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German Economic Dominance within the Eurozone and Minsky's Proposal for a Shared Burden between the Hegemon and Core Economic Powers

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ABSTRACT

There is no disputing Germany's dominant economic role within the eurozone (EZ) and the broader European Union. Economic leadership, however, entails responsibilities, especially in a world system of monetary production economies that compete with each other according to political and economic interests. In the first section of this paper, historical context is given to the United States' undisputed leadership of monetary production economies following the end of World War II to help frame the broader discussion developed in the second section on the requirements of the leading nation-state in the new system of states after the war. The second section goes on further to discuss how certain constraints regarding the external balance do not apply to the leader of the monetary production economies. The third section looks at Hyman P. Minsky's proposal for a shared burden between the hegemon and other core industrial economies in maintaining the stability of the international financial system. Section four looks at Germany's leadership role within the EZ and how it must emulate some of the United States' trade policies in order to make the EZ a viable economic bloc. The break up scenario is considered in the fifth section. The last section summarizes and concludes.

KEYWORDS: Germany; Eurozone; Hyman P. Minsky; Economic Leadership; Solvency; Endogenous Balance of Payments Position; Realization Problems

JEL CLASSIFICATIONS: B27; E42; F13; F45; F55

"Round Germany as a central support the rest of the European economic system grouped itself, and on the prosperity and enterprise of Germany, the prosperity of the rest of the Continent mainly depended."
John Maynard Keynes (2007, 9)

"To secure allied support for strategic export controls against the Soviet Union, the United States must provide alternative markets in the West."
Dwight D. Eisenhower (as cited in Amsden 2007, 47)

INTRODUCTION

There is no disputing Germany's dominant economic role within the eurozone (EZ) and the broader European Union (EU). Its GDP represented 29 percent of total EZ GDP in 2016 and, as of 2015, it was the top intra-EU trade partner for 18 out of 28 countries—it figures in the top three intra-EU trade partners for all EU countries except Estonia and Cyprus (Eurostat 2015). In 2016, Germany's share of intra-EU exports represented almost 23 percent, while its share of EU exports with the rest of the world (ROW) was 28.6 percent.[1] Almost 60 percent of Germany's exports still go to other EU nations, though for reasons it is largely responsible for, the growth of exports to the ROW has been growing faster. The German trade surplus, however, is larger with the ROW than it is with other EU nations.

Economic leadership in the world or in a region, however, entails responsibilities, especially in a world system of monetary production economies that compete with each other according to political and economic interests. At the end of World War II, the undisputed leadership of the monetary production economies was bestowed on the United States. It gained control of Middle Eastern oil exports, ended bilateral trade blocs that had previously discriminated against US exports, redesigned the relationship between Europe and its former colonies, led technological

[1] Both of these shares are in reality very likely higher. The "Rotterdam effect" refers to the way in which trade with the EU is registered as between those countries whose ports the goods were shipped from and where they arrive, and not between the nations where the goods were produced and those of their final destination. This means trade statistics of both the Netherlands (Rotterdam) and Belgium (Antwerp) are inflated and in reality a lot of that trade is from other nations, among them most prominently Germany.

innovation in civilian and military industries, and continued the Atlanticist hegemony on relations between Europe and the other large world economies and large territorial political states. In the first section of the present paper, historical context is given to help frame the broader discussion developed in the second section on the specific responsibilities the leading nation-state had acquired in the new system of states after World War II. The second section goes on further to discuss how certain constraints regarding the external balance do not apply to the leader of the monetary production economies. The third section looks at Hyman P. Minsky's proposal for a shared burden between the hegemon and other core industrial economies (namely, regional hegemons) in maintaining the stability of international financial structures. Section four looks at Germany's leadership role within the EZ and how it must emulate some of the US's trade policies in order to make the EZ a viable economic bloc of sovereign and semisovereign states. The break-up scenario is considered in the fifth section, as well as some of its implications for the peripheral EZ countries. The last section summarizes and concludes.

HISTORICAL CONTEXT

At the end of World War II, the political elite of the United States began to draw its plans for a postwar world. Beyond imposing the end of sterling bloc privileges upon its wartime ally,[2] the United Kingdom, and fostering or at least giving tacit support to national independence movements in the former European colonial sphere, de facto moving the world away from bilateralism in trade (Skidelsky 2000; Kolko and Kolko 1972), it had to project its own leadership strategy. In recognition of its liberal political traditions, it could not enforce loyalty via the threat of overt military interventions after hostilities had ended. Therefore, the United States centered its attempts to limit European influence in the periphery of the world economy, as mentioned above, by promoting or minimally not hindering the movements for national

[2] Great Britain had its large deficit during the war largely subsidized by not allowing sterling bloc countries to convert their sterling balances into dollars. Naturally, this group of countries had accumulated substantial sterling holdings during the hostilities. In addition to restrictions on convertibility, sterling bloc countries deposited their dollar reserves in London, allowing for use of the "dollar pool" in payments for imports from the United States (Skidelsky 2000, 194). Certain restrictions on foreign transactions for "residents" were maintained in the sterling bloc well into the 1960s.

liberation (Arrighi 1994; Amsden 2007)[3] and by opening negotiations on tariff reductions via the General Agreement on Tariffs and Trade (GATT). However, if the United States was to successfully limit their European partner's formerly privileged access to markets in the developing world, it would need to replace the bilateral trade relations with an alternative. The cornerstone of the US's hegemonic strategy regarding its political economy at that time consisted of creating new and stable markets for itself and its allies. Hence, as part of the US's Cold War strategy, the productive capacity of the war-torn European powers was to be reestablished. This, in turn, would entail opening its large domestic market to imports from these select countries. The United States would become the market of preference for exports originating from the other major modern industrial nations outside the Soviet bloc.

Table 1. US Imports and Exports of Machinery, Transport Equipment, and Other Manufactures

Year	As % of total US exports	As % of total US imports
1960	52.95	40.06
1969	62.44	60.44

Source: Statistical Abstract 1970, United States Census Bureau.

Table 2. US Imports and Exports of Finished Manufactures

Yearly average	As % of total exports of merchandise	As % of total imports of merchandise
1936–40	52.36	18.72
1941–45	71.34	17.97
1946–50	56.34	17.89
1951–55	62.69	20.36
1956–60	58.68	31.06
1961–64	57.9525	37.09

Source: Statistical Abstract 1960 and 1965, United States Census Bureau.

[3] The 1956 Suez Canal incident is a case in point. Eisenhower took the side of Nasser against the threat of military aggression on the part of France and the United Kingdom (Harvey 2003) in their attempt to retake the strategic maritime corridor.

The US plan to isolate the Soviet Union—its new geopolitical foe—forcing it to modernize its economy with very limited technology transfers from the ROW[4] would not obtain default compliance from war-torn countries eager to restart their trade. The United States would have to offer substantial benefits in return for acquiescence by those European nations willing to trade with the Soviet Union and its satellites—also keen to modernize their economies alongside their neighbors to the West, and thus in need of strategic imports. The first inducement to comply with this quid pro quo was the large partition of aid needed for reconstruction under the Marshall Plan. However, once reconstruction was well underway, the new world hegemon would need to offer markets for the output of the now large-scale civilian industrial production coming from new and old allies. Given the state of the world economy at the time, the chance to trade with the new great world power, gaining access to its large and stable consumer markets unaffected by the hostilities, offered the European powers and Japan much more than just an economic lifeline. It offered jobs that brought relative political stability and, ultimately, industrial wealth.

In other words, the United States would carve out its extremely large sphere of influence by special commercial relations with European powers and Japan, keeping the manufacturing base of those nations profitable and growing.[5] At the same time it offered defense services from an at times real (and at times perceived) and expanding "communist threat." This new kind of hegemonic strategy, via trade relations with other ideologically aligned Western core economies and the would-be Asian economic powerhouse of Japan (all stripped of their former imperial holdings and thus geographically unable to compete for supremacy with either of the two superpowers), ensured secular economic growth on the foundation of manufacturing and exports. The expansion of manufacturing, and the economic growth thus derived, undoubtedly went a long way in gaining the goodwill of the US bloc of nations (including, among others, the countries of Western Europe, the former sterling bloc countries, Japan, and several nations in

[4] Kolko and Kolko (1972) document how the Soviet Union insisted on imposing a limited amount of reparations on Germany during the 1945–46 negotiations with the other occupying forces in order to supply itself with machinery and industrial goods from Germany's more advanced industrial sector. The United States, on the contrary, was adamantly opposed to reparations requirements and was well aware that the Soviet Union mainly occupied the agricultural region of Germany.

[5] "early US Cold War policies… created the conditions of the subsequent intensification of inter-capitalist competition—by upgrading and expanding the Japanese and Western European productive apparatuses—and because they constrained the capacity of capitalists to shift onto labor the burden of intensifying competition—by promoting near full employment in the North and development in the South" (Arrighi 2007, 166).

Southeast Asia). It allowed these nations to export their way into regained economic stability. This proved to be a *consensual* strategy (Guha 1997) of the Cold War, as opposed to blatant coercion. As elicited from Eisenhower's statement in the epigraph (Amsden 2007), the United States recognized that the best form of persuasion in their hegemonic project would be via commercial ties that helped solidify civic support for the liberal-democratic ideology—though oftentimes not so democratic praxis—that it wished to symbolize.

However, as Minsky's articles on international economics in the 1980s (Minsky 1983, 1986) clearly show, the limits of this strategy were being felt by the mid-1970s. Even before then, the whole Triffin dilemma[6] discussions on the (for the time) exceptionally large accumulation of short-term dollar liabilities by foreigners signaled a forced change in the role of the United States as world superpower. The US's large and increasing balance of payments deficits were flooding world markets with dollars. The United States had transitioned from capital exporter to the capital-famished economies of Western Europe and Japan to the main market for manufactures from overseas. However, it was still sending more capital abroad than it attracted; that is, investment abroad by US residents was greater than foreign income to US residents plus investment in the United States by foreigners. This gave the reindustrialized European nations access to both its extremely large and stable domestic market, as well as a new form of reserve asset that was independent of traditional metallic constraints.[7] Both of these enticements—the affluent export market and the use of the dollar as a reserve currency—further integrated the industrialized countries into the US's international economic order. However, the strategy of assuring loyalty by trade came at a price. In the short run it would harm US manufacturing enterprises by openly conceding market share to exporters from Cold War allies (see tables 1 and 2). Nonetheless, at the time, the Cold War raison d'état carried more weight than the struggle for market share or, for that matter, the immediate bottom line of many US corporations.

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[6] The Triffin dilemma refers to the complications in maintaining adequate liquidity levels of key international currencies used as reserves by most central banks in the world in view of the requirements this implies for the net reserve position of the issuing countries of said currencies. If key reserve currency issuers pursue a reduction in the balance of payments deficit, the ROW will be deprived of adequate liquidity and income required to maintain a functioning international financial market. Thus, the United States must provide income and credit flows so that users of the international financial system can service a substantial network of *international* liabilities and yet, simultaneously, pursue *national* policies conducive to economic growth and stability; see Triffin (1960, 1978).

[7] Not all allies appreciated the break from the gold exchange standard, the most vocal opponent being France under de Gaulle (Hudson 2003).

THE HEGEMON'S ROLE IN LEADING THE MONETARY PRODUCTION ECONOMIES

Once Western Europe and Japan had been successfully reconstructed and industrial production was on sure footing, the United States would help generate the dollar flows overseas via trade with its Cold War allies. This function of consumer of first resort for export-grade manufactures was assumed by the United States exclusively on account of its privileged status as world economic hegemon. No other country could take the initiative in maintaining policies leading to high levels of consumption exclusive of the otherwise forceful need of relying on export markets without eventually running down their foreign exchange reserves and risking severe international imbalance. The US consumer markets would not be constrained by the US's long-term export performance; rather, the other core countries' long-term export performance would partially depend on US consumer markets (Wray 1994). This implies that the international hegemon cannot at the same time be the economic leader and yet be constrained by concerns of accumulating foreign exchange, i.e., by concerns with the *affordability* of its leadership. On the contrary, the hegemon creates the conditions by which it carries out its role as supposed guarantor of the reproduction of the world system precisely by not restricting its actions to financial affordability. To a large extent, the exigencies of supremacy are too urgent to leave to the arithmetic of clerks.[8] More importantly, in absence of an international clearing and overdraft system as proposed by Keynes[9] or a proposal similar to Minsky's discussed below, there must be at least one nation in the system delinked from the rules governing external balance so that others can trade advantageously.

The US's particular status as the leader of the *monetary production economies* implied other important obligations as well. The main *financial* obligation was the need to bring stability to the

[8] The great German philosopher Immanuel Kant had warned in 1795 that, "This arrangement [viz. a credit system] the ingenious invention of a commercial people [England] in this century constitutes, in fact, a treasure for carrying on of war, which exceeds the treasures of all other states; and it can only be exhausted except by the forthcoming deficit of the exchequer, which however can be long delayed by the stimulus to national commerce and its expansionist impact upon production and profits. This facility in making war, together with the inclination to do so on the part of rulers—an inclination which seems inborn in human nature—is thus a great hindrance to perpetual peace" (as cited in Triffin [1997]).

[9] Regional preferential trade blocs (Kregel 2017), or trade blocs organized along cultural affinities may also prove a valuable alternative.

international financial system and to offer solutions when conditions were endogenously made unstable, for instance, the bold and controversial international demonetization of gold in 1971. Fulfilling both obligations—providing affluent consumer markets for international exporters and looking after international financial stability—were of the highest importance. They gave a level of credibility to the perception that the hegemon's actions represented and looked after the *general* interest.[10] No leadership role at the international level can be successful without the ability to offer systemic solutions to other major stakeholders,[11] both in the political and the economic sphere. In the words of Arrighi (2007, 166), "hegemonic states play governmental functions at the global level."

The required role to be assumed by Germany, the core country of the EZ today, is not dissimilar to that of the United States during the Bretton Woods period. After the recently bygone period of large capital outflows—utilized mainly in the EZ periphery for propping up real-estate bubbles, for government expenditures to avoid labor conflicts, or to give the impression of *catching up* with the more economically powerful members, as reflected in high unit labor cost growth (Flassbeck and Lapavitsas 2013)—it must now offer concrete solutions.

The maintaining of low interest rates for an extended period would not suffice; nor was continuing quantative easing sufficient. If Germany is to live up to its regional hegemonic role, implicitly bestowed upon it once major stakeholders in the West signed off on German reunification, it must offer systemic solutions to the severe problems of unemployment and slow growth in the peripheral EZ. It must do so by creating stable fiscal and financial conditions for the sovereigns in the periphery, fostering the impetus to finalize the economic integration and catching up (convergence). These stable conditions must come combined with continuing bank credit and portfolio flows, but also foreign direct investment and tailored official development financing, including technology transfers (Ozawa 1989). The latter two financial flows could lay the groundwork for the increasing current account deficits that the regional hegemon will have to sustain later on in order to bring some kind of systematic longer-term solution to the currency

[10] "Once again, [the] capability to remake the inter-state system was based on a widespread perception among the rulers and subjects of the system that the national interests of the hegemonic power embodied a general interest" (Arrighi 1994, 65).
[11] For Arrighi (1999, 289), global leadership "must be willing and able to rise up to the task of providing system-level solutions to the system-level problems…."

union's economic woes, as was the case with Japan and its regional commercial partners in the late 1980s (Ozawa 1989).

MINSKY'S PROPOSAL FOR A SHARED BURDEN BETWEEN THE HEGEMON AND CORE COUNTRIES IN SUSTAINING INTERNATIONAL LIABILITY STRUCTURES

Already in the early 1980s, Minsky had alerted other economists to the problems that could arise if the sole burden of providing income in dollars to peripheral or non-core countries were laid exclusively on the shoulders of the United States: "While the responsibility for maintaining the viability of the international financial structure falls largely on the United States, the proximate beneficiaries from the viable financial structures include banks, firms and households which are not United States entities. Such concentration of responsibility (and costs) and dispersal of benefits can interpose political obstacles to actions needed to assure the viability of today's financial structure: United States workers may lose jobs so that Brazilian debts to Swiss bankers that manage accounts for Arab interests can be validated" (Minsky 1986, 9).

Minsky recognized that a negative US trade account, supporting the ROW's servicing of their large *dollar* official and private sector liabilities, would imply a loss of domestic market share for US manufacturers and a worsening employment situation. "A United States deficit on current account that is large enough to provide dollars for interest on perhaps $1,000 billion of such debt will cause severe employment dislocations and downward pressure on profitability of United States industry" (Minsky 1986, 19). He thus called on the Western European countries and Japan, which benefitted greatly from the generous aid tied to Cold War objectives, to take on some of the responsibility in providing the dollar income to the ROW. Income flows in hard currency would enable debtor countries to deliver payments for both debt service and their imports bill.

Minsky's call for international cooperation among the industrial powers of the West to help developing nations earn the dollar income required to bring stability to the international financial markets was an arrangement that paid heed to the tripartite interests involved, namely those of:

1) the international hegemon, 2) the core industrialized countries, and 3) the developing countries. Specifically, the burden of maintaining the world's dollarized liability structure would not fall solely on the shoulders of the United States, nor would the working classes of the core industrialized nations need to relinquish more of their hard-earned productivity increases. Developing countries, for their part, involved in incipient industrialization and "catching up" processes would be able to finance their strategic imports at least partially through increased exports.

This proposal/scenario was as close to a win-win-win situation for these interests as one could conceive of since Keynes's bancor proposal. Keynes's plan sought to achieve a similar break with the zero-sum game of beggar-thy-neighbor export market competition by eliminating the deflationary bias of the gold standard's adjustment policies. More specifically, Keynes sought to create an international legal structure for a clearing union that ensured surpluses were to be spent or sustainably lent out thanks to enlightened international financial policy (Bibow 2017; Davidson 1985). In any case, Minsky's rather informal and ad hoc proposal when compared to Keynes's official one is far superior to both the "structural adjustment" paradigm of the Washington Consensus, and the more visceral neocon paradigm of a "New American Century."

Minsky's main argument in his articles on international financial conditions in the early 1980s is that the balance of payments becomes in large part *endogenous* to the hegemon's actual role as such in the world economy. This point is also emphasized, though clad in different rhetoric, by post-Keynesians of the *chartalist* camp (Wray 2012) who insist that the reduction of the negative US trade balance is not and cannot be an end in itself. Once the dollar overcame the pound sterling as the dominant reserve currency, the US trade balance would have to respond to the stipulations of the international financial system it now led. During the Bretton Woods period, this meant making sure neither weak growth in trade nor dollar shortages would in any way undermine friendly governments in strategic allied countries.

However, the United States had to continue sustaining the world's effective demand by being one of the consumers of first resort to core countries like Germany and Japan, as well as to the new economic colossus, the People's Republic of China. The negative effects that the very large

trade deficit has had on the United States in absence of an official industrial policy[12] or an employer of last resort/job guarantee[13]—and that Minsky had foreseen in the early 1980s—can largely explain the demographic composition and socioeconomic impulses to the Trump election. In fact, the US's need to run the negative current account may in fact be the main reason to implement the job guarantee, due to its countervailing effects both domestically and internationally. A tailored job guarantee is also useful in targeting certain sectors that require special attention, i.e., a certain independence from market exigencies.[14] Moreover, Minsky was adamant in pointing out that the hegemon could not adopt protectionist policies in a world of complex international financial linkages, where domestic and offshore money markets were intimately intertwined. The hegemon—or, in Minsky's (1986) words, the "country whose money is the principal currency of denomination for international indebtedness and whose national money market is the international money market"—must make its currency sufficiently elastic to reassure the validation of commitments on debt legacies built up during its rule. Any hesitancy in this regard will severely, if not definitively, weaken its position, as its alliances are tested by the lack of action.

Minsky was writing in the midst of widespread defaults in Latin America and other regions of the developing world and did not hesitate in regards to where ultimate accountability should lie. The country in whose currency most international financial market liabilities were denominated would have to take the lead. The US's role in the medium- and long-term stabilization would involve the subordination of short-term national prerogatives to (*longue durée*) international responsibilities: "There is no solution without a large United States trade deficit" (Minsky 1986). This realization no doubt signaled the transition from commercial and industrial leadership to overt financial hegemony over international capital and money markets, a trend identified by Braudel (1980) and Wallerstein (1980, 38) as the traditional path of hegemonic transition.

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[12] "…a major portion of the income and profit sustaining expenditure in the United States will have to come from a Federal deficit rather than profit determined investment. Hopefully the non-market determined expenditures by the Federal government will be real income and productivity enhancing, but the record on this account is not good. Military expenditures and transfer payments are the preferred expenditures" (Minsky 1986, 21).

[13] "Because a balance-of-trade deficit tends to constrain profits, an economy in which imports react strongly to income—as is now true of the United States—will experience constrained increases in profits when the domestic economy expands. This weakens the expansion and increases the investment and government deficit needed to achieve and sustain full employment" (Minsky 2008, 168).

[14] For instance, a job initiative plan to promote STEM jobs in renewable energy sectors could be implemented, thus guarding strategic industries even in the face of a degree of foreign competition.

Minsky's emphasis on the US's need to run current account deficits has another angle of significant importance when viewed in the context of his work. Minsky held the belief that *at the national level* in a monetary production economy it is in general preferable for the private sector to net accumulate government liabilities than for the government sector to be in surplus vis-à-vis the private sector, mainly because "government debt is free of default risk; whatever the government debt contract says will be forthcoming will, in fact, be forthcoming" (Minsky 1986, 39). The economic agent whose liabilities are the most liquid,[15] i.e., at the top of the money pyramid (Bell 2001), should be the one running the deficits due to their liabilities' safety and high demand. In the international economy, as well as in the EZ, the same principle applies. The international and regional hegemons should, however paradoxical, run the trade deficits—i.e., should be consuming at a level that ensures the current account is negative—because of their high productivity and high per capita income. Their liabilities are at the top of the *international* money pyramid (Mehrling 2013) and thus define international liquidity preference. Apart from fostering stability, this kind of growth-biased international trade position will go a long way in promoting *goodwill* among other nations in the international and regional system of states. Furthermore, it will encourage a suitable environment for "catching up" thanks to an economic framework that is absent the chastening of the financially less favored—that is to say, absent *austerity*.

GERMAN REGIONAL HEGEMONY

The successful export-led development paths pursued by geographically and demographically smaller nations, such as Germany and Japan, inevitably led to huge appreciations of their currencies in the post–Bretton Woods world (Brenner 2002, 2006). This somewhat moderated their spectacular increases in export growth and brought about their own economic difficulties. Germany was only spared the worst of these effects from 2005 onwards thanks to the

[15] "Furthermore, government debt is marketable, and its marketability is ultimately guaranteed by the Federal Reserve System, a guarantee that does not necessarily extend to other debt. Thus, the owners of government securities are assured of the ability to modify their portfolio as their needs or preferences change" (Minsky 2008, 39).

combination of the adoption of the euro and the incomes policy put in place to check increases in unit labor costs vis-à-vis the rest of the euro participants (Flassbeck and Lapavitsas 2013). This aside, the project of European commercial and financial integration makes sense to the extent Europe can override the historical trend of compulsory exports to keep high rates of effective demand and employment. The continuing process of integration will also assist in limiting the transfer of even more sovereignty to actors outside the region (Cencini and Schmitt 1991; Cencini 1997), which determine international economic performance due to their control over massive consumer markets.

As global *economic* hegemony moves to the East (Arrighi 2007), as witnessed by China surpassing the United States in GDP as measured in purchasing power parity terms, the importance of consumption is again highlighted as an economic *fix*[16] to the problems of stagnation and secular decline. The United States continues to pursue policies as though it were the sole superpower without addressing the stagnation in real wages in its domestic market (except during bouts of extreme asset price inflation). On the other hand, in its promotion of the "One Belt-One Road" (or new Silk Road) initiative, China is in the process of market creation that will provide crucial resources both to the Chinese manufacturing leviathan and to the large working class whose real wages grew over 11.5 percent a year from 2000 to 2015 (ILO 2016). Stable and healthy consumer markets can overcome the stagnant state of industrial and productive forces in the international economy, just as they had in the post–WWII economic boom.

At this point, the issue of hegemony becomes crucial in understanding the relationship between the financial system and consumer markets, a concept encompassing more than just commercial or industrial preeminence (Anderson 2017). Healthy and stable consumer markets will

[16] The reference is to the use of the term as in David Harvey (2006) and Beverly Silver (2003). The idea implies both a temporary solution to a crisis of accumulation, and a changing landscape along with changing fixed capital investment—especially in Harvey's concept of a *spatial fix*. That is, the (momentary) solution for a crisis of accumulation oftentimes implies changes in infrastructure and landscape that become an outlet for investment and a possible starting point for a new wave of accumulation. Fixing secular stagnation by strengthening consumer markets in accordance with the post-Keynesian tradition will thus also imply a modification in the urban landscape and productive apparatus of those societies. However, it does not necessitate more shopping malls or retail stores. It might involve more care economy industries or leisure activities, like subsidized higher education, production of art, sporting holidays, travel, university programs for human development (open to people of all ages and not exclusively for professional development), religious studies, and charity work, among many others.

undoubtedly require overt macro policy aiming at full employment, most likely with reduced weekly hours in comparison to the traditional workweek. However, the hegemonic nation-state must initiate the macroeconomic full employment policy because of its use—in both monetary and fiscal policy operations—of a currency considered a final means of settlement for a region with a very large population and considerable purchasing power. The EZ region comprises 19 member states with over 341 million people and a high but stagnant (since the global financial crisis of 2007–09) real GDP per capita. The income streams generated by the fiscal expenditures of the hegemon and the financial flows made possible by its monetary operations largely determine both worldwide and regionwide solvency and liquidity. The control over a currency of such commercial and financial importance gives the hegemonic nation-state the financial means to both comfortably stabilize sovereign debt crises by financial arrangements (e.g., the Brady bonds initiative) and to overcome secular stagnation by initiating full employment policies. Neither of these faculties threatens its financial solvency; on the contrary, if anything it strengthens it, not least of all because its currency determines *international liquidity preference* (thanks to the international character of its money and capital markets). Moreover, the hegemon alone can avert critical deterioration in the terms of trade in the face of persistent trade deficits. Due to its special role in the system of states, and its setting of the conditions that "rule the roost" when it comes to international liquidity preference,[17] it can count on an elevated international demand for its highly liquid liabilities—which can be administered through interest rate policy, similar to bank rate during the pre–World War I gold standard (Minsky 1986). If this elevated international demand for its debentures were to weaken momentarily, historically it has shown the ability to coerce reserve hoarders (by "moral suasion") to alter their antisocial trade policies, as in the cases of Germany and Japan during Plaza Accord and Smithsonian Agreement dialogues—though perhaps not without temporarily straining certain relationships (see, for instance, Koo [1988]).

Keynes, for his part, understood that a full employment fiscal policy implemented by any country other than the world hegemon would most likely be self-defeating in a world of increasing multilateral commercial ties precisely for the reasons mentioned above. Export

[17] The Fed has immense power in determining interest rates beyond domestic money and capital markets, not only through traditional monetary policy operations but also by way of its swap agreements with other major central banks.

performance and foreign exchange holdings for all but the world monetary and financial leader determine the solvency required for promoting full employment. This understanding is at the root of Keynes's postwar international monetary clearinghouse plan and perhaps one of the reasons he forcefully lobbied for the Bretton Woods plan in spite of the drastically reduced demands made on the United States with respect to his own proposal (Williamson 1983; Skidelsky 2000). The international clearing system proposed by Keynes (1963) was the minimum financial infrastructure required to allow individual nation-states to successfully implement the macro policies of the *General Theory*. The international clearinghouse proposal framework functioned to avoid antisocial neo-mercantilist competitive devaluations and the irresponsible hoarding of reserves by surplus nations. The resulting guaranteed reflux of financial and income flows to the commercially and industrially weaker nations under Keynes's plan thus provided the means for the implementation of the domestic macro policies spelled out in the closed economy framework of the *General Theory*. These refluxes would go a long way in promoting emulation by economically weaker nations.

Hence, absent a growth-biased international clearing union, the dominant state within the currency union must be the *first mover* in the implementation of full employment policies, as it has acquired a unique international financial status, placing its debt a notch above the rest in the global debt (liability) pyramid. By promoting such policies, it will both exert and acquire hegemony, as the history of the US's relations vis-à-vis its strategic Cold War allies testifies. In such a scenario, the hegemon will obtain the goodwill of the more economically challenged nation-states that cannot initiate countercyclical fiscal policy without the threat of deterioration both in their terms of trade and in their perceived default risk. This international posture is a potential alternative to what David Harvey (2003) has called the "political economy of retrenchment" that has dominated the EZ recovery policies.

THE BREAK-UP SCENARIO AND ITS POSSIBLE CONSEQUENCES

The most apparent alternative to German regional economic hegemony would seem to be the definitive disintegration of the EZ, in view of the crisis-prone nature of the periphery and the low growth of certain economically important countries, like France and Italy. This would most likely be followed by a strengthening of US influence in the region—at a minimum, monetarily speaking, with renewed accumulation of dollar reserves where previously little were needed—seeking to counter rapprochement with Russia, the major energy supplier to Europe. In a scenario of renewed US influence, it is difficult to imagine anything but a further intensification of austerity measures, derived from US-originated economic policies.[18] The new deutschemark would appreciate dramatically, in line with post–Bretton Woods patterns, forcing Bundesbank intervention. The accumulation of immense amounts of dollar reserves to keep German industry from being completely priced out of export markets (and the subsequent sterilization) would continue until once again a new Smithsonian Agreement or Plaza Accord would be required. The EZ peripheral countries would depreciate their new national currencies, default on their euro liabilities, and try to attract foreign capital seeking higher yields in an environment of continuing low interest rates. Their hope this time would be to avoid rapid unit labor cost increases—increasingly more difficult to do by "democratic" means, due to the historic lows in the consensus-building capacity of leading political parties. That is, the seemingly continuous boom-bust cycle would start anew, but with smaller states even more vulnerable to severe limitations on their fiscal and monetary sovereignty.[19]

Most importantly, the disintegration of the currency union would make the crucial alternative to the commonly prescribed export-led growth path and mainstream hypostatization of competitiveness considerably more difficult for EZ countries. This alternate path is that of growth based on scale-driven European consumer markets under a single currency regime encompassing over 340 million citizens, an idea not too dissimilar from that which Raul Prebisch

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[18] Austerity or deflationary adjustment leading to unemployment and excess capacity in response to fluctuations in prices and demand is the main prescription of neoclassical economics, the dominant economic paradigm taught and dogmatically held in the United States and most of its satellites—including, of course, the United Kingdom.

[19] "In comparison with free-trade imperialism, the institutions of US hegemony have considerably restricted the rights and powers of sovereign states to organize relations with other states and with their own subjects as they see fit" (Arrighi 1994, 67).

(1965) had envisioned for the Latin American economies. With growth rates for the most part still stagnant in Europe, and the United States flirting with a more protectionist economic model in clear contradiction to the world of multilateral trade it forged after WWII, the promise of growing export markets can only come from the East. China's fast development and increasing real wages are creating an export bonanza, but mainly for large players within the EZ. Germany's exports to China alone for 2015, the latest year for which data is available, represented over 56 percent of total EZ exports to the largest Asian economy, while Germany, France, and Italy's combined exports to China took up almost 80 percent. The projected value of imported goods into China for the years 2018–22, according to Chinese authorities, will be $8 trillion (Xinhua 2017) or the equivalent of 74 percent of its 2016 nominal GDP.

Therefore, abandoning the unified currency puts both the EZ core and the periphery back to where it was before the currency unification in regards to the inter-state system, competing for export markets instead of possibly cultivating a large domestic market (as far as currency is concerned). As has been the European tradition for centuries (Dehio 1962), no European state would be strong enough to put together the *continental* policy that is urgently needed today to bring solutions to the current high unemployment/low growth equilibrium, resulting in a political-economic vacuum. The stronger states would probably thrive by increasing exports to Asia thanks to their decades-long fomentation of an industrial policy based on high capital intensity, while the weaker peripheral nations would further intensify their status as satellites of these European powers, possibly siding with one over the others. This scenario must surely evoke similar, not-so-long-gone historical conjunctures.

As mentioned above, the main alternative to export-led growth is the continuing development of the EZ as an internal market. The freedom from having to accumulate foreign exchange to service the great majority of government liabilities gives the currency bloc countries significant leeway regarding the balance of payments. Thus, intra-EZ trade can in effect be viewed as *domestic* for *currency* purposes—by no means a minor detail. This opens up the possibility of coordinating stabilization and stimulus policies within the bloc to help tame financial markets reacting to the *self-induced* fears from the perceived insolvency of heavily indebted sovereigns, which, for their part, require adequate financial support to stimulate their domestic economies.

Historically the European nations have been heavily trade dependent. Nonetheless, the currency bloc now has to a degree internalized historic trade patterns as far as payments are concerned, which makes possible a cooperation geared toward regulating antisocial hypercompetitive forces. Previously an economic situation like the one today might have triggered a new wave of intensified neo-mercantilist political-economic policies throughout the continent. Under the unified currency, due to the circumventing of the *transfer problem* within the currency bloc (thus avoiding the need to accumulate and hoard foreign exchange), battles for commercial and industrial supremacy may be averted within a shared framework, however weak that framework is today.

The idea of a strong commercial state other than the world hegemon itself taking the initiative in reducing its trade surplus is not unheard of. In the early 1980s, Japan began its voluntary export restraints on automobiles precisely to avoid the mounting international stigma associated with its policies of limiting imports. In what today appears to have been a lucid premonition, at the time there was a fear among Japanese economic authorities that the (for the time) extremely large bilateral surplus vis-à-vis the United States might eventually trigger protectionist policies in the United States (Ozawa 1989, 9; Ozawa 1993, 134).

CONCLUSION

There are undeniable limits to a single country's strategic use of the balance of payments to stabilize and/or strengthen financial markets in key regions of interest. Minsky clearly describes these limits and the heavy burden they impose on the hegemon. The sustained effort in promulgating the world's effective demand by way of a single nation's negative current account can only be temporary, as the eventual end of the Bretton Woods period attests. For this reason, as we have seen, Minsky places partial responsibility in stabilizing international liability structures on other key nations in the international system of states that have been direct beneficiaries of the hegemonic commercial quid pro quo with the United States. Germany will require the same kind of assistance from other surplus nations within the EZ if a growth strategy is to be successfully implemented. This kind of mutual assistance in the European state system is

not historically unheard of. However, there is little doubt it will require class leadership other than that of the absentee/leisure/rentier class, which has resisted euthanasia and in turn tightened austerity on pensioners, the youth, and weaker regions of the currency union.

Apart from the valuable growth bias it establishes, Minsky's proposal for a shared burden among core countries also deals with the necessity of a political union accompanying the incipient economic (currency) union. The leadership role of the regional hegemon implies taking responsibility for the stability and, more importantly, the viability of the currency union. This commits the leading nation politically to the sustainability of the development paths of the weaker nation-states. Certainly the political strength of Germany increases in this hegemon-led regional scenario, where the leading nation spends liberally on its allies, i.e., makes its current account endogenous to the external balances of its regional allies. For their part, peripheral nations were already very limited regarding sovereignty even before the currency union took effect. They will continue to sacrifice monetary sovereignty, especially in their capacity to set an interest rate policy and in their capacity to devalue; however, the peripheral countries in the EZ gain fiscal sovereignty by averting the need to acquire non-euro-denominated debt, thus potentially enhancing their capacity to pursue countercyclical fiscal policy with the support of the conscious regional hegemon. They also gain sovereignty in so far as the conscious hegemon and its regional allies strengthen a highly educated and affluent consumer market, perhaps at present the largest in the world, with cultural similarities and a shared, though at times highly conflictive, history. Hence, the regional currency union represents a step forward in two key ways. It not only encompasses a large and exceedingly efficient regionwide productive apparatus, but also has enormous potential as a large market for *realization*—the extremity of the M-C-C'-M' circuit referred to in the value-theory tradition. That is, the currency and economic union has untapped potential in consumption and realization, though it bewilderingly not only refuses to harness this potential, but chooses to downsize its consumer market at every opportunity that arises. This potential, exploited properly, would allow the currency union a certain level of independence from export markets it has virtually no influence over.[20]

[20] See Kregel (2013) for a discussion on China's structural economic change toward increasing consumption to move away from the export-led development trap, which is increasingly less and less attractive in an economy with the sophistication and strength of the People's Republic of China.

Thus far, the main response to the sovereign debt crisis and its aftermath in peripheral EZ nations has been that of *coercion* (austerity) with little or no *persuasion* (Guha 1997). Absent persuasive political-economic policies that minimally ameliorate the very difficult fiscal challenges the peripheral sovereigns face within the EZ, the most attractive option will be the exit strategy (Goodhart 2007). The lack of realization on the part of German political and economic authorities concerning their historic leadership role will only weaken their continued economic prosperity and might once again intensify tensions and distrust among its neighbors toward its political-economic objectives. Without assuming its leadership role within the EZ, Germany would be exerting, in the words of Ranajit Guha (1997), *dominance without hegemony*. The remnants of what was once the currency union would further contribute to chaos in the world system, as a lack of leadership tends to foment. Each country would most likely revert to fending for itself as they regain their capacity to devalue and thus peg to stronger currencies—bringing the region as a whole back to where it was before the European monetary union was established. The temptation for devaluation to avoid establishing an economy-wide incomes policy—including checks on profits—would take over and hostile commercial strategies would once again dominate the European arena.

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