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What lies Behind "Inflation-Phobia" and European "Corset Policy"?

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The present situation in the European Union (EU) provides an advantageous field for cutting edge research, basically due to the following reasons: first, given the systemic global crisis and the appearing structural weaknesses of European integration, policy meets (again) economics, in terms of the problematic that dominates the public debate, but also of the recognized necessity for going into the essential "second step" of political integration, next to the creation of €-zone. Second, the European area offers a historical experiment for the prospects and the wider effects of regional trade agreements and custom unions, as well as the expectations with respect to the process of economic internationalization. Hence, I strongly believe that scholars should invest effort and time in a thorough analysis of the recent developments in the EU, which, by the way, relates strongly to the very purpose of the Journal of Stock & Forex Trading. This leads to the main aspiration of the present editorial: to summarize personal views that may provide motivation for relevant contributions [1].

Basic macroeconomic accounts provide a straightforward explanation for the twin deficit that refers to contemporary economies in the European South: As the inflow of goods and services exceeds the outflow of exports, domestic absorption is more than domestic production, which either means vigorous investments in the private sector that go over private savings and/or public expenditures that exceed the revenues of the public budget. Correspondingly, the fact that the public spends more than it collects either means a crowding-out effect-absorbing part of private savings-and/or domestic state borrowing from abroad.

In general, current account deficits within a monetary union should not be a problem. Yet, there are two preconditions for that. On the one hand, an efficient institutional background is needed in order to provide a socio-political legitimization of the capital flows, while on the other, the deficits that arise in specific regions of the union should be convenient, given the intra-union and the international circumstances. Recall that the current (capital) account of one member-country is not necessarily the exact opposite of that of the other, since all members do not trade exclusively with each other. Therefore, if a country runs explosively rising current account deficits, this will, sooner or later, generate the corresponding financial speculations from outside, which may provide great concerns to the rest of the union [2].

Unfortunately, both preconditions do not apply fully in our case. With respect to the first precondition, there is an indisputable policy lack in the institutional architecture of the EMU. In addition, even if this minimum degree of political consensus is substantially distanced from the historical democratic acquits of the bourgeois tradition, it has an obvious, predetermined neo-liberal character. As for the second one, given the financial constrains provided by the global systemic crisis, any exaggerated current account deficit might generate problems in refinancing the seemingly manageable debts of other member-countries too. Among other cases, Greece spoke about the possibility that the King might be naked, leading to a spiral of aggressive speculations that boost the costs of borrowing for the Union as a whole.

In fact, current accounts were never an issue for the €-zone as a whole: over the last decades and even in the most recent period, deficit fluctuated around 0-1% of GDP, with the exception of 1995 when it exceeded 3% [3]. At first sight, this speaks for an easy way to deal with the arising high deficits of specific countries: simply, cover them internally by issuing more of the common currency and proceed with any necessary intra-union political agreements that would motivate the specific member to overcome the existing deficiencies. Yet, it appears that this cannot be an option for the EMU. Behind the dogmatic and hardly to explain inflation-phobia there is a clearly rational behavior of the wealthier, highly developed economies in the union. From their point of view, given their pre-existing international competitiveness, the common currency is already underrated. A monetary expansion, even if it could be a more secure, direct way to cover the deficits produced elsewhere, it would provoke losses in the relative value of their exports, as well as losses in the ability of their accumulated capital to acquire assets abroad.

Neoclassical theory lays great emphasis on the efficiency of internationalization with respect to the closure of gaps, as well as to the growth perspectives for the participating economies. Yet, in the relevant literature, both arguments are being disputed. €-zone countries do not seem to gain much from it, or at least not as much as they could: they grow with gradually weaker rates compared to the world, while they undergone a strong diverging period after 1980 [4]. The previous trend of closing the gaps reversed completely, and both inter- and intra-regional inequality deepened [5]. In 1974, the ECU (European Currency Unit) was defined and on the 13th March 1979 the European Monetary System (EMS) entered into force, according to an agreement observed on the same day between the central banks of the member-countries. Close to that, the treaty of Maastricht inaugurated the neo-liberal "*corset policy*", which is being followed even today. Europe came into a new historical phase of centralization and declining democratization: monetary policy has been transferred to the jurisdiction of European Central Bank (ECB) and Brussels' bureaucracy that follow dogmatically the sclerotic and arbitrary financial commitments of the Treaty. Is this simply a coincidence?

In fact, empirical observations support our main suspicion: apart from the "growing unequal" hypothesis that refers to all the western economies, the gradual transition of the European free trade area into an economic and monetary union, accompanied by the prevalence of a specific policy, explains the occurrence of a period of deepening divergence since the beginning of the 1980s.

EU was rooted in the Economic Cooperation Act of 1948 (Marshall Plan): a Keynesian strategy of international orientation laid the eventual unification of European countries. In the meantime, new-Keynesian economics were grafted with the "continental" tradition of bourgeois liberalism, leading to what literature calls "Europeanization". All these changed around the 1980s. The recent transformation into a neo-liberal

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monetary union is in absolute accordance with the overall evolution of the pro-capitalistic political scene of our times.

Neo-liberalism is the necessary response to post-imperialistic capitalism, given the rapid deterioration of the systemic bottlenecks. As the geographical and credit expansion reached their limits, and technological evolution diminishes marginal costs and counteracts commercialization, the only way-out is the alleviative self-destruction of the production means. Nevertheless, it had to go through a necessary lifting, since the last historical experiences along with the tremendous evolution of military forces impose us to be more careful. Neo-liberalism is nothing as simple as that: an attempt to form new prospects of rewarding re-investments for the internationally over-accumulated capital that has been spoiled by the excessive profits of financial speculations. In order to succeed, it sacrifices the small and medium-sized businesses (SMB), deregulates branches of the public sector and abolishes the structures of the European social state, which have been the result of historical, systemic compromises. Thereby it recreates a new "el-dorado", so very needed in a time of deepening inequality, overproduction and over-accumulation of capital.

This explains the threefold character of neo-liberalism: first, the dogmatic insistence for deregulations-locally or internationally; second, the almost perverse preference for financial capital and the aversion against the productive SMB; finally, the intolerance towards the traditional bourgeois state. European representatives of modern apologetic policy abnegate even the deepest bourgeois-democratic traditions. The historical "European Acquis" for democratic legitimation is being totally rejected.

The decisions taken in the European Summit of 9th December 2011 are revealing. The 17 members of the €-zone concurred on a new intergovernmental agreement to impose constitutional restrictions on the national budget deficits. The experience of Maastricht was not enough-dogmatic political agents keep on believing that tightening the "*corset*" will automatically solve any existing problems and inefficiencies. German Chancellor leaves no doubt: "We have achieved a breakthrough to a stability union. A fiscal union or stability union as I call it Setting "fiscal union" equal to "stability union" is one of the most efficient ways to express the paradox of the neo-liberal doctrine.

Recall also another decision, which, however, did not receive the appropriate attention. In the same summit, the European Stability Mechanism (ESM) was to enter into force by 2013, when the European Financial Stability Facility (EFSF) and European Financial Stabilization Mechanism (EFSM) expire. Decisions at the ESM, as to where money goes, will require an 85 percent majority, yet, of the contributing capitals! Truly, this is not very far from linking a citizen's vote directly to his income-statement.

Having this in our mind, the fact that Brussels bureaucracy and the representatives of internationalized financial capital deny the basics of bourgeois political ethic should not surprise us: they impose governments consisting of technocrats, or, even worse, they naively try to secure the policy they impose by demanding the signature of political parties, ignoring the sovereignty of the citizens. Not because of a devilish treachery against the historical socio-political consensus of primitive bourgeoisie, but due to an ingenious insistence on the neo-liberal prescription of alleviative self-destruction. Often, especially in times of deep crises, political agents come-up with hasty choices, putting in danger the system they wish to serve. Hence, critiques repeatedly arise from inside-not only from competitive political groups, but from the neo-liberal consultants themselves. Peter Bofinger, a member of Germany's "council of five wise men", stated clearly that "the 'problem countries' … have done a lot to redress their deficits" and that Chancellor Merkel is too timid: "It is difficult to convince the average German that this solidarity is needed. It needs courage to say this, and this courage is not there in a sufficient amount."

The €-zone as a whole seemed to be financially self-contained-even today, despite the severe financial circumstances and the globally evolving systemic crisis, twin-deficits could be solved internally. Nevertheless, a lack of political consensus in the union, along with the accumulated, country-specific deficiencies and the deepening cross-regional disparities prove the opposite. Inadequacies of the less-developed states and an egoistic rationality of the more developed ones speak against it.

What is rational for the members is not necessarily efficient for the union. Still, it is very important to understand the true reasons of a behavior and the deeper causes of an incident, especially when we have to counteract. The true dilemma is not if a monetary expansion has to be financed by the tax-payers of the wealthier member-countries, but if it could be realized on the costs of the accumulated capital in this country, which has to encounter losses in the relative value of exports and losses in its ability to acquire assets abroad. Insisting on the neo-liberal recipe led us to the deepening regional and social disparities. The true dilemma is if we can prescribe an alternative way-out with progressive policies and an applicable radicalism. In the present contribution we argue that we can-we even try to-provide some very basic guidelines, given the special socioeconomic circumstances of Greece and the European environment.

The time has come to argue as courageously and open we can, without tending to meaningless generalizations and without being afraid of any antisystemic extensions of our deepest thoughts. The time has come to question again the very basics of the standard economic theory and the prevailing ideology; to anticipate the modern reality of post-imperialistic, financialized capitalism, leaving aside our dogmatisms that have been covered by a scientific cloak of objectivity. Although we see the bourgeois society on its last legs, the "bishops" of the market forces keep on preaching the automatic correction and the prospect of perpetual capitalist development. Surely they connive; some of them because they are trapped in their ideological paralysis, others simply because they consciously anticipate their apologetic role.

As we consider time in its historical rather than its biological-human dimension, the moment of change is approaching. Let us thank the bourgeois revolution for the progressive contribution to the evolution of human society as for its contribution to developing the productive forces; fatefully, the time has come to save capitalism from the misery of continuously worsened crisis. This is not simply a possibility, as it more and more becomes a historical necessity.

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