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The roots of the Euro

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Abstract

Indisputably, the euro has played a pivotal role in the development of Europe. Yet, the euro has also been very controversial, raising many discussions related to the nature, role and form of the "common currency". This paper aims at contributing to this ongoing debate from a Marxist perspective, presenting the theoretical framework of quasi-world money and examining the evolution of the euro as such, from the 1950s when the idea appeared for the first time. In particular, the paper focuses on the processes that led to the emergence of the euro as quasi-world money. These processes comprised a series of political solutions to the contradiction between the necessity of all major European countries to impose their money on the European market on the one hand, and their incompetence in doing so, on the other.

The analysis focuses on the post-war European monetary system up until the launch of the European Monetary Union. Its object is a historical monetary compromise that passed through many phases and managed to survive until the present day. The paper analyses the particular mechanisms through which the euro became a reality and points to the class interests that were satisfied in each phase. This discussion offers useful insights for the current debate that unfolds amidst a deep capitalist crisis internationally and a particular monetary crisis in the European Union.

List of abbreviations

BdF – Banque de France

BDI – *Bundesverband der Deutchen Industrie*

BIS – Bank for International Settlements

CAP – Common Agricultural Policy

CFA – *Colonies françaises d'Afrique*

CoG – Committee of Governors of Central Banks

ECB – European Central Bank

ECU – European Currency Unit

EDC – European Defense Community

EEC – European Economic Community

EMCF – European Monetary Co-operation Fund

EMI – European Monetary Institute

EMS – European Monetary System

EPU – European Payments Union

ERF – European Reserve Fund

ERT – European Round Table of Industrialists

EUA – European Unit of Account

ERM – Exchange Rate Mechanism

FDI –Foreign Direct Investment

IEPS – Intra-European Payments Schemes

MEDEF – *Mouvement des Entreprises de France*

OCA – Optimum Currency Area

OEEC – Organisation for European Economic Cooperation

UCD – Uneven and Combined Development

1. Introduction

The euro is indeed very controversial; there is no debate about that. What is debated is the historically evolving nature of this controversy. The difficulty starts at the beginning when two fundamental issues, namely the origins and the definition, are examined. In the extended literature one may find a variety of theoretical positions for both issues, with the mainstream view being largely criticized (see the theoretical section and the related lists of further reading).

Certainly, the debate is influenced by the liveliness of the matter and its importance in everyday economic and political life of over half a billion people in more than 45 countries[1]. The capitalist crisis has brought the debate back in the core countries, France and Germany. The rise of open or covered fascist parties in these countries brings along arguments of euro break-up and return to the national currency[2]. Euroscepticism and the opposing support of further integration unfold in at least three different audiences. The first by order comprises SMEs, farmers, self-employed etc., namely social producers with small or medium ownership of means of production. The second comprises working people and other poor people without access to the means of production. The third is big business, monopolies, Multi-National Corporations (MNCs) in all sectors. The argument for all is that, with the one solution or the other, they will be better off in what they are doing, while if the other prevails, they will be doomed to experience their worst nightmare. This debate flowers amidst anemic growth or

[1] Indeed, the euro is legal tender in twenty-one countries (nineteen countries of the Eurozone plus Kosovo and Montenegro); it is used officially in another four; fourteen African countries, the CFA franc zone have their currencies pegged to the euro; the Danish crone (Denmark and its dependent Greenland) is pegged to the euro within a narrow band; and unofficially the euro is widely accepted in a much greater number of countries in Central and Eastern Europe and Africa. CFA stood for *Colonies françaises d'Afrique* ("French colonies of Africa") between 1945 and 1958; then for *Communauté française d'Afrique* ("French Community of Africa") between 1958 (establishment of the French Fifth Republic) and the formal independence of these African countries at the beginning of the 1960s. Since, CFA is taken to mean *Communauté Financière Africaine* (African Financial Community), keeping the acronym to remind the dependency of these countries from French monopolies. These fourteen countries have a population of 150 mn people.

[2] The National Front in France and the Alternative für Deutschland in Germany are the more pronounced parties in this respect.

stagnation in most Eurozone areas, which translates into high absolute poverty, unemployment, skyrocketed competition and difficulties in the reproduction of capital.

If the question is the efficiency of the euro and its effects on different classes, in general but more specifically and interestingly in conditions of crisis, or stagnation; if the consequent question is whether an economy can escape the current swamp by staying in the euro or by exiting, by contributing to its demise or by applying political pressure towards its completion; if the ultimate question is whether all this discussion about the euro, or about money in general has any relevance with the exit from the crisis, or is irrelevant altogether; then it is compulsory to examine more fundamental questions like what is the euro and how did it emerge. Indeed, many authors from different schools of thought and ideological starting points attempt to re-examine the theory and the history of the euro in order to contribute to the ongoing political debate[3]. The paper aspires to contribute to this quest from a Marxist staring point.

There are various theoretical and historical difficulties in the emergence of the euro. First, the eventuality of common money for a group of European capitalist economies, the composition of which was frequently changing, depended upon the discussions between the head of states of two countries, France and Germany. It is difficult to counter argue that "[…] writing about European monetary integration means writing about French-German relations" (Szasz, 1999). Moreover, not only is there unevenness between the participants of this unprecedented project, but inside both France and Germany there were forces opposing monetary integration. At an extreme extent, monetary integration appears as the obsession of few persons, mostly French. The majority of the people on the other hand, even in core countries, didn't participate in any phase of the negotiations leading to the Maastricht Treaty; most, if not all, of these negotiations took place behind closed doors.

[3] Indicatively, see Bibow (2013), Krugman (2013), Sanchis i Marco (2014), Georgiou (2016) and Schelkle (2017). From a Marxist perspective this quest is novel. Lapavitsas (2013) treats the euro as quasi-world money, but doesn't delve into its historical emergence.

A theoretical framework for the European Monetary Union must therefore build on a theory of money, consolidating a continuously changing number of participating countries, unevenness between them and conflicting forces inside them. The mainstream economic theory of Optimum Currency Area (OCA) and the theories of neo-functionalism and inter-governmentalism in political science are proven insufficient for such a demanding synthesis.

Contrariwise, this paper provides a Marxist theoretical framework according to which the euro is the solution of the contradiction between the necessity of the French and German bourgeoisies[4] to acquire a quasi-world money and the limits that they faced. This framework is based on the Marxist theory of money and the evolution of the forms of money, the historical nature of quasi-world money that will be briefly presented and the particular strengths and weaknesses of big business, as expressed through their unions in France, Germany and the continent. It aspires to give content to the *bras de fer* that is eloquently described in most essays on the history of European monetary integration. There are two keys for the line of reasoning adopted here; the fact that quasi-world money is in all cases a historical product and the transformation of the compromise between big business in France and especially in Germany from defensive to offensive.

The paper is structured in two main sections, the theoretical and the historical. The former overviews the mainstream theories and focuses on the Marxist approach followed here, which is based on the Marxist theory of money enriched by the relating argument of Uneven and Combined Development. The historical section examines the origins, the Franco-German compromise and the crucial transformation of the latter. The last section summarizes the paper, offering insights for current controversies and debates.

[4] "A national bourgeoisie seeks to secure a place in the international division of labour and to defend the interests of its component parts, including the ability to import, export, borrow and lend" (Lapavitsas, 1999, p. 210).

2. Theoretical frameworks for the euro

2.1 Mainstream theories

The standard reference point in terms of mainstream economic theory is the OCA theory (see related list of further reading).The theory claims that a region, irrespective of whether it comprises one or more nation-states, is an Optimum Currency Area if there is full labor mobility inside the region, while between the region and the rest of the world there is labor immobility. Moreover, the economies that would form a currency union should be open and interdependent, while the best candidate countries are these with highly diversified production.

The theory attempts two things, namely to justify theoretically the euro project and to provide certain criteria as to who should participate in it. It could be easily argued that it has failed in both. Suffice it to say that the countries that were involved as members of the various schemes and finally of the Eurozone did not comprise an OCA. Apparently, policy-makers left "detailed economic analysis" aside in their negotiations for the Maastricht Treaty (Wyplosz, 2006a).

Having done so, they opened the road for an evolution to the OCA, called the endogeneity of OCA. In short, the theory does not claim anymore that it predicts if a country is eligible for the Eurozone. On the contrary, it proposes a vague evaluation of a country's eligibility once the latter is already a member of the currency union. This evolution marks the dead-end of classical OCA, especially when it comes to the expansion of the Eurozone eastwards.

The critique of the OCA here departs from the Marxist theory of money and the theory of Uneven and Combined Development (UCD). In short, the OCA is allegedly a currency theory, but doesn't deal with the currency at all. In particular, the form, function, issuer and enforcer of this money are issues of outmost importance when it comes to the euro project, but are not accounted for by the OCA. Second, the OCA assumes symmetry and equality in a world that is shaped by unevenness. The most striking expression of this weakness is the inability to grasp the special role of Germany and France although this role is acknowledged by most proponents of the theory and by all historians. Finally, by ignoring the content of competition in the monetary field and the interrelation of powers, it fails to see the euro as a historical product of compromises that is constantly contested and evolving.

Political science theories of European integration cannot escape addressing the unevenness and the interrelation of powers (see related list of further reading). Neo-functionalism focuses on transnational elites that aim at practical gains from integration, while inter-governmentalism focuses on actions by heads of government, which take into account domestic bourgeoisie, exemplary expressed by unions of big business, usually industrialists.

These theories though do not particularly examine the birth and coming of age of the euro, but the European integration in general, and hence, when it comes to concrete analysis, they prove irrelevant. Interestingly, a rather heterodox critique of them focuses on the role of three unions of big business, namely BDI (*Bundesverband der Deutchen Industrie*, the peak organization of German employers dominated by big industry), MEDEF (*Mouvement des Entreprises de France*, same for France) and ERT (European Round Table of Industrialists). This literature is informative for the approach adopted here and will find its place in the next section.

2.2 Quasi-world money and Uneven and Combined Development

The paper’s starting point is the Marxist theory of money as it has been developed (de Brunhoff, 1976; Marx, 1981b, 1976, 1978, 1980, 1981a; Hilferding, 1981; Arnon, 1984; Lapavitsas, 1991, 2000a, 2000b) and recently elaborated in Labrinidis (2014, 2016). In short, the evolution of the forms of value leads to the monetary form which, once established, acquires various forms itself. The evolution of capitalism leads to the emergence of the central bank as the bank of the banks and the bank of the state that also gathers the national reserves and evolves as their trustee (Itoh and Lapavitsas, 1999). The banknote of the central bank emerges as the king of the banknotes and is declared as legal tender, becoming thus a new form of money that has been termed as “managed money” (Keynes, 1971). This is a process that has taken place in all countries where capitalist relations prevail.

The moneys issued by major capitalist central banks and stamped (and guaranteed) by leading capitalist states that manage to break the geographical limits of their domestic circulation function as world moneys (Labrinidis, 2014; Palludeto and Abouchedid, 2016). They are termed quasi-world moneys and they are structured hierarchically, reflecting at each point in time the interrelation of powers between groups of capitalists and major capitalist states representing their interests. Quasi-world money is juxtaposed to world money proper, basically gold and primarily in the form of bullion.

The emergence and evolution of quasi-world moneys are complex historical processes but it has been shown that, apart from international trade, reserves and the internationalization of capital play a relatively well defined and crucial role. The forms, size and holders of reserves shaped the formation and reproduction of the current international monetary system and the change that has occurred in the 20th c, and especially after the collapse of Bretton-Woods played an important role in our story. For the moment, it suffices to note that “with the emergence of quasi-world money, reserves have been transformed from a proxy of economic power to a burden, from a powerful spear to a heavy shield, from an element of economic independence to a process of political dependence” (Labrinidis, 2016, p. 111). Quasi-world money issuers hold mostly gold and control the exchange rate through domestic monetary policy; they don’t need reserves in the form of quasi-world money since they issue one (ibid).

This is by itself a very strong motive for a capitalist country to aim at upgrading its money to quasi-world money.

Lenin (1963), based on Hilferding (1981) and Hobson (1938), formed the classical Marxist argument about the export of capital in imperialism[5]. The evolution of capitalism leads to the concentration of masses of (monied) capital seeking a placement (rate of profit, level of risk, market share) that might be better abroad compared to the homeland. With a series of peripheral countries pulled to the trajectory of global capitalism, the need for exporting capital finds profitable getaways. The importance of the export of capital has risen in the capitalist world in the course of the 20th century and has enhanced in turn the export of commodities. The export of monied capital is simultaneously one of the processes of establishment of quasi-world money. If African countries start accepting renminbi in the import of capital from China (Mukeredzi, 2014; Agence France-Presse, 2015; Chen and Meijer, 2015), then renminbi will acquire quasi-world money features.

Capitalism is a mode of production that creates continuously and spontaneously differences in competitiveness and uneven development between corporations. These differences, by leading to the redistribution of new value and the loss of part of the surplus towards the more competitive corporations, are the basis for the uneven development of sectors, peripheries and nation-states. Capital, in its international movement, is assisted by nation-states or supra-national quasi-state mechanisms or institutions. The state performs a series of functions in the economic, political and ideological level that underpin the recreation of capitalist relations in the long run (Harvey, 1999, 2006; Vlachou and Christou, 1999; Vlachou, 2009). Indeed, "today the process of uneven development presents itself in more vivid detail at all spatial scales than in any previous period" (Smith, 2008). Contributions to the theory of

[5] Lapavitsas (2013) provides a critical account of the argument, while Ivanova (2013) relates the function of the US dollar as quasi-world money with the export of capital.

UCD, apart from Lenin's (1963) seminal formulation, can be found in Desai (2013), Harvey (2003) and Smith (2008).

Serfati (2016, p. 256) observes that “[d]ominant states and their dominant capitals shaped the EU institutional set-up and did so in a quite unique historical context: the collapse of and/or revolutionary challenge to the state apparatus in most European countries after WWII, the need to unify European governments to protect the ‘free world’ against the westward penetration of Soviet forces, and US support for the reconstruction of capitalist countries through massive accumulation as a mean to buttress their domination”. Moreover, he argues that “underlying the current era of the world extension of capitalist domination, there exists a hierarchy of countries and a very asymmetrical configuration of inter-state relationships” (p. 258). Additionally, Hudson (2003, p. 30) concludes that, in the EU, “[t]he legacies of past uneven development, allied to the effects of intensified market competition as companies seek to exploit differences between places, have led to new forms of uneven development”.

The above approach is compatible with the political science literature that stands critically towards neo-functionalism and inter-governmentalism, focusing on the role of corporations, mainly in France, Germany and in other countries in the set-up of the Eurozone (Cowles, 1995; Pistor, 2001; Apeldoorn, 2002; Georgiou, 2014, 2016). These authors examine closely BDI, MEDEF and ERT as collective bodies of dominant capitals in Germany, France and the other EEC countries. It can safely be argued that these organizations reflect the interests of the bourgeoisies in the corresponding countries.

To recap, the euro must be treated as a quasi-world money, namely credit money that can exit the borders of the Eurozone enforcing the export of capital for big corporations and strengthening their position in the competition in the world market, especially against US based corporations; furthermore, eliminating the necessity of reserves and minimizing the scope of exchange rate policy, deliberating hence idle money for capitalists in the Eurozone and providing the corresponding banking systems and the monetary authorities with many degrees of freedom.

Its uniqueness lies on the fact that it is not the managed money of a certain leading capitalist country that exited the borders, but the product of a compromise between leading capitalist countries, and the dominant corporations domiciled there. The euro was introduced simultaneously in the interior of the Eurozone as managed money and in the rest of the world as quasi-world money. As such a compromise it contained and reflected the hierarchically structured power of the member states and their dominant capitals. The monetary integration process in general was always subject to the particular historical solution that was given – each time and for each participant – to the contradiction between the necessity for quasi-world money and the inability to have it.

3. The story of a peculiar Quasi-World Money

In this section, the historical events related to the European monetary integration will not be reproduced, given the space limits, but instead they will be used in a meaningful sense from the perspective of this paper. The reader is strongly encouraged to use the related list of further reading, especially for events that she is not familiar with. The section focuses on the origins of the process, the principal agents and the nature of the force that brought and kept them together and the crucial turning points.

3.1 Origins

Euro banknotes entered into circulation in 2002, while the euro was introduced in the beginning of 1999, seven months after the official launch of the ECB. Yet, the euro only replaced the European Currency Unit (ECU), which in turn was the successor of the European Unit of Account (EUA). The EUA, gold in content, is usually acknowledged for its use in the 1970s, but its tracks lead us back to the initial Intra-European Payments Schemes (IEPS) of the immediate post-war years and the more well-known European Payments Union (EPU, est.1950) and European Monetary Agreement (est.1955).

The ECB is the successor of the European Monetary Institute (EMI, est.1994) which had previously replaced the European Monetary Co-operation Fund (EMCF, est.1973). Although, the first reference of such an institution is the European Reserve Fund (ERF, proposed 1958), the actual predecessor of EMI/ECB was the Bank for International Settlements (BIS) along with the Monetary Committee (est.1958) and the Committee of Governors of Central Banks (CoG, est.1964).

In the first evaluations of the European Monetary Integration, the "humble beginnings" were located in the immediate post-war years. "Such a process really began after the Second World War with a series of formal intra-European schemes designed to facilitate multilateral trade and payments." (Coffey and Presley, 1971, p. 3). The times were harsh and it seems that capitalists were facing multiple and inseparable problems of economic, social, ideological and military nature; against each other, their people and the peoples that were attempting to build (or rebuild) socialism. The section focuses on the monetary problem.

The immediate difficulty was that all capitalists apart from the North Americans desperately needed world money, while the North Americans needed desperately buyers holding world money for their commodities[6]. This was addressed by the Bretton Woods arrangements and the export of dollars through the Marshall Plan and the US military expenses in Germany and elsewhere. Yet, both solutions were extraordinary, one-off, one-sided,

[6] "European trade and productive capacity emerged as the most wounded and defeated element in the war, industrial production being less than 75 per cent of its pre-war level in France, Germany and the Netherlands; there had been a failure to replace or repair capital equipment, and inventories of raw materials and consumer durables had been sadly depleted. Trade was in an equally dismal position. […] Unlike most European countries, the United States had been able to expand its productive capacity throughout the war, increasing its Gross National Product by more than half, so that in 1945 it produced the major portion of the world's manufactures. Europe, unable to produce for itself, imported such necessities from the United States in an attempt to reconstruct and develop its industries." (Coffey and Presley, 1971)

abnormal, shortsighted and, as such, without future. They didn't address imbalances of all sorts, convertibility problems and unevenness.

Access to world money was particularly difficult for continental European capitalists. France, Germany, Italy, the Netherlands and Belgium were deprived both of gold and of quasi-world money, unlike the UK that had retained its gold reserves, had access to new gold production in South Africa and issued a quasi-world money accepted in the Commonwealth, if nowhere else. On the other hand, the UK was having difficulties in retaining the previous status of the pound, and even its convertibility, especially given her meager, for these matters, gold reserves[7] (Labrinidis, 2016).

Both the dollar supply through the Marshall Plan and the general shortage of world money brought European capitalists closer to each other. The former led to the establishment of the Organization for European Economic Cooperation (OEEC, est.1948) for the administration of the Marshall funds; the latter to the promotion of intra-European trade and finally the establishment of the EPU. The union was supported financially by the US and institutionally by the BIS. It was very successful in reducing the volume of payments and therefore promoted the liberalization of payments. The result was that, by 1953, multilateralism was almost fully restored for the participating European countries (Yeager, 1976; Bordo, 1993; Eichengreen and Macedo, 2001).

3.2 The Franco-German alliance: antagonism and compromise

In the first post-war decade the capitalist world market was in a mess. The problem was certainly not monetary. On the contrary, the monetary arrangements reflected the interrelation of powers in the economic, military and political arena. Continued retreat behind national

[7] In 1948, the US was holding more than half of world's official international reserves, while the UK a mere 5 percent. The reserves of the other continental European countries were negligible, with the exception of Switzerland (Labrinidis, 2016).

borders was in opposition to the strong ideological frontier against the USSR. In other words, the supposedly solid capitalist camp was fragmented. This contradiction was exemplarily reflected in the case of West Germany, which in theory should have been rearmed against the communist enemy exemplified by the USSR, but the "allies" did not trust her, for fear of the German bourgeoisie reusing the arms against them. The "allies" – the US, France and UK – helped West Germany with all the possible ways, while keeping this country under occupation up until the mid-1950s. The US imposed a form of three-layer federal state, which was by construction very weak, with a strong central bank while retaining a significant military presence. This arrangement satisfied the French position against German expansion. West Germany, although with restricted sovereignty[8] and very low political power inside the capitalist camp, based on the old economic structure of monopolies, the very strong infrastructures and the skilled and oppressed labour, recovered economically very quickly and by the mid-1950s it had showed signs of great dynamism; any alliance that would provide her with sovereignty would do.

At this time, the Suez crisis (1956) played a catalytic role – it seemed to have tipped the scales in favor of France allying with West Germany; and the UK with the US. "The political framework underpinning EMU depended on two states of more or less equivalent economic weight, France and Germany, reaching a balanced deal" (Bordo and James, 2006)[9]. "The issue of monetary integration was therefore to a large extent a power struggle between France, supported by most EEC countries and by the European Commission, and Germany, supported by the Netherlands" (Szasz, 1999). Indisputably, the monetary integration process was always a Franco-German debate and both the initiatives and the decisions were the result of compromises in the frames of this debate.

[8] In West Germany, the first post-war elections were held 4 years after the end of the war, in August 1949. Formal sovereignty was achieved in 1955 (Leaman, 1988, p. 82).

[9] "Balanced deal" is a descent term for "compromise".

Nevertheless, in both countries, there were organized economic interests that were for and against monetary integration alternating and co-existing in the course of time. Beginning with France, “there was considerable opposition […] against establishing a common market in which French industry would be exposed to German competition” (Szasz, 1999, p. 4). This ambiguous stance of France was the result of an attempt to preserve and maximize national control over monetary and macroeconomic policymaking in an increasingly integrated world economy, by repelling the American and German monetary policies upon the franc and the French economy, while addressing the failure to achieve a monetary compromise at the international level (Howarth, 2001). It is certain that the opposing parties, nationalists and pro-Europeanists, were reflecting the interests of different fractions or groups of capitalists at various instances, depending also on the strength of the labour movement in the country and the necessary consents. Howarth (2001) argues that the French motives were monetary and economic power at the international and European levels, and domestic political considerations. This multilayered and complex policy involved the control of inflation; the reform of the domestic economy, including the banking system, the independence of the Central Bank and the lowering of interest rates; the strengthening of French agriculture through the Common Agricultural Policy (CAP)[10]; the shielding of the Franc against speculation and the protection of the reserves of the Banque de France; the aim for a surplus in the country's international payments position; and domestic political objectives that relate to the smoother satisfaction of the interests of the bourgeoisie along with the promotion of parties and personalities.

On the other side of the Rhine, things seem more straightforward although equally contradictory. In Germany, the debate was always between the government and the

[10] Crawford (1996), among others, stresses the importance of CAP for monetary integration. Farm price supports and CAP are central to the EEC from the outset (Kenen, 1969; Baltas, 2001)

Bundesbank. The weakness of the former accrues directly from the particular three-layer federal structure imposed that precludes the emergence of a politically and fiscally strong center. The strength of the central bank, the so-called second government, accrues from its independence from the government and reflects the economic power of the German monopolies. The excellent economic performance of the German big corporations contradicts the bounded political sovereignty, the practically confiscated gold reserves and the restrictions over military forces.

The pursuits of the Bundesbank and the German Chancellor were clear and consistent, although often reflecting the above contradiction. They both opted for *Lebensraum*[11] with other, non-military, means. Before the war, West Germany was heavily dependent upon the East, including the area that formed the DDR, in agricultural products, raw materials and buyers for her export industry. CAP relieved this dependence only partially. The Bundesbank thus insisted on more capital liberalization and open markets since it represented very competitive, export-oriented corporations.

The government, on the other hand, initiated the *Ostpolitik* in the late 1960s. This was a policy that allowed German monopolies to make good deals with socialist countries, including East Germany and the USSR. At the same time, it managed to keep the DM undervalued, strengthening thus the export-led firms. Third, it gained economic space in order to address the economic crisis of the late 1960s with fiscal expansion. For these pursuits, the government had to consent to French pressures for more monetary integration.

At the same time, both France and Germany were trying to defend their capitalists from the penetrating power of the North American quasi-world money. The Bretton-Woods

[11] The *Lebensraum* (living space) argument of the political representatives of the German bourgeoisie comes from the end of the 19th century although it became widely known through Hitler's implementation. It expresses the constraints of German imperialism, namely the lack of colonies; insufficient access to the sea; lack of control over gold mines, basic raw material sources like oil fields, and trade routes; exclusion from markets and inability to exclude others from any market other than the German. See also Schlupp (1992)

agreement was tottering, especially because of the capital controls and the necessity of the capital to break them. The emergence of the Eurodollar market, the establishment and the breakdown of the London Gold Pool (March 1968) were omens of the upcoming official collapse of Bretton Woods. These events led to the acceleration of accumulating dollar reserves to unprecedented, for the era, levels[12].

In France, the nationalist *Général* was replaced by pro-Europeanist Pompidou. The OCA theory had just provided a theoretical framework for monetary integration. The Werner report and the Barre Plan (1968-69) set in motion a roadmap for the establishment of the euro which was sealed in the summit of The Hague. The fact that the much afraid collapse of Bretton-Woods actually came about just afterwards and did not allow the project to materialize does not reduce the importance of the compromise achieved, nor does it eliminate the forces that led to this compromise.

3.3 The Compromise transforms: from defensive to offensive

The history of the three decades between the Werner report and the actual introduction of the euro is the history of the fact that the French and the German capitalists did not manage to have the desired quasi-world money of their own, in order to compete against the extra power provided to the Americans by the dollar. This history was embellished by several episodes, not always directly related to this contradiction or to the clash of the intra-European (i.e. Franco-German) interests. Although the Franco-German channel was always open, especially after the formation of the Monetary Committee and the CoG, and there was a continuum in the

[12] The German and Japanese governments explained the accumulation of dollar reserves as a price their countries needed to pay for the security provided by the US. Indeed, the Bundesbank president, Karl Blessing, in March 1967 signed the so-called Blessing letter, in which he committed the Bundesbank not to exchange its surplus dollars for gold in an explicit recognition that this was the price that Germany needed to pay for the maintenance of the US military presence in Germany (Bordo and James, 2006).

negotiations up to the present day, there were several crucial historical moments since the origins discussed above.

After the collapse of international monetary system in the beginning of the 1970s and amidst a capitalist crisis throughout the 1970s, the roadmap for the euro froze, but special monetary arrangements, known as "the Snake", seemed initially to keep European countries close to each other. Nevertheless, France and the UK had to withdraw from the "Snake" and the latter became a system linking various small countries' currencies to the mark and in this way the mark was put in the heart of the continental European monetary system since 1976[13].

In spring 1978 Germany was facing difficulties over the dollar–mark exchange rate, the initial problem being speculative flows between the USD and the DM. It was then perceived that the volatility of the DM might be reduced if it was in a zone of stable European exchange rates (Crawford, 1996). After the ERM was set, Germany was actually free to pursue independent policy in the dollar-mark exchange rate, since the other ERM countries were practically assigned to keep the exchange rate of the mark with their moneys within the bands (Tew, 1988).

In the EMS, Germany assumed the strong-currency-country role that had been occupied by the US at Bretton Woods (Eichengreen, 1996). There is plenty of evidence that the DM was the anchor of the ERM functioning as quasi-world money in the area and alongside with the US dollar (McCauley, 1997; Waigel, 2000). Crawford (1996) considers that the other ERM countries recognized the advantages from binding to the monetary policy of Germany, and thus the mark became the anchor of the ERM and the EMS. Moreover, the EMS led to the strengthening of peripheral moneys[14]. Hence, the imposition of the DM as a quasi-world money

[13] "The Snake had been established as a symmetric system in reaction to French objections to the dollar's asymmetric role under Bretton Woods. But once the Snake was freed from the Smithsonian tunnel, the DM emerged as the Europe's reference currency […]" (Eichengreen, 1996).
[14] In the early 1980s, "[t]he Lira was not a world-class currency. With the subsequent hardening of the EMS however, foreigners took large long positions in the lira and the other EMS currencies in order to earn higher interest rates than those available on deutschemark or dollar assets" (Kenen, 1995, p. 188).

in the continent started tempting the German bourgeoisie. Vaubel (1989) essentially proposed that, gradually and through the ECU, the DM should become the quasi-world money of Europe.

Nevertheless, all the steps towards the EMU had a common feature that changed in the case of the EMU; they were all defensive reactions to an existing negative situation or prior action. Before the collapse of Bretton-Woods, the difficulty lay in the acquisition of the necessary means of payment for the world market; after that, it lay in the terms of payment as expressed by the exchange rates. The EMU, on the other hand, was an offensive move[15]. This observation makes the period between the Single European Act (1986) and the actual collapse of the EMS (1993) decisive for the particular solution of the examined contradictions. The reasons for that change are briefly discussed below.

The French economy underwent a major restructuring that started in the mid-1980s and was marked by the banking deregulation. This restructuring would allow the gradual withdrawal of capital controls in France, thus enhancing the ability of French capital to exit the borders without leaving the national economy, the FF and the reserves of the BdF very vulnerable to the flows of capital. Moreover, it would make easier a compromise with the German condition for further capital liberalization. In the event of the appearance of exceptional opportunities for exporting capital, this liberalization would cease being a compromise and would become a strategic choice.

These opportunities did appear with the overthrown of the USSR and the East-bloc in the end of the 1980s. These are events of major importance for our story. For Germany, the political weakness in the international scene, the military dependence on the US, the political inferiority to France, the big salaries in West Berlin, the impediment to hold its own (huge) gold reserves, were all conditioned upon her geopolitical position in the Cold War. With the end of the latter, the contradiction between the economic power of German based big

[15] Dudler (1984) follows this insightful line of discrimination.

corporations and the political power of the bourgeois state of Germany in the international level could not be further maintained.

The opening of a virgin market of such dimensions was unprecedented. Export of capital would take place in great intensity and quasi-world money was of great importance. Regardless of the relative power of the multinationals willing to pounce, the ones that had unlimited access to dollars were better off. The major field of export of capital and the necessary for that international reserves was now transferred eastwards; Germany had already shifted the locus of investment abroad, also as a consequence of *Ostpolitik*, and had reconsidered the model of "investing domestically, exporting commodities" with a turn to FDI from the end of the 1970s that skyrocketed in the 1980s. Export of capital and the necessary for that international reserves made Germany compromise her rigid stance against credit expansion. The strategy of an undervalued, suitable for export of commodities, DM was gradually replaced by the strategy of a strong, suitable for FDI, DM.

But Germany's focus was abruptly attracted by the DDR. The access to such a working class, infrastructures and raw materials, the expansion of the borders that raised the market by 25 percent in terms of population and by 43.5 percent in terms of acreage, the reunification of Berlin itself, the absolute justification of *Ostpolitik*; these were such promising eventualities for the German bourgeoisie as negative as they were for the rest[16]. Germany seized the opportunity and in few years' time transformed from the consented force, always dragged by the French initiatives, to the real proponent of the euro[17]. This remarkable turn was sealed by

[16] "Former German Chancellor Helmut Kohl has never forgotten the hostility he faced at a European meeting on December 8, 1989. […] Margaret Thatcher famously told the heads of state when they were gathered for dinner: 'We beat the Germans twice, and now they're back.'" (Volkery, 2009)

[17] "It suddenly emerged as a very real possibility in the aftermath of the Soviet Union collapse. France was concerned that Germany would divert its attention to the East and Germany formally needed the Allies, including France, to agree to its re-unification with East Germany. President Mitterrand linked his support to the establishment of a common currency and Chancellor Kohl accepted the deal." (Wyplosz, 2006b, p. 209)

the massive entrance of German monopolies in the ERT from which they previously abstained and the corresponding initiatives of BDI.

On the one hand, the reunification led to a destabilization of the German economy and to a destabilizing policy mix that undermined the anchor role of the DM in the EMS and the prospects of the DM as quasi-world money. On the other hand, there was worldwide eagerness for credit expansion in order to exploit the momentum and invade economically the ex-socialist countries, and the EMS countries were no exception. Based on the stability of the exchange rates after the Basle-Nyborg Agreement (1987), the EMS countries assumed the power of a "hard currency" that they didn't actually issue and played accordingly with the interest rates. The crisis of the ERM in 1992-3, although fully spontaneous, was actually orchestrated (Buiter, Corsetti and Pesenti, 1998; Szasz, 1999; James, 2012).

The commitment of both France and Germany in supporting the EMS was tested in the crisis of 1992-3. The heavy intervention of the Bundesbank, the final failure of the EMS and yet the advance of the EMU revealed the dedication to the euro, the limits of the Bundesbank as a European central bank and the low prospects of the *Franc Fort*. It also exposed the weaknesses of central banks, even of Bundesbank, against freely moving capital that had been liberated from the fetters of capital controls. To the degree that the restoration of restrictions to the move of capital was not an option, the unification process was one-way for the major European countries. The 1992-3 crisis enhanced the conviction that the plan was condemned to succeed, since no other outcome was acceptable.

Since the euro became a strategic choice of the bourgeoisies in Germany and France, compromise was achieved on a series of issues that were unresolved for decades. The "independence" of the ECB, the price stability as its primary objective and its being located in Frankfurt was counterbalanced by the strong role of the national central banks in the actual central bank of the euro, the Eurosystem (Padoa-Schioppa, 2004). The strict criteria for membership were loosely interpreted. Economic integration ceased being a precondition for monetary union. Factor (i.e. labour) mobility was desirable but not necessary. The major pylon of the euro was no other than the compromise between dominant capitals in Germany and France[18].

4. Conclusions

The historical evolution of the European monetary integration process that led to the introduction of the euro can hardly fit in the mainstream economic theory. Expression of interests of big corporations, especially in trade and export of capital, political considerations, unevenness, compromises, are all features that call for a different framework. The mainstream political science theories of European integration, neofunctionalism and intergovernmentalism, are very poor when it comes to monetary integration.

Contrariwise, quasi-world money theory can explain the historical evolution of the euro and provide insights for its future. Quasi-world money is a historical product and is based on three pilars, one leading capitalist state, its central bank[19], and the – united, by definition – internal markets. The euro is indisputably a peculiar quasi-world money. Its origins are traced to the immediate post war period and the intra-european monetary (payments) agreements for demanding trade needs. The "uniqueness of the euro" lies on the fact that it is based on a compromise between the bourgeoisies of leading capitalist states, with France and Germany playing the tune, and their central banks intervening in all the, united internally, markets that comprise a fragmented European market[20]. The crucial turning point that transformed this

[18] "Thus, neither France nor Germany is realising its objectives in EMU as agreed at present. Yet both want to proceed, since there is no viable alternative. In doing so each no doubt hopes that once EMU is established its own preference will in the end prevail. Germany expects monetary integration will force integration in other respects (a 'monetarist' view it once disputed), while France presumably hopes that in a large EMU it will be able to muster sufficient support for its views." (Szasz, 1999)

[19] "A single currency implies a single central bank (with note-issuing powers) […]" (Mundell, 1961, p. 658).

[20] Europe is not homogeneous in terms of language, culture, legal and corporate framework etc. A direct consequence of language and cultural differences was expected to be the limitation of labour movement (Vlachou and Christou, 1999).

compromise from defensive to offensive was considered to be the reunification of Germanys in the frames of capital liberalizations and the opening of the virgin market of the ex-socialist countries.

There are three interrelated sources of instability accruing from the above analysis. The euro is dependent upon domestic conditions in France and in Germany, the alliance of Franco-German monopolies and competition with other quasi-world money issuers, primarily the US. One thing that came out of this paper is that workers, poor people and producers with only very limited access to means of production should follow the activity of MEDEF, BDI and ERT. Reference has not been made to big corporations, because they actually comprise and they take into account these organizations anyway. For example, MEDEF has posted on the 27th of September 2017 a note on its meeting with BDI "to strengthen cooperation and to discuss common customs issues"[21]. In this note, they set the agenda for trade liberalization through customs simplification and they close the note by stating that "this work for businesses on common matters is a strategic focus of our Franco-German cooperation". BDI and its "French sister association", as they call MEDEF, have made a common intervention for the EU banking structural reform, in order to promote the European Capital Markets Union; to secure European (mostly French and German) banks from competition from outside the European Union (primarily the US); and to promote a particular separation of banking activities that will not put regulatory limits in profitability (22nd of December 2015)[22]. Finally, in a joint declaration in Paris, with their eyes laid on the elections in both countries, in the 17th of March 2017, the two organizations reaffirm their strategic choice for the European Union and set 6 fields of action

[21] http://www.medef.com/en/news/medef-bdi-meeting-to-strengthen-cooperation-and-to-discuss-common-customs-issues

[22] https://english.bdi.eu/media/topics/europe/downloads/20151222_Letter_Banking_Structural_Reform_BDI-MEDEF.pdf

for the next governments, comprising the domestic and foreign economic policy that matches their common interests[23].

This is the story of the European monetary integration since its beginnings. The current capitalist crisis has made this observation trivial and stripped the pretexts of evenness, collaboration and equality that were used to clothe the euro. These qualities are referring only to the relations between big corporations in France and Germany.

Moreover, the crisis has strengthened the ever existing Eurosceptics who attempt to break the compromise with popular support, assuming that the petty bourgeois interests they represent will be better off outside of the euro, or if the euro collapses. In the joint declaration mentioned above, BDI and MEDEF try to provide arguments against Euroscepticism, namely to shield their strategic compromise. To do so they address all political forces with "the following *fundamental truths*: *all* citizens have benefited considerably from the single market, which allowed for mutual exchanges of goods, services, capital and people, from eastward enlargement, through the opening of our borders in the Schengen area, and through economic and monetary integration in the euro area." (Emphasis added).

Alas, this is only true for a very limited number of citizens of every country. The vast majority experiences poverty of all kinds, including working poverty, homelessness, unemployment, terrorism in the working places, retreat of working and social rights, closed borders, migration, degradation, misery and even difficulties in physical reproduction coming from simple and long-forgotten diseases like tuberculosis. Even if it is difficult to prove that the Eurozone is responsible for the negative social path described above, it is easily argued that it didn't reverse this course of things.

It should be clear to the working class in all member states that the future of the euro will be determined by the interests of the bourgeoisie in general and of the compromise between

[23] http://www.medef.com/uploads/media/node/0001/01/0054d94e14c150f2b8b079de5cb787c050ab9230.pdf

the leading parts of the French and German bourgeoisies in particular. When BDI and MEDEF refer to "*all citizens*" in their negotiations, they exclude the working class. For the people, who were never actually called to take part to the negotiations, although these affected directly and negatively its life and the terms of class struggle in each country, this is a false flag (Lenin, 1974). People should treat the Euro as a medium of capitalist reproduction, a weapon in the hands of their bosses that is firing foreigners and locals alike. The shift from the Euro to the Franc, the DM etc, as propagated by Euroscepticists will not change this fact, as people can remember from their life before the introduction of the Euro. Instead of Euroscepticism, capitalism-scepticism could be far more meaningful, opening new roads to the people in the Eurozone, including those in France and Germany.

5. Further Reading

5.1 Mainstream theories

For the uniqueness of the euro see Eichengreen (2008) and James (2012).

The OCA theory was introduced by Mundell (1961) and developed further by McKinnon (1963) and Kenen (1969) . A much less acknowledged founder with similar though arguments is Balassa (1961). Reviews of the theory can be found in Mongelli (2008) and Dellas & Tavlas (2009). Direct or indirect critique on the theory can be found in Commission of the European Communities (1990), Tavlas (1994, 2009), Backe and Thimann (2004) and Mongelli (2008). From the point of view of this paper, the most complete critique is provided by Carchedi (2001). Evidence and arguments that the Eurozone is not an OCA can be found in (Eichengreen, 1991, 1997, Bayoumi and Eichengreen, 1994, 1997; Crawford, 1996; Bordo and James, 2006; Yuceol, 2006; Schelkle, 2013).

Frankel and Rose (1997) initiated the endogeneity or endogeneities of OCA (Yannacopoulos and Demopoulos, 2001; Mongelli and De Grauwe, 2005; Schelkle, 2013); a reversal of the OCA. Recently Krugman (2013) attempted an acrobatic revival of the classical theory. The endogeneity of OCA marks the victory of monetarists over economists. This is a debate starting in the 1960s according to which the euro should either come as the result of economic integration (economists) or spill over and force the latter (monetarists). The Bundesbank and the Nederlandsche Bank comprised the economists and were in isolation, since the European Commission and most countries were following the French pro-Europeanists in the monetarists' camp (no confusion should be made with Friedman's monetarism). The persistence of OCA as a theoretical framework for the euro is parallel to this debate.

The main reference for neofunctionalism can be found in Sandholtz and Zysman, (1989) and Sandholtz and Stone-Sweet (2012) while for intergovernmentalism the main reference is Moravcsik (1991, 1998). A must-read of the theoretical debates can be found in Anderson (2016, chap. 3).

5.2 Historical events of European monetary integration

For a general, but intuitive, presentation of the related events see selectively (Coffey and Presley, 1971; Tew, 1988; Kindleberger, 1993; Crawford, 1996; Giordano and Persaud, 1998; Szasz, 1999; James, 2012; Piodi, 2012). Maes (2004) provides an excellent account of the events from the Rome Treaties to The Hague summit. Anderson (2016) and Gillingham (2016), although examining the EU, are also considered useful sources.

5.3 Political economy of Germany and France

An excellent and must-read reference for Germany for the needs of this paper is Leaman (1988) and Graf (1992). The equivalent for France is Howarth (2001). For the economic relations of two countries see (Deubner, Rehfeld and Schlupp, 1992).

Germany is the exemplary case of the rise and dominance of finance capital (Lenin, 1963; Hilferding, 1981) and a clearly bank-based economy (Pistor, 2001; Vitols, 2001, 2004; Levine, 2002) with the Bundesbank in the apex. France turned to a special market-based economy starting in the 1980s (Dziobek, Jeanne and Ubide, 1999; Commission bancaire, 2003; Bertrand, Schoar and Thesmar, 2007; Howarth, 2013; Howarth and Varouxakis, 2014).

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