Monetary perspectives for EU grown from Finance Philosophy

Nikoleta KARAMILEVA
PhD student
University of National and World Economy, Sofia

Abstract: *The fast speed global economies evolving require different approach to be handled in terms of analysis and perception. Here comes a new discipline – Finance Philosophy – an intersection between the conventional finance theories on one hand and philosophy on the other. In this cross-sectional environment, an analysis will be made so as to bring new notion in the monetary perspectives for European Union.*

Philosophy will bring fresh air in conventional understanding how the monetary policy and money as an institution behave together and is there another angle we can look into the current monetary state of EU. We will search for new interpretation of traditional monetary and philosophy concepts in the current European context.

Key words: *Behavior finance, Monetary theories, Philosophy of Finance, History of economic thought*

JEL Code: *G40, E42, E52*

I. Introduction:

Living in an infinite high-speed environment, having seen all types of cycles, lines, anomalies, crises (even at times forgotten and re-occurring events) in financial context, transferring our knowledge from traditional theoretical finance through Behavior one, filling up the unknowns, the question "what's next" is waiting for an answer. The reason is that we still do not have all finance questions settled up in full scope even we can have all the information at one click sometimes not in the right time and place defined by the cost of having certain type of it.

Here comes a new "mystic beast" called Finance philosophy. A "New" discipline that is trying to ask all possible questions for the answers we already have.

It may seem naive but after the giant noise of behavioral finance, filling up the lack of explanation of certain finance theory phenomena, it seems that there can be added one more irrational view – the one of Philosophy.

The new subject of Finance philosophy is aiming to be the intersection between financial ethics, financial economics, history of economic thought, philosophy of economics, anthropology, sociology of finance, behavior economics and traditional corporate finance.

The way we perceive information nowadays requires new attitude through analysis and interpretation of finance concepts. This is why here comes the new discipline – to add some more irrational perspectives from ancient times around how we explain processes and search for decisions/ opportunities.

Current article will try to analyze the present status, features and perspectives of EU monetary policy through the eyes of Financial Philosophy. Monetary theories will be reviewed along with their application and implications in the nowadays condition of EU monetary environment.

II. Exposition

A good start can be defined with a question: Why we need philosophical view in money/ monetary analysis?

We can define several accent points:

- Try to broaden the dimensions we think about monetary policy along with possible concrete solutions for the current difficulties experienced in the Euro Zone
- Ask questions for theory of money that rested unanswered from the conventional financial science
- Conceive money as a product of market and instrument for future development
- Research money as a mean for regulation of social relationships
- Defining limits of freedom and people equality in society through the money institution (for example socialism/ capitalism)
- Reviewing monetary theories into a present Eurozone context

In summary, the most important monetary finance philosophy question is to be "Money or man should be the measure for everything"?

Getting through the exercise of researching based on the aims outlined above, we will try to define what is money in philosophical- financial environment.

First of all, it is stated to be a way of society organization, meaning it is setting up a relationship between people mainly through the credit institution. The re-distribution of capital is the basis on which the financial system exists.

Secondly, it is considered to be an evolution of the market, jumping outside of the simple exchange of goods and services. Thus, it can be derived the thesis that money is a measure of reality – if something cannot be translated into money units, then it isn't real. We as individuals are transferring this reality based on our preferences and incentives.

Moving further, money is a tool for development of an individual and his attitude towards labor. This point is being defended by the compensation against labor and its motivational meaning. Labor is the ingredient for building up a social system

Passing by the above-mentioned attitude, money is defining a social order in terms of value orientation and moral standards. So, we can say in this sense that the value of money is not being issued from its material form but from its influence in the social interaction, being the best mediator.

Getting in depth with the philosophical characteristics – money evolve in two interconnected actions – acquisition and alienation. Acquisition of goods and alienation of means setting in this sense a social order. As a means of exchange, on the other hand, money is a measure of value, so a measure of reality as already noted.

Being human- oriented, the philosophical concept is considered as an exchange between individuals to create social connections of dependence in economy. We will review this point under the Ontology concept. This branch looks at the nature of things, their being, cause and identity.

Social Ontology of money – the nature of being

How the social construction of money works?

We will use the logic of a ladder, outlining the following steps from the money "production" process:

1. The social phenomenon – "money" is defined by the collective belief
2. From this belief, someone declares officially a thing is "money"
3. Someone else accepts the declaration, transforming the declaration in a social rule
4. Being a social rule, "money" is transferred to the subjective human attitude
5. "Money" is accepted and multiplicated by individual consciousness

Key figure describing this phenomenon, is George Simmel ("Philosophy of money")[1] who analyzes money as an institution that defines our time because it allows valuation of things and facilitation of transactions. However, he criticizes the money for replacing other forms of asset valuation so an absolutism cannot be applied.

[1] Simmel, George, Philosophy of Money, Psychology Press, 2004

Here we can make the conclusion that the being of money is defined by the collective belief, declaration and accept. This is defining the ontological nature of the money existing.

What is happening in our reality, European environment?

Moving forwards, how we can reconnect all these theories and perceptions with what is happening nowadays in Europe and the Eurozone – its monetary scene?

Maybe a brief outline of the points defining the current monetary factors at the Eurozone is needed as a starting point:

- ***Fall of industrial production values*** **-** Industrial production declined 1.7 percent from a year earlier in September 2019, following a 2.8 percent fall in the previous month and compared to market expectations of 2.3 percent drop. This was the 11th consecutive month of contraction in the industry sector.[2]
- ***Weakened business investments*** – Economies are trying to go ahead with the business investments but the growth is still an expected miracle. Even the share of government investment decreases relative to government consumption, meaning that the structure of government spending moved on average towards consumption and away from investment[3] (see also EIB, 2017).
- ***Less than expected growth*** **-** The Eurozone quarterly economic growth was 0.2 percent in the third quarter of 2019, the same as in the previous three-month period. GDP Growth Rate in the Euro Area averaged 0.39 percent from 1995 until 2019, reaching an all-time high of 1.30 percent in the second quarter of 1997 and a record low of -3.20 percent in the first quarter of 2009
- ***Geopolitical uncertainty*** – the threat of stronger protectionism measures is coming as fears of losing certain markets
- ***Vulnerabilities in emerging markets*** with side effects on the developed European markets depending on trade exposure
- ***Global financial markets volatility*** **–** the increasing uncertainty brought by multiple factors

[2] Eurostat data
[3] Occasional Paper Series WGEM Team on Investment - Business investment in EU countries, No 215 / October 2018

- ***Level of unemployment*** **-** seasonally-adjusted unemployment rate was 7.5 % in October 2019, down from 7.6 % in September 2019 and from 8.0 % in October 2018

And what about the Euro as a currency?

Settled by the Union to be a powerful tool of integration, the Euro is experiencing hard times in terms of keeping the balance between the competition and integration aims.
The very existence of the Euro zone is questioned nowadays so it should be constantly defended and promoted as a strategy and a way through achieving the monetary union and convergence of the Zone economies.

How an individual can cope with this environment? Not only behavioral approaches are needed, but also philosophical eyes and interdisciplinary perspective.
Broadly speaking, the life of the individual through money can be defined by making a choice based on the individual freedom and personal value – based motivation.
Two main features of this individual choice can be outlined:

- *Quality distinctness*- limitations- that is to mean "the order in the market chaos", the playground we are supposed to explore, limited by the market powers and the money tool to cope with these powers
- *Quantitative infinity* - the chaos born from individual's motives, the personal preferences, incentives, beliefs, played on the above – mentioned market playground

As a result, combining these two complementary features, we have reached the development of social intellect, controlling the free will of market. This is how through our perspective money lives in individuals.

***

Now we will go through several monetary theories and look for the possible implications at the Euro Zone monetary environment. The approach to be followed is: step 1: outlining the features of traditional monetary theory; step 2: analysis how it can be interpreted in the current European monetary environment.

Commodity theory of money and Aristotle

The theory is defined by Aristotle (Politics, 1255–1256 B.C[4].). Money is considered as commodity, serving as means of exchange, unit of account and means of storing value.

The exchange relationship helped by money is described by Aristotle as a "reciprocal justice", expressed under the form of proportion. That is to mean the value we get is proportionate to the value we pay as money, being in exchange.

This theory defines the need of social and cultural system to exist in recognition by its members so as for the first part of the relationship to have the same added value as the second part.

What is the interpretation of the theory in Euro environment?

The idea of *"reciprocal justice"* is very close to the main message of the targeted convergence of the Euro area. We have different countries with their macroeconomic/ monetary cases and they are working for the rapprochement of their policies, measures and strategies so as to bring an improved macroeconomic ground, driven by similar priorities and contributing to the overall welfare. If we look in the term reciprocity – the members of the union are stating their strong features (indirectly), which are accompanied by the ones of the other countries, creating an increased, ameliorated value by combining the comparative advantages.

On the other hand, the “storing” powers of the Euro are under thread today as its value is shrinking up. It has drifted toward its lowest levels in the last months of 2019 against the dollar as Europe is absorbing the negatives of the global growth slowdown. Economic agents ask themselves if it can become worse, thinking about their investments and plans to store value.

[4] Aristotle. Aristotle's Politics. Oxford :Clarendon Press, 1905

Credit theory

This theory views money as an expression of credit relationships between people. The well-known definition from traditional finance studies –markets exist with the aim of re-distribution of funds- those who dispose with a surplus are providing on those with deficit through the credit institution. So individual economic agents are in exchange of their funds, searching for a profit, maximization of their value.

On the other hand, we have the state as a credit provider. Being the most trusted creditor, it is setting up the rules and expectations for individual economic agents, taking advantages from its resources. With this, there stays the risk of resources flooding through creation of money and issuing bonds- driving an impact on debt levels, inflation, financial instability and triggering economic crises.

What is the interpretation of the theory in Euro environment?

The credit theory will be outlined by summarizing the credit climate in the Eurozone. In 2018, loans to EU households and non-financial corporations (NFC) increased by 2.7%, the second consecutive year of the expansion.

- For the fourth year in a row, total loans in New Member States (NMS) grew faster than in old Member States (EU-15). This fact has to deal with the expectations of economic agents from the NMS
- Compared to the previous year, the total loans growth rate in 2018 accelerated from 2.2% to 2.7% in EU-15, while it slowed from 5.9% to 3.5% in NMS.[5]
- Credit standards eased slightly for loans to enterprises

According to the "Euro area bank lending survey" for the third quarter of 2019:

- Credit standards (i.e. banks' internal guidelines or loan approval criteria) for loans to enterprises eased slightly in the third quarter of 2019. Across the different firm sizes, credit

[5] Lending to European Households and Non-Financial Corporations: Growth and Trends. Key findings from the ECRI Statistical Package 2019 Roberto Musmeci, October 2019

standards slightly eased for loans to small and medium-sized enterprises (-2%) and remained broadly unchanged for loans to large firms (-1%).[6]

- Net demand for loans to enterprises remained broadly unchanged in the third quarter of 2019, in spite of expectations of an increase in the previous round. Demand slightly increased for loans to SMEs, but decreased for loans to large firms
- The impact of the ECB's asset purchase program was reported by a survey and was stated by the banks to have contributed over the past six months to an improvement of their liquidity position and their market financing conditions, but to a deterioration of their profitability so an opinion mix was submitted.

Chartalism

This theory was introduced by the German economist Georg Knapp in 20th century. It states that the value of money comes from it being issued by the government (state), not spontaneously (i.e as an expression of exchange). So do we need an exclusive institution to state something as money and this money to have its own value? Moving further in the institutional flow, we can elaborate on the question of the need of an authority (governmental one) to bring the social agreement over value and a commodity to be stated as such.

Here we can think about the problematic: Is money creating institutions or institutions create money?

What is the interpretation of the theory in Euro environment?

The Euro is already 21 years old, life given from Economic and Monetary Union (EMU), aiming to be a powerful tool of integration. However, its nature is both institutionally and personally (local governmentally) questioned.

The main institution defending European monetary policy is European Central Bank (ECB). The ECB and the national central banks of all EU Member States constitute the European System of Central Banks. The primary objective of the European System of Central Banks is to maintain

[6] The euro area bank lending survey – Third quarter of 2019 – European Central Bank

price stability. In addition, ECB is executing the banking supervision of credit institutions in the Euro Zone.

We can halve the institutional control in two parts – national and supranational. At national level we have reforms to promote sustainable economic convergence, increase of the growth potential for the local economies.

At Union level, the aim is competitiveness fed up by budget instruments. Structural reforms are to be started so as for the economies to be stabilized. The main point is the macroeconomic support and prevention of recession.

Going back to the finance philosophy question here- is money creating institutions or institutions creating money? Is the ECB creating money or it is guarantying its value and promoting a monetary stability? We can say that Euro is partially deriving its value and common use from the ECB acknowledgement and supervision. The other part can be defined from the social ontology of money we have reviewed above. It is defined from the collective belief and social consensus.

***

One further angle will be reviewed so as better and more complete picture of the European monetary policy to be drawn up - **ethical perspectives of money**.

A sub-division of the Philosophy science is Ethics. A brief review of money ethical perspectives will be done below with some questions ahead brought up.

From ancient times money is condemned as the Root of Evil, starting from Christian literature. However, in moral perspective, we can outline the following emphasis points:

- Money brings both stability and instability so it cannot be “labeled” as good or bad phenomenon
- It is capable of creating and destroying, uniting and separating societies, policies, economies, so we can conclude its duality and dependency in terms of subjects using it and objects being affected

- Freedom or dependency? Again, we are led by the duality and the nature of the included subject and object

- Man makes money and money makes man - shapes his lifestyle and thought. This is the last question we can outline as a major one for the finance philosophy. And it will remain open, because the subject of this unusual philosophy is where we search for questions on all answers we already have

***

To conclude the exposition let's try to be in the extreme point, asking:

What if _there isn't money?

We have discussed cases where money is defined by different theories, beliefs and environment. But let's set up another extreme finance philosophy hypothesis: What if there isn't money – are we to lose our social order, relationships, and value – based social systems?

We will try to destroy the well-established environment of money- determinated world and imagine the "what if" universe.

How can we replace the money connection?

Barter– the first form of exchange between individuals. We can look further getting into the future society where natural resources are scarce, money does not exist because we cannot buy anything from the limited resources, so we are trying to exchange what we possess as comparative advantages. However, an exchange would only happen when we have double coincidence of wants. But is it frequent? Quite not, as not only the specific good should be the matter of coincidence but also its quality, quantity and individual characteristics.

In a certain moment, individuals will get into unsatisfaction of the barter deals, realizing that they can trade more easily if they have intermediate good:

- Easy to store and transport
- Easy to measure, split and facilitate billing between merchants
- Hard to destroy as to stay in time

- Being a mediator between the exact quality, quantity and individual characteristics of the desired good and their consumer preferences and satisfaction.

Is the society going to be deprived of its sense of greed, competitiveness, ego when not having money?

The social services that we get – police, health care, social activities, military will extinct as the individuals there will not have an incentive to work there, for free. The labor in a sense we know it nowadays will extinct as the main reward we have – salary will no longer exist in its current form. The world will be in a dark, unordered chaos. We can move back to our 17th century society form. The streets will not be any safer and local defense rules will apply.

But maybe this new social order will be a way to re-structure our society? Without money we can learn how to live with less. We can shrink the gap between poor and rich as the definition of these two groups will be outdated. However, a better world shouldn't be a part of a "what if" scenario. We will learn to cooperate, with the encouragement to innovate and work on our comparative advantages, based on objective skills and knowledge.

For now, this scenario is to rest in a scientific article…

III. Conclusion

This article has tried to review the traditional monetary theories, current European Monetary Climate and philosophy questions in one. We believe that the interdisciplinary manner of treating a topic is the key for broadening the understanding and knowledge about certain problem.

The discipline of Finance Philosophy is targeting this– combining the concepts from rational and irrational sciences and deriving a critical view in a search for over the traditional counter ideas.

We have seen that current European problems can be analyzed through the philosophical, ontological and ethical perspectives, thinking about the monetary policy as a living organism and a subject of duality and limitless questions.

Thus, the contribution of the article is aimed to be not only in the tools used to explain the Euro climate, but also the fresh air brought into the ancient monetary theories and their interpretation.

References:

1. Aristotle. Aristotle's Politics. Oxford :Clarendon Press, 1905
2. Eurostat data - https://ec.europa.eu/eurostat/news/news-releases
3. Key findings from the ECRI Statistical Package 2019 Roberto Musmeci, October 2019
4. Lending to European Households and Non-Financial Corporations: Growth and Trends
5. Occasional Paper Series WGEM Team on Investment - Business investment in EU countries, No 215 / October 2018
6. Simmel, George, Philosophy of Money, Psychology Press, 2004
7. The euro area bank lending survey – Third quarter of 2019 – European Central Bank