Resenha de Joseph E. Stiglitz

The Euro: How a Common Currency Threatens the Future of Europe. New York: W. W. Norton & Company, 2016

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A Review for Historians

The most important contribution of this timely work is to reinforce the notion that economic solutions do not exist in a political vacuum. On the contrary, politics generally dictates even the most "technical" economic measures.

In particular, Stiglitz attacks the Troika's action in Greece as serving the interests of Germany and multinational corporations rather than those of the Greek people. He notes the suffering especially of young people and pensioners as a terrible consequence of decisions taken to benefit German and French banks as well as large European corporations wishing to dominate the Greek market. He also calls attention to the threat to democracy provoked by the means of arriving at these decisions behind closed doors. He adds that the Greek austerity plan is also bad economics and goes on to illustrate the shortcomings of austerity with historical examples.

Stiglitz enlists the assistance of political scientists directly and sociologists and historians indirectly in order to make his points. He cites the shortcomings of IMF-backed austerity plans beginning with those affecting Latin America in the 1980s. Certainly we historians can contribute analyzing the economic measures in terms of political causes and consequences as well as discussing the social aspects of austerity plans. Economic, political, and social history rather than economics, or even economic history alone, are necessary to understand and evaluate austerity plans. Who gains; who loses: what is the balance?

We agree with many of Stiglitz' observations: The Greek people are paying for the mistakes of others including foreign lenders, their own politicians, and their own oligarchs. The European Central Bank has a mandate to control inflation but not, as in the United States, to fight unemployment; unemployment should become part of its mandate. Meanwhile groups with access to the German leaders receive advantages in the restructuring agreements. Europe is in a halfway house where the individual countries have lost the ability to devalue their currency or lower their interest rates while they cannot (yet) count on the fiscal support of the other European states. Something has to give. Either there has to be more union or less. Stiglitz has provided a great service by calling attention to this situation emphasizing that "technical" decisions are not technical in fact but political. Payment for the adjustment falls heaviest on the poor as a consequence of political factors.

Properly analyzing the problem does not guarantee finding the correct solution. Marx' analysis of the exploitation of workers by industry is perceptive and largely correct as a description of conditions during the nineteenth century. His solution, a dictatorship of the proletariat, proved to be less of a success. Situations evolve in unpredictable ways. We may agree with Stiglitz' concerns regarding fairness and democracy without agreeing about how Europe should proceed. To take one historical example, Stiglitz implies that Argentina was better off for suspending its external debt service at the beginning of the previous decade. Many observers of Argentina would disagree. Brazil, which serviced its obligations without interruption after the Brady Plan, appears to have had a better economic and social performance than did Argentina. Obviously one can argue about the importance of debt payment as a factor in growth, but repudiation is something to be avoided if possible. In this debate, historians can offer decisive contributions.

Another example Stiglitz notes is that the re-financing of Greek debt by the Troika helped German and French banks more than it helped Greece. This may be true, but I do not see any alternative: the Lehman failure shows how things go wrong when large institutions are not saved. The big banks were and are too important to fail. Allowing Deutsche or Credit Agricole to go bust is unthinkable. We partially agree with Stiglitz that bank shareholders should have absorbed more of the loss than they did at that time and that the French and German taxpayers rather than those of Greece could have paid, but that is as far as we feel we should go regarding the banks. Yes we agree with Stiglitz that banks are privileged entities that receive from their states the right to hold and create money. Yes there were many abuses in terms of lending to real estate and other markets in bubble. Yes bankers were over-paid, and banking absorbed a larger share of the GDP than in previous generations. There clearly must be more supervision. On the other hand, you cannot make banks lend as Stiglitz would like. If the banks are not lending, which is how they make money, it is because the risk of loss is high, as it always is in advancing funds to smaller borrowers, or the banks need to restore the liquidity and capitalization levels that the supervisory authorities demand. Pushing banks to lend is usually not a solution if they are not properly capitalized.

Stiglitz concludes that Greece should leave the Euro. I believe he would strengthen his case by discussing positive aspects of the present reforms as these benefits would be available and should be implemented even if Greece abandons the common currency. Labor market reforms were long overdue for most of Europe. There should be a balance between providing a safety net against unemployment on one hand and hamstringing business on the other. Liberalizing labor markets, which makes it is easier to terminate workers, also makes it less expensive to hire. The young will benefit from this Troika inspired reform as soon as conditions improve a bit. In Portugal, similar liberalization has facilitated the employment of market entrants. Civil service reform also appears as a necessary condition for Greece to balance its budget. With or without the Euro, the state needed to shrink, Finally tax reform was badly needed in a country where paying taxes has not reached the levels of compliance typical in Northern Europe. We agree with Stiglitz that the oligarchs must pay more. The question is how? In any case tax reform also can be made with or without the common currency.

Since 2008, many of us have from time to time seriously considered the advantages for Greece and other countries to depart the Euro. Stiglitz makes the case. We do well to follow his arguments in drawing our own conclusions.