

BOOK REVIEW

Reflections on the Future of the European Union and the Euro Review of Joseph E. Stiglitz's Book "The Euro – How a Common Currency Threatens the Future of Europe"¹

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Discussions regarding the fate of the European's Union common currency – the Euro - have existed since its inception but they became much more intense after the onset of the 2008 financial and economic crisis and particularly after 2010, converging more or less towards a reserved forecast at the best and an utterly terminal at the worst.

In this context, Joseph Stiglitz's book, "**The Euro – How a Common Currency Threatens the Future of Europe**", published in August 2016, is of particular interest for at least two reasons. The first reason is represented by the fact that Joseph Stiglitz is one of the three laureates of the 2001 Nobel Memorial Prize in Economic Sciences², a prize established in 1968 by the Sveriges Riksbank (the central bank of Sweden), fact that gives him a significant stature among his peers. The second reason is the fact that Joseph Stiglitz may be regarded as a supporter of the European integration process and therefore his analysis has been done from a friendly perspective. As a proof of this second reason, his book opens with the dedication: "To the future of Europe and the European project upon which so much depends, in the hope that this book may contribute to policies ensuring its prosperity and promoting its solidarity" (p.3) which is self-explanatory for his position.

A supplementary comment regarding the book has in view its moment of publishing (August 2016) which was right after the British referendum on EU membership (that took place on 23 June) and a little before the presidential elections in the United States (that took place on November 8). While the subject of the book is the Euro currency and the future of the European Union, by its content the author predicted implicitly the result of the US elections and explained to a certain extent some the immediate measures adopted by the new American Administration (with reference to the Transatlantic and Transpacific Partnerships).

The book is structured in four parts that deal in sequence with: a) the dimensions and forms of manifestation of the crisis in Europe and the role of Euro in this context; b) the critical analysis of the economic theories that promoted the single currency without taking into account the diverse nature of European economies, societies and cultures; c) the misconceived policies, with reference to the post-2008/2010 period, when the promotion and even imposition of austerity policies and structural reforms in both euro-zone and non-euro zone prolonged the crisis and worsened the situation of many countries, among which Greece, Spain, Portugal, Italy; d) the exploration of the way forward by means of a mixture of much debated solutions (such as a common banking system with deposit insurance, mutualization of debt and the issue and acceptance of euro-bonds, or a common fiscal framework) but also of more exotic (even if not entirely new) options such as the idea of an amicable divorce (for those countries that decide to exit the euro zone), the idea of a "flexible euro" that would allow each member country of the euro zone to use domestically a "national euro" and to create a number of areas (groups of similarly developed countries) that use Euro currencies with different values, all based on electronic currency, or even the idea of Germany exiting the euro zone in order to save the Euro.

From our perspective the four parts of the book can be divided into two categories: parts one and four are focused more on conceptual matters which deal with the relation between economic and socio-political dimensions while parts two and three are more related to analysis of economic doctrines and ideologies, institutions and mechanisms.

This review is focused more on the first category of topics as in our opinion the problems related to the future of the European Union and the common currency - the Euro - are more of a conceptual nature, even a philosophical one and not technical or administrative. And it is from this conceptual perspective that Stiglitz's ideas are important because they address the root causes, invite to debate and rethinking and, why not, convince

¹ Joseph E. Stiglitz, *The Euro – How a Common Currency Threatens the Future of Europe*, W.W.Norton & Company, 2016, 368p.

² Joseph E. Stiglitz received the Nobel Memorial Prize in Economic Sciences in 2001 together with George Akerlof and Michael Spence.

that the European project is important for Europe and Europeans, but also for the world and that it is worth the effort of reinventing the Euro based on past lessons and also on the avoidance of the past mistakes. In order to further justify this option for the review we can mention that Stiglitz himself explains at the very beginning that his book “is about the intertwining of politics and economics, and about the role of ideas and beliefs” (p.21). Although Joseph Stiglitz analyzes and comments in the book the situation of Euro and the Eurozone, his global experience with World Bank, North American Free Trade Agreement (NAFTA) and World Trade Organization makes him comment also, in a more general framework, the limits and risks associated with economic integration processes of all sorts, even those much less ambitious than the European Union and the Euro. This is why in the preface of the book he mentions that there are risks associated with “international agreements made by leaders – as well intentioned as they might be – in the context of far from perfect democratic processes” (p.3).

The core approach of Joseph Stiglitz to the problems related to the use of Euro and its mechanisms is based on two hypotheses: that these problems have resulted from a) **flaws in economic understanding** of reality combined with b) **lack of political will and solidarity** (p.244). Above and beyond that observation is his conclusion that **economics and politics cannot be separated** and as result every time the economic globalization/integration outpaced political globalization/integration the result was divergence and inequality. He also explains in his book that these two characteristics have manifested in the European Union not only when the Euro has been created and in its subsequent functioning but also after the onset of the 2008/2010 financial and economic crisis. According to his explanation the crisis could not be solved in an expedite and effective manner because the same mistakes that had been made at the creation of the Euro have been maintained when solutions for the 2008/2010 crisis were looked for.

With reference to the flaws in economic understanding Stiglitz points out especially to the failure of the neoliberal doctrines that resulted, among others, in the huge increase of inequality in the developed countries. And he is clear to say that the failure is not due to the economic science per se, but rather due to the rewriting of the rules of the market economy so that they benefit a few (p.253). It is in this context that Stiglitz takes a strong position against the advocates of status quo as regards the current policies of the euro zone (particularly Germany) – the so called “there is no alternative” (TINA) position (p.21).

Leaving aside the criticism of the neoliberal doctrines, Stiglitz points out that the flaws in economic understanding that affected the design and functioning of the common currency are multiple and they include aspects like the overlooking of diversity which is specific for Europe and should be a strength of Europe and not a weakness, the aging phenomenon, the Internet revolution and its impact on trade and payments, the climate change or the implications of urbanization and the list may continue. In his opinion in order to deal with all these issues the governments have to increase the public expenditures and not decrease them and the conceptual solution proposed is that of an inclusive capitalism which allows for shared and sustainable prosperity.

As regards the crisis of the Euro, Stiglitz points out that the characteristics of the mechanism (a fixed exchange rate and a single interest rate for all its members) have not been matched by corresponding institutions such as mutually issued bonds, mutual backing of bank deposits, a common fund for unemployment insurance. As a result, during the crisis the burden for adjustments fell on each affected country that had to apply austerity policies based on tax increases and wage reductions.

As Stiglitz has always paid a significant attention to the social dimension of economic activities he is stressing in his book that the current crisis of the Euro is affecting not only the present but also the future of the European Union project. He considers that the social implications of the crisis and of the austerity measures have serious implications also in the political area: people affected by unemployment, inequality and lack of perspective tend to orient themselves towards nationalist politicians and parties and also tend to lose their confidence in democracy.

From this perspective the crisis of the Euro failed the expectations of the people in the European Union member states in two ways: first of all the Euro was supposed to assist in providing the people a better life while they contemplate now lower wages, higher taxes and less social benefits; and second, there is the broader perspective of the future of European or Western style democracy that characterized the post World War II period; if the consequences of the crisis continue to be felt after a decade from the onset of the crisis, if the foreseeable future does not hold reasonably possible solutions, then people may contemplate the possibility of more authoritarian regimes, as happened after 1929-1933 Great Depression. And regarding this second aspect,

Stiglitz fears that the decisions makers (with reference to the Troika³) that deal with the financial and budget conditions imposed on the crisis affected countries (especially Greece) will maintain the “strategy of muddling through”⁴, that is of continuing the policies of small steps and of trying to improve ineffective measures. In our opinion we may appreciate as profound his observation that if the founding fathers of the Euro project were only visionaries, the current decision makers should combine visionary with economic understanding of the present if effective solutions for the future are to be found.

One of the fundamental issues raised by Stiglitz in relation to the functioning of the Euro zone and also in relation to the seeking of solutions to its crisis is that “the euro zone...was never a very democratic project” (p. 249)⁵ and therefore the consultation of population in the member countries has been avoided as much as possible, a fact which further complicates the situation. In this context Stiglitz firmly rejects the idea of implementation of non-democratic mechanisms for saving the Euro, such as the nomination of a European budget commissioner that would have the right to veto the decisions of the national parliaments regarding the budgets of their own countries.

On a personal note Stiglitz attempts in the final part of his book to explain why the European project is so important for the world of today, particularly as a balance factor in so many sensitive and dangerous issues that include environment protection, the migrant crisis, the fight against terrorism. But in his demonstration he makes (deliberate or not) a substitution: he speaks about the importance of the European Enlightenment period and its values that really represent the foundation of modern Western civilization but then he refers to contemporary European Union. In our opinion the problem with this substitution is that European Union is not the same thing as Europe, as Europe as a historical, cultural and spiritual concept and reality cannot be limited to the European Union. According to his demonstration Stiglitz considers that European Union may act as a balance factor in the world only if it is able to develop common and consistent positions of its member states on key issues. Anyway, he mentions that the divergence in economic development and welfare that characterizes the Eurozone makes very difficult if not impossible the reach of consensus among member countries on sensitive issues.

Putting things into a global perspective Stiglitz draws a lesson which deserves in our opinion full consideration: “be careful not to let economic integration outpace political integration” (p.257). By this he rejects the hypothesis of the leaders of the European Union that economic integration will automatically lead to political integration and to an improvement of the living standards for the majority of population in the European Union member states. At the same time, Stiglitz states that a monetary union is not possible without political integration, an approach which is just the reverse of the course followed in reality from the adoption of the Euro to present.

Based on such analyses Stiglitz draws some lessons from the euro zone experience for the rest of the world that contemplated either monetary unions (like in Central and West Africa, Caribbean or South America) or just more economic integration. These lessons have in view that economic integration in general and the more so monetary unions (which are an advanced form of economic integration) need to be based on solid political grounds, which means a serious consideration of their implications and consequences for the vast majority of the population of the participating countries.

As the book has been published in August 2016, before the result of the elections in the United States one may say that Stiglitz was premonitory in advising that both Transatlantic Trade and Investment Partnership (TTIP) and Transpacific Partnership (TPP) might create more problems than solutions as the losses of the losers will be bigger than the gains of the winners. As of middle 2017 both projects are no longer of immediate actuality and have been at best only postponed.

The final statements of the book are to be found under an optimistic title: “Saving the European Project” (p.259-260). But the content of these final statements is not that optimistic as it requires a complete rethinking of the European project, a rethinking that puts back the human beings and the human society at the center of everything. Stiglitz states that the simple measure of any economic program should be the well being of a country’s citizens, (that is a meaningful and decent life), while monetary systems as well as the Euro are just

³ Meaning the coordinated decision making process involving the European Commission, European Central Bank and International Monetary Fund.

⁴ Op.cit. p.245

⁵ As proved by the fact that in Denmark (in 2000) and in Sweden (in 2003) when the people were asked in a referendum on the topic of joining the euro zone the majority rejected the proposal.

human constructions that may come and go. In this context, the fact that the Euro project proved to be an imperfect concept is not a sin in itself, but to overpass the lessons of the last 17 years would definitely be.

The three lesson that Joseph Stiglitz proposes by the end of his book are that: the Euro, as a concept and mechanism, generated divergence, inequality and insecurity; to continue with minor and non-essential improvements is not an option, rather it is an aggravation of the existing situation; Europe and the European project are much too important for the rest of the world to be sacrificed on the cross of the euro.

His proposal for a restart of the European project has in view the fact that a more politically integrated Europe will be also a stronger and a more prosperous Europe. In a way Stiglitz advocates the keeping of the European ideals of prosperity, freedom, peace, wellbeing while pursuing them in a different way. A return to politics means a return to the people and their interests, avoiding to transform any mechanism or institution into a purpose in itself.

And this creed is best represented by the following quote:” *Euro is a man-made construction. Its contours are not the result of inexorable laws of nature. Europe’s monetary arrangements can be reconfigured; the euro can even be abandoned if necessary. In Europe as well as elsewhere, we can reset our compass, we can rewrite the rules of our economy and our polity, to achieve an economy with more and better-shared prosperity, with a strengthened democracy and stronger social cohesion*” (p.14).

Despite the fact that the book (The Euro – How a Common Currency Threatens the Future of Europe) identifies correctly a number of significant issues related to the Euro and the future of the European Union, it was not free of some criticism, especially related to the solutions proposed. Some of these critical opinions are presented below in view of securing a more balanced image of the book and its content.

A review published in The Economist points to the fact that the mistakes of the crisis countries (Greece, Spain, Portugal) are somehow downplayed while the criticism of the Troika and of the behavior and interests of transnational corporations may seem exaggerated⁶.

Another reviewer, while appreciating a lot of Stiglitz’s comments on the lack of institutions to provide for the functioning of the Euro mechanism, criticizes him for his blunt opposition to neoliberal capitalism, for his position against wealthy European states, especially against Germany as well as for the writing style which has “*the strident tone of a political pamphlet*”⁷.

At the same time, reviewers belonging to the American right criticize Stiglitz for being too left biased in its analysis and therefore being too much against “market fundamentalism” even if the creation of the Euro may be considered an exercise in central planning. Anyway, even in a conservative review there is agreement with Stiglitz that “*one size does not fit all: a currency must reflect the realities of its home economy*”⁸. If the realities of the Eurozone member states are different then the Eurozone may be a single entity from a theoretical point of view while in reality the national interests will be different, divergent or, at worst, even antagonistic.

A more elaborate reviewer considers that Joseph Stiglitz should have allocated more of his analysis to the ideological aspects of Western societies as the problems that confront many European Union member states are more related to their “*welfare state ideology based on entitlements rather than productivity*” and much less to the intrinsic limitations and flaws of the Euro mechanism⁹.

In synthesis, one can note that the above mentioned criticism is almost in its entirety related to the ideological position of Stiglitz (against neoliberalism, globalism or transnational corporations) or to the accents put on the sharing of the blame in the Euro crisis developments, while at the same time critics and supporters alike acknowledging that the Euro mechanism is not functioning as expected, is not delivering the promised shared prosperity and solidarity and especially, it does not provide a clear path towards an efficient and effective functioning in the near and medium term future.

⁶ The Economist, Europe’s Single Currency – on Course to Fail, August 20, 2016, at page <http://www.economist.com/news/books-and-arts/21705304-course-fail>

⁷ Lowenstein, Roger, Nobel Laureate Joseph Stiglitz Says the Euro Needs Big Reform, The New York Times, 16 August, 2016, at page https://www.nytimes.com/2016/08/21/books/review/euro-joseph-e-stiglitz.html?_r=1

⁸ Stuttaford, Andrew, How Not to Fix the Euro: More Leftism, The National Review, October 10, 2016, at page <https://www.nationalreview.com/magazine/2016-10-10-0100/joseph-e-stiglitz-the-euro>
Read more at: <https://www.nationalreview.com/magazine/2016-10-10-0100/joseph-e-stiglitz-the-euro>

⁹ Bakshian, Aram Jr., Book review: ‘The Euro: How a Common Currency Threatens the Future of Europe’, The Washington Times, October 2, 2016, at page <http://www.washingtontimes.com/news/2016/oct/2/book-review-the-euro-how-a-common-currency-threate/>

The single currency project of the European Union has generated at its inception a lot of expectations: that will help in the transformation the European Union into a more unite and coherent entity that will be more influential on the global arena; that will contribute to the preservation of peace in Europe by securing convergence and therefore a better standard of living for all; that will enhance the European identity.

16 years and a crisis later these expectations have not been met and numberless fears and tensions affect the Euro mechanism and the relations among Eurozone member countries. Complex but functional solutions have to be found as there are no simple “yes” or “no” answers. And in this quest for a feasible solution any contribution is important, any argument or point of view may be useful because we can only solve correctly what we fully understand. From this perspective Stiglitz’s book is timely and useful, opening a perspective that each reader can reflect upon in order to improve, expand or change his/her own understanding of the reality.