

The Future of the Euro

Budoucnost eura

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BAGUS, Philipp: *Tragédia eura* (The Tragedy of the Euro). Bratislava : Jaga Group 2011. 159 pages. ISBN 978-80-8076-093-9.¹

The *Tragedy of the Euro*, a book by Spanish professor Philipp Bagus, was published in the English original by the Ludwig von Mises Institute publishing house in 2010. In 2011, publisher Jaga Group from Bratislava published a Slovak translation. The book includes numerous suggestive, inspirational and provocative thoughts, of which we will only try to choose the strongest ones.

In the *Introduction*, the author describes his view of the euro project: it is a project pushed by European socialists to achieve a central European state, a project of intrigue and politicians' fight for power. But the project is about to fail.

Chapter *Two Visions for Europe* continues in the same way. In the European Union, the vision of socialists has defeated that of classical liberalism. However, the particular effect of the euro on European centralisation is not explained through monetary policy centralisation conducted by the European Central Bank (ECB). P. Bagus believes that the creation of the euro has led to EU Member States using a 'printing press' (the ECB probably?) to finance their deficits. This results in the crises of individual countries' government debts. These crises entail fiscal policy centralisation, specifically tax harmonisation. Only marginally the author also admits the anticipated economic benefit of the single currency, i.e. the reduction of transactions costs, stimulation of trade and economic growth.

In chapter *The Dynamics of Fiat Money*, the author draws a conclusion that "Central banks produce money primarily to finance government deficits" (p. 22). This had been previously prevented by Deutsche Bundesbank, whose authority maintained a moderate increase in money supply not only in Germany but also in other EU countries. Naturally, European governments consequently welcomed the establishment of the euro. That said, the establishment of the euro does "open new dimensions for government interventions, and redistribution of wealth" (p. 24).

Chapter *The Road Toward the Euro*² also explains why Germany has given up its Mark. The then politicians in Germany as well as abroad systematically used the blaming of Germany for World War II as an argument for Germany giving up its Deutschmark. In this chapter,

1 The English original of the book by Philipp Bagus is available for download at http://mises.org/books/bagus_tragedy_of_euro.pdf. Quotations in this review were also taken from that version.

2 In his interpretation of the Maastricht convergence criteria, the author fails to distinguish between percent and percentage point. The long term interest rate criterion refers to "three governments paying the lowest interest rates".

P. Bagus again revisits the interests of euro area countries' governments in the introduction of the euro because "if official price inflation rates are low, the ECB can and actually must print money in order to support economic policies" (p. 34). P. Bagus believes that particularly pressure from France was strong in that context.

Chapter *Why High Inflation Countries Wanted the Euro* explains the main benefit of the euro to southern countries of the euro area (except lower interest rates). Money supply grew much faster in those countries than in Germany, and this made it possible to buy German goods. To explain his proposition, the author uses the following example: "The Greek central bank prints money to finance the salary of a Greek politician. The Greek politician buys a Mercedes. [...] In the case of the Euro, paper money flows into Germany where it is accepted as legal tender and bids up prices" (pp. 49-50).

The next chapter is concerned with *Why Germany Gave Up the Deutschmark*. According to P. Bagus, it is possible and even likely that the German government sacrificed the Deutschmark (in 1999) in order to make the winning powers of World War II authorise the reunification of Germany (in 1991). In this context, the author refers to numerous statements by the then European politicians indicating that they had really anticipated the introduction of the single European currency such a long time in advance.

Subsequent chapters *The Money Monopoly of the ECB and Differences in the Money Creation of the Fed and the ECB* explain the author's idea that central banks print new money and put them into circulation through their purchases of goods as well as through the purchases of government bonds. Thus they finance the governments. The conclusion: "The government establishes its own printing press (central bank)" (p. 66).

The content of the next chapter is evident from its title: *The EMU as a Self-Destroying System*. The self-destruction consists in failure to comply with the rules of the Stability and Growth Pact. The same is true of the chapter entitled *The EMU as a Conflict-Aggregating System*. Conflicts arise from the fact that the preparations for an entry into the monetary union require the redistribution of income through cohesion funds. This pushes European integration to the verge of collapse. On the other hand, the author recognises the benefit of European integration in maintaining peace.

In the last chapters *The Ride Toward Collapse*, *The Future of the Euro* and in the *Conclusion*, the author expresses his ideas of the further development of the single European currency. The future of the euro is at risk because of its quality in particular. The author does not relate that quality to the development of the exchange rate; he means the quality of the currency issuer, i.e. the ECB. The quality of the ECB is expressed by its declining credibility. This credibility is at risk because the ECB has failed to resist political interests, and serves politicians in building a transfer union by having started direct purchases of government bonds. The quality of the euro is also affected by what is known as the ECB's Qualitative Easing, i.e. a reduction of the average quality of the assets backing the monetary base (there is a difference between German and Greek government bonds).

The author identifies the future of the euro with the government debt crisis. There are five ways out of the crisis:

- reducing the public spending,
- increasing the competitiveness and boosting tax income,
- tax increase,
- economic growth induced by deregulation,
- credits granted to indebted governments.

An opinion of the future of the euro is not explicitly expressed in the book. However, it can be surmised from the author's negative position on this currency. The euro is not a good quality currency; however, there is no explanation of how this poor quality of the euro makes itself felt. The author asks whether the euro project can be saved. He seeks the answer in the possible solutions to government debts. However, the link between the crisis of those debts (of Greece, Portugal, Ireland) and the future of the euro is not explained in the book either.

The book stresses ideological aspects rather than economic arguments of the benefits and costs of the monetary union. Even in the conclusion, the author reiterates: "The Euro has succeeded in serving as a vehicle for centralization in Europe and for the French government's goal of establishing a European Empire under its control - curbing the influence of the German state" (p. 129). The book does not include many economic arguments for or against the euro. Hence the primary benefit of the book may be the detailed empirical material on the development of the Greek debt crisis. And this is not at all bad; even this benefit should be appreciated.

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