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The Euro: A currency in search of a state

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Abstract
To understand the structural dynamics of the current eurozone crisis, it is necessary to examine the longstanding internal contradictions that the system has inherited from its inception under the Maastricht Treaty and the neoliberal strategy which has governed its evolution from the first experiments in economic and monetary union in the 1970s. A brief narrative of the evolution of the European Monetary Union yields some insights into its peculiar institutional design. More specifically, the article examines the dangerously self-reinforcing logic between speculative bond markets and cascading, deflationary policies of austerity imposed on those countries encountering severe debt crises. This examination reveals the fragile foundations upon which the eurozone was constructed.

JEL Codes: B5, B14, B16, B23

Keywords
Capital, crisis, debt, euro, eurozone, monetary, money

Introduction

The official launch of the euro in 2002 gave birth to an international currency that was devoid of a coherent sovereign power. As Eichengreen (2011) has argued,

> But most fundamentally, the problem is that the euro is a currency without a state. It is the first major currency not backed by a major government, there being no euro-area government, only governments of the participating countries. (p. 130)

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A stateless currency is, indeed, akin to Pirandello's (1921 [1922]) character in search of an author.

This article is intended as a contribution to the critique of economic theories that continue to inform the evolution of the euro. It derives from two research projects. The first is a historical study of the origins and evolution of the single market in Europe (Lucarelli, 1999). The second is an interpretation of the dynamics of the eurocrisis, based on a theory of money, not as an exogenous variable whose supply can be created and regulated by a central bank, but as an endogenous variable, part of the circuit that begins with the creation of bank credit to finance economic activity, and ends when that debt is retired (Lucarelli, 2011b: 8–9). While there is no space in this article for a systematic exposition of this endogenous theory of money, it is implicit in the article's critique of neoliberal doctrines that crises can be managed by regulating the money supply through austerity measures such as inflation targeting.

The critique is developed through a two-stage analysis of the 30-year struggle to introduce the euro. It begins by highlighting the inherited tensions between those nations (particularly France), who between the 1970s and 1992 pushed for monetary union while seeking to retain national sovereignty over fiscal policies, and those gradualists (particularly Germany) who saw economic convergence, based on the staged adoption of inflation rate targets and reduction of interest rate differentials, as a precondition for monetary union (Lucarelli, 1999: 77–81). The second section critically examines the internal contradictions that the eurozone has inherited from the original Maastricht Treaty of 1992. The conclusion argues that in the absence of political union and a corresponding fiscal framework, the survival of the euro remains problematic.

A brief history of European Monetary Union: 1973–1992

The current debt crisis that has engulfed the eurozone has its origins in the three decade–long struggle to create a zone of monetary stability in the wake of the demise, in the early 1970s, of the post-war Bretton Woods international system. The history of European Monetary Union (EMU), culminating in the 1992 Maastricht blueprint, reveals that this deeply flawed monetary edifice was informed by the prevailing neoliberal economic doctrines favoured in particular by the Federal Republic of Germany (or West Germany, henceforth 'Germany'). These ideological preferences in the framing of EMU were deeply embedded from the earliest experiments in the early 1970s.

An early advocate and theorist of European federalism, Spinelli (1966) identified three contending approaches to post-war European integration: federalism, functionalism and confederationalism. Federalists saw political union as a precondition for economic union. Functionalism was a gradualist approach, relying on supranational administrative systems to generate a 'spill-over' effect. Confederationalism sought to defend national control over fiscal policy and was based simply on inter-governmental cooperation (Lucarelli, 1999: 31–32).

The Common Market, created by the Treaties of Rome (1957–1993), while apparently functionalist in its establishment of supranational institutions, was informed in the main by neoliberal strategies of 'negative integration', that is the removal of internal barriers to trade and competition as a way of enhancing competition and productivity. A

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rapid expansion of production and intra-Market trade in the 1960s attracted capital inflow from the United States (US), accelerated by the benefits accruing to the dollar as the international means of payment and principal reserve currency. The post-war Bretton Woods system, which had stabilised currencies by tying them to the US dollar, collapsed in 1971–1972 when the Nixon government unilaterally ended dollar/gold convertibility (Lucarelli, 1999: 84). Through the early 1970s, the US increasingly exported capital by accumulating current account deficits (Parboni, 1981); the result was the 1970s eurodollar crisis, with successive dollar devaluations exporting inflationary pressures to Europe (Lucarelli, 1999: 60–72).

The impetus of the 1970s dollar crisis and the demise of the post-war system of fixed exchange rates provoked a series of exchange rate crises, which threatened to undermine the Common Market. In response, European leaders sought to create a zone of monetary stability within Europe. As the international economic crisis intensified in the 1970s, efforts increased to recover national sovereignty over economic policies, but on a supranational level. The European authorities attempted to stabilise intra-Community exchange rates by introducing a regime designed to limit intra-Community exchange rate divergence and foster a more coherent means of exchange rate convergence. This was done through the so-called snake in the tunnel mechanism, established by the Smithsonian Agreements of December 1971. This mechanism involved a revaluation of 10 European currencies against the dollar, and an agreement by six existing and three prospective European Economic Community (EEC) countries to a regime whereby their central banks would limit fluctuations between their various currencies (the 'snake') to within narrow limits (±2.25% of each other), and then keep this 'snake' within the 'tunnel' of a 4.5% band of variation relative to the US dollar (European Commission, 2010; Lucarelli, 1999: 84–87).

However, with the onset of the oil price shocks and 1970s recession, the 'snake in the tunnel' could no longer promote exchange rate stability and eventually succumbed to speculative attacks. This first experiment in EMU therefore ended in failure. What followed was the birth of the European Monetary System (EMS), whose most innovative feature was the introduction of the Exchange Rate Mechanism (ERM). This was a central system of bilateral exchange rates in which the degree of fluctuation was restricted, again to within ±2.25% of parity. But these bilateral rates were this time expressed in terms of the European Currency Unit (ECU). ECUs were issued by the European Monetary Co-operation Fund (EMCF). The central banks deposited 20% of their gold and dollar reserves into this fund (Lucarelli, 1999: 86–87; Masera, 1987).

Within the EMS, Germany emerged as the dominant country in an asymmetrical regime, with the Deutsche Mark (DM) performing the role of nominal exchange rate anchor. While the German authorities were able to modify their exchange rate policies through interest rate adjustments, pursuing a trade-off between economic growth and lower inflation, other deficit countries were compelled to sacrifice economic growth to achieve exchange rate stability. The Bundesbank was at the same time able to oppose the internationalisation of the DM, fearing the inflationary risks involved. This stance imparted a disinflationary impulse throughout the EMS zone.

Initially, the accumulation of trade surpluses and the concomitant increase in aggregate profits had allowed Germany to export capital to the peripheral, deficit countries of

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Europe. To a large extent, these flows had financed the balance of payments deficits of the peripheral countries and been used to augment their purchasing power (Cesaratto, 2012: 12). In other words, the surpluses generated by Germany had been absorbed by the peripheral, deficit countries. This virtuous circle, however, was only possible as long as the deficit countries were able to incur the main burden of adjustment via exchange rate devaluations. As soon as this exchange rate adjustment was ruled out under the EMS, the growing imbalances between the surplus and deficit countries threatened the internal cohesion of the currency zone (Halevi and Kriesler, 2004).

As Germany pursued a neo-mercantilist[1] policy of austerity and wage repression, the deficit countries were now compelled to pursue a similar strategy in order to prevent the loss of their international competitiveness. Real wages lagged behind productivity growth in Germany, and this deflationary tendency spilled over into the rest of the eurozone, as each country was forced to pursue similar policies of internal devaluation. Wage repression in Germany therefore set in motion a race to the bottom in the eurozone. Although this process of 'competitive disinflation' fostered a greater degree of exchange rate cohesion and discipline within the EMS with the convergence of national inflation rates, the ultimate costs were evident in terms of economic stagnation and rising unemployment, or what became known as the onset of 'Eurosclerosis' (high unemployment, low growth) (Bellofiore et al., 2010; Lucarelli, 2011a). Germany's pursuit of competitive disinflation and domestic wage repression thus reverberated within the EMU.

The onset of 'Eurosclerosis' from the mid-1970s provided the catalyst for the emergence of a neoliberal agenda in the mid-1980s. The relatively poor performance of the European capitalist economies in relation to their American and Japanese rivals provoked considerable debate over the structural weaknesses of European industry. This lack of innovative and competitive dynamism would ostensibly be resolved with the implementation of a neoliberal programme for the dismantling of national regimes of regulation and protectionism. With a general shift to the political right during the 1980s and a crisis afflicting the social democratic alternative, the neoliberal project gained political ascendancy. Its proponents advocated the liberalisation of the European market through the removal of existing non-tariff barriers, the opening-up of public procurement policies and the liberalisation of capital markets. This strategy also implied the winding back of the power of organised labour and the deregulation of labour markets (Hyman, 1997; Peters, 2011).

According to the influential Cecchini Report (1988), these ostensible 'efficiency' gains would be secured through greater rationalisation and economies of scale, which would promote technological innovation and economic growth within a more uniform internal market. These neoliberal principles were enshrined in the 279 proposals that formed the basis of the *Single European Act* (SEA) in 1987. They coincided with and reflected the objectives of the powerful transnational corporations now based in Europe, which sought to increase their penetration of the European market and improve their competitiveness against foreign rivals (Moravcsik, 1991). Existing national regimes of accumulation were no longer considered to be compatible with the imperatives of globalisation. They were not, however, reproduced on the supranational level. In the absence of strategically powerful and coherent supranational institutions of governance and regulation, the European market was quite vulnerable to asymmetrical, country-specific shocks.

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The resulting crisis of European capitalism appears to have involved a breakdown of existing national modes of regulation. Three critical dimensions to the questionable efficacy of the neoliberal strategy can be readily identified. First, there was a question of whether monetary union was possible in the absence of a corresponding fiscal framework on a supranational level. Second, the problem of a European 'social space' emerged, as national forms of labour market regulation and the whole plethora of wages, working conditions and social legislation were subjected to the impersonal forces of the market. Such a European social space was necessary in order to prevent the destructive phenomena of 'social dumping' and the competitive bidding down of real wages between regions and countries, in their attempts to attract an inflow of foreign investment. In this sense, the narrow imperatives of labour market deregulation and labour mobility, which informed the neoliberal strategy, merely reinforced a ubiquitous 'race to the bottom' (Erickson and Kuruvilla, 1994; Krings, 2009; Lucarelli, 1999: 136). The third problem involved the regional consequences of market liberalisation and monetary union. The evidence appears to suggest that these regional disparities became more extreme (Bouvet, 2010; Galbraith and Garcilazo, 2010).

From the 1990s on, it has become clear that the efficacy of the neoliberal strategy was confronting the limits imposed by its own ideological opposition to the creation of more coherent forms of supranational regulation and governance. The theory of 'negative integration'[2] continued to inform the neoliberal design of EMU. Quite contrary to the optimistic projections made by the proponents of neoliberalism, the evidence suggests that the liberal and deregulationist logic merely accentuated regional disparities, eroded established social legislation and norms and severely limited the scope for traditional Keynesian policies of fiscal stabilisation and full employment.

With the exception of Germany, the restoration of the competitive dynamism of European capitalism through neoliberal strategies failed to materialise. Indeed, the process of negative integration continued to generate powerful centrifugal forces, likely to act as a barrier to further progress towards European union. The recent eurozone debt crisis represents the culmination of these longstanding internal contradictions between the surplus and deficit poles of the currency zone. The next section therefore covers the period 1992 to the present, analysing the form taken by the emerging eurozone.

Maastricht and its legacy

With German re-unification, closer European cooperation was seen as necessary to assimilate the former East Germany, while prospects for eastern European markets for German exports seemed to be growing (Spaulding, 1991). After more than a decade of inertia, interest revived in Project 1992, the part of the SEA that committed the European Community to the completion of a single integrated market, based on both economic and legal harmonisation, and with progress towards political concertation. The latter was to be based on the principle of 'subsidiarity', whereby common action between Member States would require a majority vote in the European parliament, whereas sensitive political decisions would require unanimity – a principle embedded in the Maastricht Treaty (1992).

In June 1988, the European Council had set up the Committee for the Study of Economic and Monetary Union, chaired by Jacques Delors. Its report (Delors, 1989),

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ratified by Member States at the 1990 Rome Summit, provided a blueprint for monetary union, with the existing EMS institutional architecture as its foundation. The Delors plan was founded on the principle of 'parallelism' among the three economic goals of allocation, stabilisation and redistribution, to be achieved through harmonisation of social policies, uniform environmental protection laws and coordination of fiscal policies (Lucarelli, 1999: 137–145). In the context of the Maastricht Treaty, finally ratified in January 1993 by all EU member states except Denmark, subsidiarity implied the transfer of those economic policy functions that could be more effectively carried out at Community level.

Most ambitiously, the Treaty contained a protocol for a European System of Central Banks, enshrining the objective of monetary union based on a European Central Bank (ECB). It set out a three-stage timetable for progress towards EMU. The first stage, beginning from 1 July 1990, was the abolition of controls on transnational capital movements. The second stage was the 1 January 1994 creation of the European Monetary Institute (EMI), providing the basis for stronger central bank coordination. The final phase of complete monetary union would depend on country adherence to four 'convergence criteria' – a national inflation rate of no more than 1.5% of the best performing member, a budget deficit no more than 3% of gross domestic product (GDP) and public debt under 60% of GDP, exchange rate within the 2.25% band for 2 years before admission and interest rate differentials within 2% of the lowest national rate (Arestis and Sawyer, 2010; Maastricht Treaty, 1992: Article 109j).

From the outset, price stability was the over-riding objective of the ECB, while the Maastricht Treaty divided exchange rate policy between the ECB and the EU Economics and Finance Council. The issuing by the ECB of a single currency, the euro, was to follow the final stage of monetary union. EMU was seen as simplifying the process of macroeconomic coordination, and a common monetary and exchange rate policy was seen as a way of enhancing both the political and trade profile of the European Union (Lucarelli, 1999: 147–149). However, the prohibition on ECB financing of public deficits or acting as lender of last resort to governments, coupled with the abolition of capital controls, meant that countries perceived as unable to maintain nominal exchange rates had no alternative but deflationary monetary and fiscal responses. Despite the resulting 'competitive disinflation' impulses of the late 1990s, the convergence criteria were largely met. A European Summit in May 1998 endorsed 11 of 15 member states to join the final stage of EMU. The virtual euro was created in 1999, with currency and notes going into circulation in 2002.

Since the official launch of the euro in 2002, its role as a means of payments, reserve asset and unit of account in international transactions has been quite limited. The US dollar continues to reign supreme as the pre-eminent international currency. Quite simply, the euro cannot be considered as a serious rival to the US dollar in the foreseeable future. Indeed, the current crisis could threaten the very survival of the euro. The internationalisation of the euro has been confined to countries within the enlarged European Union and in the extra-peripheral states in the near East and in sub-Saharan Africa.

The eurozone has been devoid of a common Treasury and a common exchange rate policy. This straightjacket has prevented the euro from enjoying the privileges of international seigniorage (revenue from the issue of new money) [3] and severely limited the ability of member states to finance their respective fiscal deficits through the conventional

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methods of functional finance (the use of budgets primarily to generate prosperity: Lerner, 1943).[4] In other words, member states of the eurozone no longer possess a monopoly over the issuing of fiat money. The euro is essentially a foreign currency, which implies that national fiscal deficits cannot be monetised. Indeed, these constraints were the intended outcome of the neoliberal theories that governed the evolution of the euro. Under the euro, member states have been at the mercy of international bond markets. Informed by neoliberal theories, the eurozone's monetary architecture has imposed the discipline of international financial markets onto sovereign states to maintain fiscal rectitude. Eurozone member states have therefore been quite vulnerable to the vagaries of speculative flights of capital. Furthermore, the ECB is prohibited from acting as a lender of last resort to member states and cannot undertake the conventional operations of quantitative easing (Dyson, 2008).

The lack of automatic fiscal transfers on the supranational level – analogous to the US system of federalism – which are capable of financing intra-eurozone fiscal imbalances through the operation of automatic stabilisers, has been a major source of instability and has contributed to the present sovereign debt crisis. The unwillingness of Germany and the surplus countries to finance the deficit countries has led to further demands for a more severe version of the notorious Stability and Growth Pact (SGP).[5] German neo-mercantilism has been at the very epicentre of Europe's descent into a secular phase of competitive disinflation and the persistence of economic stagnation. Neo-mercantilist austerity and wage repression in Germany have imparted a powerful disinflationary impulse throughout the eurozone (Bibow, 2012; Lucarelli, 2004). Since currency devaluations are ruled out under the single currency, the peripheral/deficit countries have been compelled to adjust internally by adopting similar policies of austerity and wage repression.

The constraints imposed on the ECB by the Maastricht Treaty have made it almost impossible for the ECB to implement a coherent and uniform set of monetary policies because of the continued existence of inflationary differentials across the eurozone. The imposition of a one-size-fits-all monetary policy by the ECB has merely accentuated these divergent trends between the low inflation and high inflation countries. The official interest rate, set by the ECB over the entire eurozone, has led to the high inflation countries experiencing a relatively low real rate of interest, which has encouraged excessive credit creation and induced asset price booms, most notably in real estate in the deficit countries of Ireland, Spain, Portugal and Greece.

In retrospect, this phase of excess liquidity only served to fuel asset price inflation, most notably in the real estate market. But the rapid expansion of liquidity was not accompanied by a concomitant increase in the level of effective demand or an improvement in real wages. Since consumption depended more upon credit creation than income growth, the emergence of a debt trap led to a corresponding collapse in asset prices and set in train the dynamics of debt deflation as credit was rationed in the wake of the ensuing credit crunch. A depressive phase of financial retrenchment also emerged as interbank lending was drastically curtailed.

At the same time, the divergences of real effective exchange rates within the eurozone, caused by these inflationary differentials, have also eroded the international competitiveness of the peripheral countries. The stark contrast between US monetary

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and exchange rate policies and the straightjacket imposed in the eurozone by the ECB during the financial crisis that began in 2008 could not be more revealing. As Fields and Vernengo contend,

> By buying great quantities of Treasuries, the Fed not only keeps stable bond prices and low interest rates, but also provides assurances that Treasury bonds remain a secure asset. That allows the US Treasury to maintain high fiscal deficits on a sustainable basis. That is the exact opposite of what the ECB has done for the countries in the periphery of Europe. Countries in the currency union lose control of monetary policy and cannot depreciate the exchange rate. But a common currency setting also brings to an end the possibility for a single nation to run fiscal deficits since the sources of funding are either removed or subjected to supra-national control. (Fields and Vernengo, 2012: 12)

It can be surmised that the flawed design of the euro has wreaked havoc on the peripheral/deficit countries. This dangerously self-reinforcing logic between speculative bond markets and the cascading, deflationary spiral imposed on those countries confronting severe debt crises pose an existential threat to the entire eurozone. Indeed, there are close parallels with the inter-war gold standard regime in which a powerful deflationary impetus eventually destroyed the existing international monetary system and triggered a whole series of competitive devaluations and the outbreak of trade wars. Since 2008, the euro project has encountered the internal contradictions that were always dormant, although latent from its earliest inception and indeed apparent in the late 1990s.

These contradictions have manifested themselves in the divergent, asymmetrical relations between the deficit and surplus member states, which in the absence of a more coherent fiscal framework on the supranational level has produced powerful and seemingly irreversible centrifugal tendencies. The ubiquitous process of competitive disinflation set in motion by Germany's pursuit of neo-mercantilist austerity and enshrined in the convergence criteria of the Maastricht Treaty has merely accentuated these centrifugal forces and contributed to the persistence of stagnation and the loss of international competitiveness by the peripheral deficit countries (Lucarelli, 2012). Furthermore, the fiscal straightjacket imposed by the Maastricht Treaty has essentially ruled out the possibility of enacting more expansionary Keynesian policies to mitigate the effects of these stagnationist tendencies. In short, the neoliberal policies, which were institutionalised by the Maastricht Treaty and inscribed within the Charter of the ECB, have imposed a regime of severe austerity on the peripheral deficit countries encountering sovereign debt crises.

This depressive spiral of falling output and rising unemployment has accelerated in the deficit countries in the wake of the global financial crisis of 2008–2009. Although the eurozone debt crises represent a new phase in the Great Recession, the institutional evolution of the eurozone inherited its own peculiar contradictions. The global financial crisis merely exposed these internal contradictions and prevented a more coordinated response to the crisis. In this context, the prohibition of the ECB acting as lender of last resort to member states caused widespread disarray as each member state was compelled to manage the liquidity crisis through bank bail-outs and recapitalisations, which inevitably led to the cascading sovereign debt crises. Worse still, those countries experiencing severe debt crises were now forced to impose austerity measures in order to secure

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financial assistance from the Troika (European Union, International Monetary Fund (IMF) and ECB) (Konzelmann, 2014).

But the imposition of austerity has made matters worse as government revenue from taxation has collapsed, while expenditure has escalated to cover the rising claims for unemployment benefits. In other words, the automatic stabilisers have pushed these deficit countries into an unsustainable debt trap. In the absence of economic growth, these austerity measures are ultimately self-defeating (Bibow, 2012).

In short, the euro is devoid of any mechanism allowing the member states to monetise their fiscal deficits. Furthermore, the real power to issue banknotes in the refinancing operations of the commercial banks resides in the Council of the Euro-system. According to Spethmann and Steiger (2004),

> The Council does not only determine the refinancing rate, which is equal to all NCBs, and the amount of liquidity to be allocated in the Euroystem, but the distribution of central bank money to the different NCBs [National Central Banks] is also determined by their share in the ECB's capital. (p. 56)

Membership of the EMU has deprived the national central banks (NCBs) of the ability to purchase government bonds in exchange for base money. As a result, the privileges of seigniorage traditionally enjoyed by sovereign states by virtue of their monopoly over the issuing of fiat money have been effectively surrendered to the ECB. This has implied the very real possibility of national governments defaulting on their sovereign debt in the event of a major financial crisis. Since sovereign debt is no longer denominated in the national currency or state money, but is now denominated in euros, national governments have not only surrendered their privileges of seigniorage but also of the ability to monetise their deficits. Under these circumstances, the ECB could ultimately decide whether it will accept national government debt and the terms by which it will do so (Arestis and Sawyer, 2010: 9).

Conclusion

Europe's present malaise reflects the fundamental incompatibility between the existence of a system of sovereign states, on the one hand, and the failure to develop corresponding state structures and institutions on the supranational level, on the other. This national/supranational dichotomy prevents the euro from acquiring the backing of a sovereign power. Political union would create a more coherent sovereign power to support a single currency. The crisis of European capitalism is at one and at the same time a political crisis of existing state forms of mediation and hegemony. The whole process of integration has been informed by neoliberal economic doctrines, which stress the ostensible economic virtues of national deregulation, the liberalisation of intra-European trade and the promotion of greater labour mobility across national frontiers but within an enlarged European 'social space'.

After the creation of a customs union, the second stage of economic integration involved closer macroeconomic coordination between the national economies and the realisation of complete monetary union. Monetary union thus represents the highest stage in the construction of this economic edifice. A single currency would symbolise

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that economic convergence has now reached a stage in which political unification is possible. The euro, however, remains a stateless currency devoid of a coherent sovereign power. As Cohen (2011) argues,

> The euro is a currency without a country – the product of an international agreement, not the expression of a single sovereign power. Its success, therefore, is critically dependent on the continued co-operation of EMU's member states, which can hardly be guaranteed for all time…. Decentralised decision-making among sovereign governments without some form of co-ordination is potentially a recipe for disaster. (p. 103)

The deep-seated structural crisis in Europe has resonated in the social and political spheres. With the relative demise of traditional social democratic policies and the ascendancy of the neoliberal economic paradigm, the post-war consensus based on social market policies has been seriously undermined. A single currency and a single market imply the supersession of national forms of state power and the creation of a supranational regime of governance. But the neoliberal strategy of negative integration does not propose to substitute these national forms of capitalist regulation on a supranational level. Deprived of its traditional armour of sovereignty, nationalism could be re-activated to restore the primacy of the nation state and its monopoly over the issuing of fiat money.

In its bare essentials, the euro remains a stateless currency. In the absence of fiscal federalism, the indebted peripheral countries are at the mercy of international bond markets. As a result, the internal cohesion of the eurozone rests upon the imposition of severe austerity measures on these peripheral, deficit countries. This vicious circle now threatens to degenerate into a depressive spiral reminiscent of the deflationary breakdown of the gold standard regime during the 1930s. In this critical context, the flawed Maastricht design of the euro-system has only exacerbated these powerful asymmetrical forces, which now threaten the very survival of the European project in its existing form.

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Notes

1. Neo-mercantilist policies favour controls over currency issue and capital movements, and the restriction of domestic consumption, particularly of imports, with the object of building foreign reserves and promoting capital development. They favour protectionist strategies, including structural barriers to the entry of foreign firms and limitations on foreign ownership. The underlying objective is the development of export markets, selective acquisition of strategic capital and the preservation of local ownership of productive assets (Lucarelli, 2011a).
2. The 1985 White Paper, of the first of the three Delors Commissions overseeing the path to *the Single European Act 1993*, identified 300 measures needed to complete a single European market. These involved a combination of positive and negative integration, creating minimal rather than exhaustive harmonisation. Negative integration involves the prohibition of discriminatory and restrictive practices by member states, while positive integration involves harmonisation of laws and standards. See Commission of the European Communities (1985).

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3. Seigniorage can also be defined in terms of the opportunity cost to the private sector of holding money (Klein and Neumann, 1990). In Greece and Portugal before the introduction of the euro, it was estimated, using the opportunity cost definition, that seigniorage revenues were around 2.5% of gross domestic product (GDP) (Lucarelli, 1999: 150).
4. Functional finance theory holds that, because governments can issue money to support economic activity and retire it by accepting it in payment of taxes, sovereign states need to finance the functioning of the desired level of economic activity, not follow the principles 'sound finance' that apply to individuals, households, businesses and non-sovereign governments (Lerner, 1943).
5. The signing of the new 'fiscal pact' by 25 out of the 27 EU member states in March 2012 reinforced Germany's insistence on strict limits to budget deficits. According to Cohen (2012),

   At the heart of the compact is a new 'golden rule' limiting primary budget deficits (i.e., deficits before interest payments) to no more than 0.5 per cent of GDP over the full economic cycle. Fiscal outcomes are to be carefully monitored by the European Commission in Brussels; and unless voted down by a weighted majority, costly sanctions are mandated for governments that breach the old SGP's deficit limit of three per cent of GDP. Henceforth, German stability culture would be the official dogma of Europe. (p. 697)

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