplus countries (such as Germany) were spent by them in buying those (corporate or government) bonds that trade deficit countries (such as Greece) were selling in order to finance their external deficits.<sup>2</sup> As a result TARGET2 balances did not accumulate over time, and hence there was apparently no intra-euro-area (financial) imbalance building up until the euro-area crisis broke out. Since then, however, trade surplus countries are quite reluctant to lend their positive TARGET2 balances to those countries needing to borrow them in order to finance their own trade deficits (ex post). This shows that intra-euro-area trade is actually like any other foreign trade concerning euro-area countries, which are not paid finally when their national central banks are credited with some positive balances within the TARGET2 payment system. As a matter of fact, a final payment between the payer and the payee means that the latter has no further claims on the former (Goodhart 1989: 26). If so, TARGET2 payments between national central banks are not final because they leave the payee’s country with a claim on the ECB acting as financial intermediary, which has a simultaneous claim on the payer’s country,<sup>3</sup> each of these countries being represented by their national central bank in the settlement account that the latter must hold in the TARGET2 system. So far, indeed, the ECB does not at all clear the relevant settlement balances but merely keeps the books for that system, hence acting as a settlement agent, rather than issuing the means of final payment (and therefore acting as a settlement institution) between the national central banks involved by intra-euro-area (financial or commercial) transactions.

As the European Central Bank (2007: 34) explains clearly, “cross-border TARGET payments are processed via the national RTGS [Real Time Gross Settlement] systems and exchanged directly on a bilateral basis between NCBs [national central banks].” In particular, “once the sending NCB has checked the validity of a payment message and the availability of funds or sufficient overdraft facilities, the amount of the payment is debited irrevocably and without delay from the RTGS account of the sending credit institution and credited to the Interlinking account of the receiving NCB” (35).<sup>4</sup> This means that the ECB does not issue any unit of (central bank) money, contrary to what in fact occurs within any domestic payment system, in which the national central bank acts always and everywhere as a settlement institution issuing its own units of (central bank) money in order for interbank payments to be final between the two parties involved (see Rossi 2007a: 67–78).

Indeed, the TARGET2 system is structurally different from the U.S. interbank payment system, which operates in a multijurisdictional framework analogous to the euro area’s. In the case of the United States, the Federal Reserve Wide Network (called Fedwire) is in charge of carrying out interbank payments across the whole country, which is divided into twelve Federal Reserve Districts. Payments between these districts are recorded within the Interdistrict Settlement Account (ISA). In this regard, as the Board of Governors of the Federal Reserve System (2014b: 50) explains, “the daily settlement between Districts is conducted by the centralized

accounting system, which captures the data needed to conduct settlement. Once settlement has been effected, the appropriate entries are posted directly to each Reserve Bank's accounts," as a result of the final payment. As a matter of fact, all "payments between commercial banks of different districts [in the United States] are done via the Fedwire System and are settled via the accounts of the commercial banks at the corresponding District Fed. The payments are booked in the ISA, which is a real-time gross settlement system" (Sinn and Wollmershäuser 2012: 496). The fact that the TARGET2 system also uses an RTGS protocol, however, is not enough to conclude that the U.S. and the euro-area-wide payment systems have the same monetary–structural architecture. In fact, they differ on a key point: in the U.S. payment system, a District Fed must settle (i.e., finally pay) its annual average increases in the ISA balances through a transfer of financial assets, while NCBs that participate in the TARGET2 system have no such obligation.<sup>5</sup> Hence, the debtor balances of these NCBs may go on increasing indefinitely, thereby increasing the amount of claims on them in the hands of creditor central banks in the TARGET2 system. This essential difference between the U.S. and the euro-area-wide payment systems arises because the ECB does not operate as a settlement institution for NCBs in the TARGET2 system (Rossi 2013). In fact, the latter system has only two tiers rather than three: the first tier is composed of the European System of Central Banks (formed by the ECB and NCBs of EU member countries), while the second tier is made of banks and nonbank financial institutions, as Figure 1 shows. Note in this regard that the ECB operates at the same

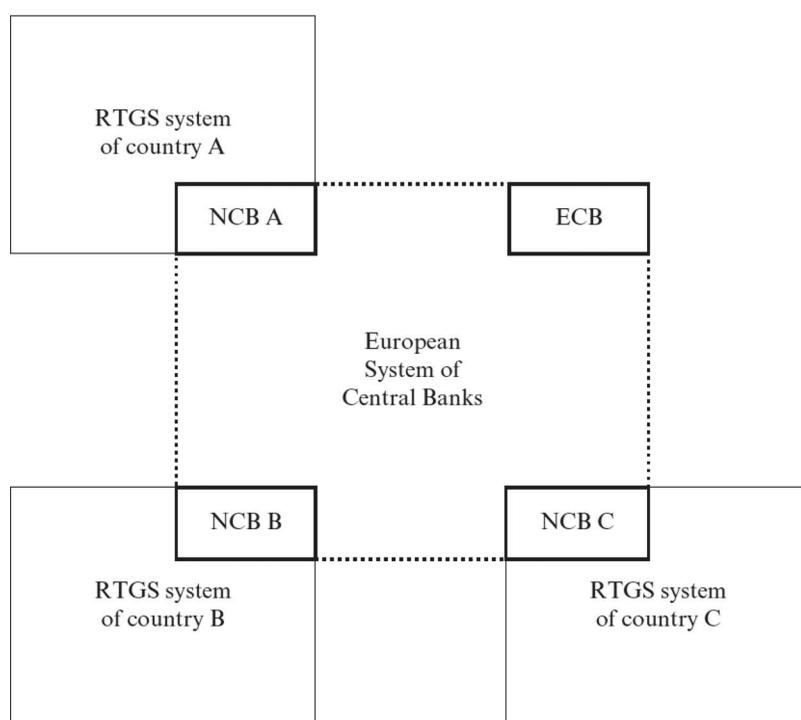


FIGURE 1 The Two-Tier Payment Infrastructure of TARGET2.

hierarchical level of participating NCBs and, therefore, is not their settlement institution, as it should be in light of its proper role on technical grounds (Rossi 2012). To be sure, the lack of such a settlement institution guaranteeing payment finality at the supranational level in the EMU is the monetary–structural flaw of the euro area, at the time of writing. It makes clear why the buildup of (positive and negative) balances in TARGET2 accounts held by national central banks represents a problem in itself making these balances unsustainable as time goes by: deficit countries may go on accumulating their foreign deficits “without tears,” similarly to the argument made by Rueff (1963: 322) with respect to the U.S. dollar being used as if it were an international reserve asset, unless their creditor countries decide for political reasons to impose fiscal consolidation on them.<sup>6</sup>

The current intra-euro-area monetary–structural disorder must be addressed urgently, as it is a factor of financial instability possibly leading to a systemic crisis. The solution to this problem can occur in two steps. First, as we will explain in this section, the euro has to become a mere supranational currency, thereby reintroducing national currencies into those EMU member countries most in need to recover their monetary sovereignty, so as to have an additional policy tool to address the causes and consequences of the crisis. In a separate step, which may take some years to occur owing to political reasons, the ECB has to become a settlement institution within the TARGET2 payment system, issuing its own units of (central bank) money, to make sure that all cross-border payments are final for the national central banks involved across the euro area (as explained above).

Waiting for the ECB to become, really, the central bank of national central banks within the euro area, each EMU member country can reintroduce its own national currency and use the euro to settle foreign transactions only. This recalls the Keynes plan proposed in the early 1940s to set up an International Clearing Union on top of which Keynes put an International Settlement Institution (ISI), in charge of issuing “bancor” for that purpose (see Keynes 1980, but also Schmitt 1973 and Rossi 2007b, 2009b).<sup>7</sup> Without discussing here the merits and shortcomings of the Keynes plan (for such a discussion, see Rossi 2007b: 100–103), let us focus our analysis on how EMU member countries can recover monetary sovereignty and transform the euro into a means of final payment for all their foreign transactions in the euro area (and beyond it).<sup>8</sup>

Assume that the government of EMU country A decides to reintroduce its own national currency (MA) for the settlement of all domestic transactions. Henceforth, the euro will be used by this country only for foreign transactions, which, moreover, will be settled in MA as far as residents in country A are concerned: the euro will be used by the national central bank only, as it represents country A monetarily (to wit, within the international monetary space). In this case, each cross-border payment concerning country A implies two currencies, MA and the euro, the latter being used as the “vehicle” of the former in the international monetary space (Table 1).

When an importer in country A sends the relevant payment order (for an amount, say, of  $z$  euros) to its bank (B1), the latter does not execute this order as it occurs today, that is, in the form of a transaction involving the exporter’s bank (B2) in country B through the euro-area-wide TARGET2 payment system (see above). The cross-border payment will occur through the national central bank, which, for this purpose, will split its books into two bookkeeping departments: the domestic department will record in MA any payment that concerns the rest of the world, while the external department will record in euros an equivalent amount in order for that payment to be carried out internationally (i.e., in its literal sense, “between nations,” as

TABLE 1  
The Result of a Cross-Border Payment from a Non-Euro EMU Member Country

<i>Central bank of country A</i>			
<i>Domestic department</i>		<i>External department</i>	
<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
Bank B1 (importer) + $x$ MA	External department + $x$ MA	Domestic department + $z$ euros	Central bank of country B + $z$ euros

*Note:* With  $x$  MA =  $z$  euros.

pointed out by Keynes [1980: 168]). In such a way, the domestic economy of country A can replace the euro with its national currency and thereby recover monetary sovereignty, to wit, the capacity to steer its own monetary policy, including exchange-rate policy, according to its own economic needs. If country B also replaces the euro with its own national currency (MB), the entries in the books of its banking system are similar (*mutatis mutandis*) to those entered in Table 1 for country A. By contrast, if country B keeps the euro as its residents' currency, as this happens to date, the cross-border payment for country B is carried out as it occurs now, namely, in crediting the receiving bank (where the exporter has its account) through the TARGET2 payment infrastructure.

Suppose now that a resident in country A receives a payment from a resident in country B, for an amount of  $z'$  euros. The relevant entries are recorded in Table 2.

As in Table 1, Table 2 shows that any cross-border payment with regard to country A is recorded twice in the books of the national central bank: once in MA and once in euros. This is not double counting. In fact this is required in order to separate the circuit of MA from the circuit of euros: if the latter does not intrude into the former, then country A as a whole recovers its monetary sovereignty, becoming simultaneously an element of the international monetary space defined by the circuit of euros between the national central banks involved thereby.

So far, however, a current account imbalance exists if the payment of imports in country A ( $x$  MA, or equivalently  $z$  euros) differs from the payment of this country's exports ( $x'$  MA, or equivalently  $z'$  euros). Suppose that country A records a current account deficit, for an amount of  $x - x'$  MA (or equivalently  $z - z'$  euros). This, in the end, is a payment deficit, which must be settled eventually, to avoid international monetary disorder. This, indeed, is what to date characterizes the working of the TARGET2 payment system: by contrast with the U.S. payment

TABLE 2  
The Result of a Cross-Border Payment to a Non-Euro EMU Member Country

<i>Central bank of country A</i>			
<i>Domestic department</i>		<i>External department</i>	
<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
External department + $x'$ MA	Bank B1 (exporter) + $x'$ MA	Central bank of country B + $z'$ euros	Domestic department + $z'$ euros

*Note:* With  $x'$  MA =  $z'$  euros.

system, where each District Federal Reserve Bank must settle, once per year, the annual average increase in its debtor balance within that system through a transfer of financial assets, national central banks that participate in the euro-area-wide payment system have no such obligation, so that their debtor balances can go on increasing indefinitely, thereby increasing the amount of claims on them in the hands of creditor central banks that participate in the TARGET2 system. As we have already noted, this essential difference between the U.S. and the euro-area-wide payment systems arises because the ECB does not operate as a settlement institution for national central banks in the TARGET2 system. This is why we disagree with the Lavoie (2015a) argument as regards the similarities between Keynes’s plan and the actual working of the TARGET2 system: the former induces countries (represented by their central banks) to finally settle their payment deficits, while the latter allows for these deficits to build up indefinitely—as explained above.<sup>9</sup>

If national currencies are reintroduced in EMU member countries, therefore, this should be accompanied by the obligation of their national central banks to settle (say, once per year) their negative balances within the TARGET2 payment system by disposing of financial assets, which must be transferred to those countries whose central banks have a positive balance (say, at the end of the year) in the TARGET2 payment system. Let us elaborate on this with regard to our stylized case.

The central bank of country A will thus have to sell an amount of financial assets, which corresponds to the current account deficit of the country in the relevant period (a year)—that is,  $x - x'$  MA or equivalently  $z - z'$  euros. This financial market transaction may be carried out either with the central bank of country B or with any other financial market participant, the important point being that the central bank of country A is credited with the amount of  $(z - z')$  euros corresponding to the country’s current account deficit, thus finally paid in the international monetary space. If this transaction is carried out between country A and country B, then the relevant entries for the former country are as recorded in Table 3.

To be sure, the payment for financial exports will occur as does a payment for commercial exports: the national central bank will record the relevant entries via its two departments in order to finalize the payment and make sure that the circuit of national currency does not interfere with the circuit of euros, and vice versa.

All in all, the current account deficit of country A is finally paid internationally, through an export of financial assets that transfers a purchasing power from the set of residents in country A to the rest of the world, and leaves the external department of the national central bank with no further debt (Table 4).

TABLE 3  
The Result of the Settlement of a Non-Euro EMU Member Country’s Trade Deficit

<i>Central bank of country A</i>			
<i>Domestic department</i>		<i>External department</i>	
<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
Financial assets		Central bank of country B	Domestic department
– $(x - x')$ MA		+ $(z - z')$ euros	+ $(z - z')$ euros
External department			
+ $(x - x')$ MA			

*Note:* With  $(x - x')$  MA =  $(z - z')$  euros.

TABLE 4  
The Result of Payment Finality for a Trade Deficit Non-Euro EMU Country

<i>Central bank of country A</i>			
<i>Domestic department</i>		<i>External department</i>	
<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
Bank B1			
$(x - x')$ MA		0 euros	0 euros
Financial assets			
– $(x - x')$ MA			

Now, if no financial market participant is willing to purchase the financial assets that a trade deficit country (like A) needs to sell via its central bank, in order to pay this deficit finally, there should be a supranational financial intermediary, such as the ISI, that has to intervene in this respect. Indeed, while country A may have to reduce its imports and/or increase its exports to rebalance its foreign trade over time, any past trade deficit cannot but be paid finally, to avoid international monetary disorder. This is when and where the ECB should intervene, as pointed out in the previous section, to make sure that country A's government bonds are considered as eligible assets for monetary policy purposes. If so, then government bonds of trade deficit (EMU) countries will again be in demand by financial market participants because the latter can always exchange these bonds against liquidity provided by the Eurosystem. This should be enough, in order for the ECB to be released from the political pressure to purchase these government bonds (on the primary market), although this should be allowed by revising the ECB's statutes to make them in line with the "dual mandate" of the U.S. Federal Reserve (see above).

In the meantime the so-called lender-of-last-resort role of the ECB in regard to national governments within the euro area could be carried out by the ISI called for above, which would act thereby as an international financial intermediary, insofar as it would lend to trade deficit countries like A the positive balances denominated in euros saved by trade surplus countries (such as B, in our stylized case analyzed above). To reject the critiques raised by neoliberal authors against a "lender of last resort" for national governments, it would be enough to consider that in fact no central bank grants a credit *ex nihilo* to any government body that applies to it under this financial-stability-enhancing facility. As a matter of fact, every national central bank that to date has been operating as a "lender of last resort"—whether for its national government or for any financial market participant—has actually been transferring to deficit-spending agents the amount of savings recorded in bank accounts held by some other agents. Table 5 illustrates this with regard to our stylized case.

As Table 5 shows, the central bank of country B (a trade surplus country) disposes of an amount corresponding to the country's trade surplus in payment of those financial assets that it purchases from the ISI, which therefore transfers to the central bank of country A (a trade deficit country) the purchasing power that the latter needs in order to pay finally its net imports via a sale of financial assets to the ISI. Figure 2 shows the relevant flows.

TABLE 5  
An International Financial Intermediary Is Not a Lender of Last Resort

<i>Central bank of country A</i>			
<i>Domestic department</i>		<i>External department</i>	
<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
Financial assets sold to the ISI – $(x - x')$ MA		ISI + $(z - z')$ euros	Domestic department + $(z - z')$ euros
External department + $(x - x')$ MA			
<i>International Settlement Institution</i>			
<i>Assets</i>	<i>Liabilities</i>		
	Central bank of country B (External department) – $(z - z')$ euros		
	Central bank of country A (External department) + $(z - z')$ euros		
<i>Central bank of country B</i>			
<i>Domestic department</i>		<i>External department</i>	
<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
Financial assets bought from the ISI + $(y - y')$ MB	External department + $(y - y')$ MB	Domestic department + $(z - z')$ euros	ISI + $(z - z')$ euros

Note: With  $(x - x')$  MA =  $(z - z')$  euros =  $(y - y')$  MB.

As Figure 2 illustrates, the ISI intervenes just as an international financial intermediary, that is, it does not “create” the credit that it provides to the central bank of country A, as this credit is financed, eventually, by the purchasing power earned by country B through its net commercial exports and that is recorded, for an amount equal to  $(z - z')$  euros, in the central bank of this country. All in all it is the trade surplus country (B) that operates as a lender of last resort, indirectly—that is, through the intermediation of the ISI—to provide a loan to trade deficit countries like A, up to the amount required, to settle the relevant current account imbalance, with a payment that is final not only for the (private or public sector) agents involved but also for their own countries.

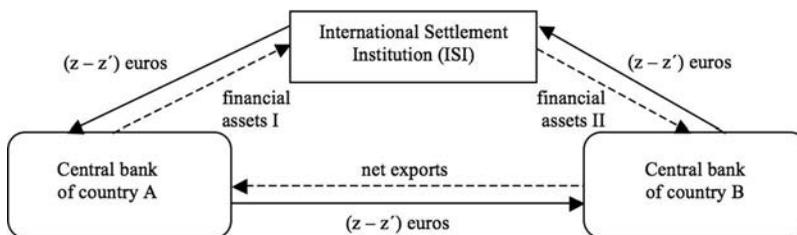


FIGURE 2 The Two Circuits Involving the International Settlement Institution.

## CONCLUSION

The monetary–structural reform of the euro-area payment system proposed in this article has two objectives. On one hand, it aims at transforming promises of payment into final payments for the countries concerned by their residents’ cross-border transactions in the euro area. On the other hand, it intends to counterbalance the “fiscal consolidation” that, at the time of writing, is negatively affecting both the economic situation and the life of the majority of the population of crisis-hit countries within the EMU. The first objective is a factor of financial stability, insofar as it limits the possibility for banks to inflate a systemic bubble via their credit-providing facilities in an endogenous-money system. As it stands, indeed, the euro-area-wide payment system lacks payment finality for all those countries—each defined as the set of its residents—that participate in TARGET2 via the national central bank. The second objective, by contrast, induces trade surplus countries, such as Germany, to contribute consistently to absorbing intra-euro-area imbalances, by increasing their imports from trade deficit countries. This will not only balance austerity policies currently implemented across the latter countries. It will also provide new jobs, and therefore fiscal revenues as well, both of which are urgently needed in dramatically hit EMU countries at the time of writing.

## NOTES

1. According to the theory of endogenous money, banks are not credit-constrained, owing to the fact that a bank can always provide credit lines without the need for it to dispose of preexisting deposits. See Moore (1988), among others, for analytical elaboration on this topic.

2. The orthodox view explains this external financing of trade deficit countries with the so-called loanable funds approach, that is, those savings formed in surplus countries are lent to deficit countries in order for the latter countries to pay for their net imports (see, e.g., Sinn and Wollmershäuser 2012). In fact, as Cesaratto (2015: 152) points out, “an alternative view argues that autonomous spending in peripheral countries was financed by endogenous credit/money creation by domestic and foreign banks. Larger imports from core countries generated foreign savings in these countries, so that ex post and only ex post we can say that core countries lent excess savings to peripheral countries.” This alternative view confirms the argument, made above, that interest rates were too low, in a number of countries, to avoid inflating the credit bubble that eventually burst.

3. This does not mean, however, that the paying agent does not pay finally. In fact, cross-border payments are final for the agents concerned but not yet so for the country in which these agents reside (Rossi [2009a] elaborates on this on analytical grounds).

4. The “Interlinking account” is an account that each NCB holds within the Interlinking mechanism, which designates “the infrastructures and procedures which link domestic RTGS systems in order to enable the processing of inter-Member State payments within TARGET” (European Central Bank 2011: 58).

5. This issue has been noted in the exchange between Lavoie (2015a, 2015b) and Cesaratto (2015), but has somehow remained neglected in their debate, although it provides a strong argument in favor of Lavoie, whose critical analysis of the EMU is confirmed and strengthened on monetary–structural grounds by our own theoretical development in this section.

6. As Cesaratto (2015: 147) points out, “in the absence of a legal limit to [TARGET2] imbalances, core countries set a political limit by imposing reversal of the current account position of peripheral countries (but not their own position!) through a paraphernalia of fiscal regulations.” In this regard he also correctly explains that “contrary to many initial convictions, capital flights from the [Eurozone] periphery roughly correspond to repatriation of the former [Eurozone] core-country loans that financed the current account deficits of the periphery” (Cesaratto 2015: 153).

7. Note that this proposal is not really akin to reintroducing the European Currency Unit (ECU) existing in the framework of the European Monetary System (EMS) during the 1979–98 period (i.e., before the changeover to

the European single currency). The ECU was merely the name of a basket of currencies (or a basket of gold as well as U.S. dollars, as regards the so-called official ECU) issued by member countries of the EMS. See Rossi (1997: 111–15) for analytical elaboration on this.

8. Lavoie (2015a) offers an analogous though not identical reasoning, whose conclusions are, however, very different with regard to the current payments architecture of the TARGET2 system.

9. Note in passing that, as both Cesaratto (2015) and Lavoie (2015a, 2015b) point out, there is nothing bad in a country's trade deficit per se. The problem we address in this paper concerns payment deficits, that is, lack of payment finality, which is a monetary–structural factor of (inter)national financial instability.

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