# *Does Europe Need the Euro?*

## *Potřebuje Evropa euro?*

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Thilo Sarrazin: Europe Does Not Need the Euro. How political wishful thinking has plunged us into crisis (Europa braucht den Euro nicht. Wie uns politisches Wunschdenken in die Krise geführt hat. Deutsche Verlags-Anstalt, München 2012. 464 pages. ISBN 978-3-421-04562-1)

The famous German social-democratic politician, previously the Minister of Finance of the State of Berlin, and former Member of the Executive Board of the Deutsche Bundesbank, has written several books, in which he is not afraid to express controversial opinions.[1] T. Sarrazin is a consistent euro-pessimist. Also the reviewed book goes against the official position of the German government, which views the euro as a project that must be supported. In his book, he repeatedly rejects the view of Angela Merkel: "If the euro fails, Europe fails."

The first chapter entitled *From German Monetary Reform to the European Monetary System* represents an introduction to monetary integration. It explains the functioning of the Bretton Woods system, as well as the leading role of the Deutsche Mark and the leading role of the Deutsche Bundesbank in European monetary policy.

The origin of the single European currency is explained in the second chapter *Concept of the European Monetary Union and Its Hazards*. The author comments on the Maastricht Treaty and the convergence criteria, coming to a conclusion that "even from today's perspective, it is safe to say the Maastricht Treaty was well thought out" (p. 89). However, its weakness is that "in case any part drops out, because individual members, the entire Community or the Central bank, fail to comply with the contractual obligations, the entire system loses stability" (p. 89). Specifically, it concerns the failure to respect the requirements for cautious budgetary policy.

The third chapter is called *Formation of the European Monetary Union: What failed and why*. In this chapter, the author explains the roots of the prevailing debt crisis in some euro area countries. Following the euro introduction, financial markets started to assume that euro-denominated government bonds are not at risk of insolvency, that they are on a par with the financial standing of the bonds issued by the Federal Republic of Germany. What was the reason for this? "There may likely only be a psychological explanation: From the economic perspective, the euro introduction was nothing else than the provision of the

1 *T. Sarrazin also wrote the book Germany Is Doing Away With Itself (Deutschland schafft sich ab, 2010), in which the author warns that Germany is endangered by Muslim immigrants. The author has just published his new book New terror of morale: about the limits of the freedom of speech in Germany (Der neue Tugendterror: über die Grenzen der Meinungsfreiheit in Deutschland, 2014). He believes that any person that diverts from the mainstream ideas is persecuted in Germany.*

Deutsche Mark to all euro area members. Many partner countries thus believed, similarly as market participants, that this act is associated with the commitment of the monetary area of the Deutsche Mark to be solidary with the newly accessing members" (p. 98).

Evaluation of economic results achieved by the euro area also represents an important part of the third chapter. The author compares the development of the real GDP in the EU – both in the euro area and in selected countries outside of the euro area. He concludes that "the common currency has a gradually increasing adverse effect on economic growth of the southern Union members" (p. 108). The main explanation of the fact is the loss of competitiveness due to the exchange rate accomodation. According to T. Sarrazin, these countries may now increase their competitiveness "solely through significant reductions of their labor costs […] It is a painful journey […] The monetary union has become a competition trap for the southern countries" (p. 117).

The fourth chapter discusses *The European Monetary Policy and Rescue Policy in the Period of 2009 through 2012*. He transparently explains the progress of the debt crisis in some euro area countries, starting with the first symptoms in the form of increasing returns on long-term government bonds (the "Orient-minded nation" on the outskirts of Europe, i.e. Greece as of the late 2008, Portugal from the early 2009, Italy from the early 2010). We must appreciate the unambiguous characteristics of the crisis processes: "it obviously did not concern a currency crisis, but a debt crisis of individual euro area countries" (p. 185[2]). The fact is that many authors are not certain in this regard. It is not surprising that T. Sarrazin is an uncompromising advocate of the "No-bail-out" principle, i.e. no assistance to indebted countries by other countries and insistence on the declaration of their insolvency. All this would be in compliance with the Maastricht Treaty. Moreover, he is a relentless critic of all rescue mechanisms that contradict the aforementioned principle. The only permissible exception – i.e. application of the "bail-out" principle – is a situation, where the lack of confidence in respect of any country's government bonds temps from other factors than the country's excessive debts. The establishment of the European Financial Stability Facility (EFSF) in 2010 and of the European Stability Mechanism (ESM) in 2012 legalized the "bail-out" policy. The aforementioned took place as a result of the argument that if any country were to abandon the single currency markets would lose their confidence in the future of such currency, i.e. of the euro.

Moreover, T. Sarrazin considers the plans for creating Eurobonds to be similarly unacceptable. They maximize the risk of moral hazard. Furthermore, he is not happy with the European Central Bank. The bank acts as a lender of last resort to commercial banks, and not to individual governments; however, since it purchases unlimited quantities of government bonds from commercial banks, it cannot ask the governments of such countries to declare insolvency, as it would strongly reduce the ECB's equity.[3]

2 *Similarly, the author also notes the following in the Introduction: "The state debt crisis of many countries is in the core of the monetary union crisis" (p. 26).*

3 *The author returns to the problem in Chapter 7. He explains again that, as of 9 May 2010, the European Central Bank "has been purchasing bonds of countries affected by the crisis on a large scale". However, in reality, such bonds are accepted as collateral.*

The fifth chapter, *"Benefits" of the Monetary Union from the Fundamental Perspective*, tries to convince readers that the single European currency brought neither economic nor political benefits. The formation of the euro was a political project, promoted by France (in order to control Germany more effectively) and by Germany (in order to promote European political cooperation), as well as by other politicians – with a view to promote the position of Europe in the world. However, the euro did not lead expansion of mutual trade, since it eliminated the possible compensation of different price developments within individual countries of the monetary union. The euro failed to stimulate economic growth.

The author disregards the lower transaction costs, price transparency, or reduced costs associated with the exchange risk elimination. Furthermore, he does not cover the issue of whether the depreciation of indebted countries' currencies (Greece and other countries), provided such countries still had their national currencies, would lead to a currency war. He does not even bother with lower risks of currency crisis.

The sixth chapter is entitled *World Financial Crisis, Systemic Issue and Resulting Lessons*. It comprises the usual explanation of causes for the financial crisis, starting with the mortgage market crisis and the banking crisis in the US, all the way to the euro-crisis (Eurokrise – the author does not define this term, and uses it to describe uncontrolled indebtedness of some European governments).

The so-called anthropological constant of the financial sector – i.e. the starting point of the seventh chapter, *Role of State Budgets*, is worth noting; it means that the management of one's own money is always more efficient than the management of someone else's money. However, this problem cannot be resolved by the proposal of Warren Buffett: To just pass a law that says that anytime there is a deficit of more than 3 % of GDP, all sitting members of Parliament would be ineligible for re-election. Czech readers will be struck by appreciation expressed by Thilo Sarrazin for the former Prime Minister of the Czech Republic, Petr Nečas. In February 2012, he commented on the fact that GDP per capita in the Czech Republic and Greece is about the same; however, the minimum wage in Greece is more than twice the minimum wage in the Czech Republic. He recommended intensive structural reforms to Greece, similar to those implemented by former post-communist countries in the 1990s.

The eighth and final chapter is called *Monetary Union and the Future of Europe*. At the beginning of the chapter, we must appreciate the author's objectivity in assessing the existing progress of the euro as a currency. "Whatever has failed, it is not the euro. Solely the hope that the currency would bring more growth and employment and help the economically weaker countries has failed" (p. 374). Moreover, the euro did not succeed in weakening the dominant role of Germany in Europe through the elimination of the Deutsche Mark (France conditioned its consent to the unification of Germany by the expiration of the Deutsche Mark). On the contrary, increasing problems experienced by France in connection with the euro have led to higher economic influence of Germany. The chapter ends with a conclusion that if the European monetary union is to function well, it is necessary for individual national economies to operate according to German standards. In case any country cannot or does not wish to be restricted in this manner, it should have the freedom to revert to its original currency.

The book contains many things to think about. It is only a shame that T. Sarrazin does not also deal with the development of the euro's international role, particularly the share of the euro in foreign-exchange reserves of countries from all over the world and the share of the euro in the turnover of the global foreign exchange markets. Moreover, it is a shame he does not give attention to the development of the euro exchange rate (e.g. EUR/USD) and fails to assess the long-term trend of such development. From this perspective, the book is one-sided. Nevertheless, we must appreciate the author's thorough overview of the development of the European Union and euro area, not only on the basis of existing literature, but also based on the author's own experience. In this regard, the book is also beneficial for readers studying the European monetary integration.