

Book Review: How much does the Euro cost?  
Review by Simon Rosenblum

Joseph E. Stiglitz

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

Joe Stiglitz probably needs no introduction as he is among the international elite group of economists and someone whose writings always demand one's attention. This book could not be more timely, as Europe struggles with its identity. The French election results allowed us to breathe a sigh of relief, but the contentious background issues have by no means been put to rest. The future of the Euro is by far not the least of these issues.

Up until about five years ago, I never gave much thought about the Euro -- unless I was checking its conversion rate when travelling internationally. I just took it for granted that it was an essential component of an ever-evolving architecture of European-wide institutions. Like world federalists everywhere, I just took it for granted as an unmitigated good. I should not have been so sanguine. On this the twenty-fifth anniversary of the Maastricht Treaty, which launched the Euro, we really have no choice but to take a second hard look. Was it a wise initiative, and what should be its future? What does Stiglitz have to say? Here is a sampling of quotes from his book:

- "... a fatal decision in 1992, to adopt a single currency, without providing for the institutions that would make it work. Good currency arrangements cannot ensure prosperity, but flawed currency arrangements can lead to recessions and depressions."
- "The founders of the Euro changed the rules of the game. They fixed the exchange rate and they centralized the determination of the interest rate. They created new rules governing deficits and new rules governing the banking system. Hubris led them to believe that they understood how the economic system worked."
- "It was a political project; it was supposed to enhance the political integration of Europe, bringing the people and countries of Europe closer together and ensuring peaceful coexistence. The Euro has failed to achieve either."
- "Had they known back in 1992, when they signed up for the Euro, what they know now - and had the people of Europe been given a chance to vote on joining the Euro - it is hard to see how they could have supported it. But that is a different question from that confronting Europe today. That question is, having created the Euro, where do they go from here?"
- "The alternative, entailing 'more Europe', creating a Euro-zone that works, is almost surely the

best path forward for Europe, but it appears too much for at least some of the countries in the Euro-zone to stomach."

- "Many within Europe will be saddened by the death of the Euro. This is not the end of the world, as currencies come and go."

This gives a flavour of what the book has to offer. Now let me fill in some of the gaps and summarize. The Euro works -- except when it doesn't. And that's the rub. Simply put: when the international/regional economy trends downward - as it most assuredly will do from time to time - the nations inside the Euro-zone will be extremely vulnerable. Fenced in with a fixed exchange rate, a single interest rate, and without any type of fiscal union to protect them, Euro-zone nations - and particularly its weakest members - have little ability to regenerate their economies. And as we have seen, when the rubber hits the road it only gets worse, as the Euro-zone powers that be then choose austerity to hopefully restore the balance sheet of its most vulnerable members. Everybody loses. Does all this mean that the Euro is on its last legs or that it should be put out of its misery? Not necessarily. Even today, Euro-zone members generally agree that the single currency needs more integration. But the agreement ends there as they strenuously disagree over how. Stiglitz would prefer that the Euro be modified and/or enhanced but sees little or no appetite among European publics for the "more Europe" (fiscal and banking union) steps to do so. Then there are numerous proposals out there for splitting the Euro-zone into separate smaller Euros based on blocks of economies with more similar characteristics. There are options and question marks all over the place regarding both the Euro's membership and its direction.

Don't be surprised if there continues to be a lot of talk and no action. Muddling through -- until the next crisis -- will most likely be the way forward. That would be most unfortunate. I'm sure Joseph Stiglitz would tell his European friends that simply singing Ode to Joy -- the European Union's anthem -- just doesn't cut it.

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