20 YEARS OF THE EURO. TAKING STOCK AND LOOKING FORWARD

Eladio Febrero[1]

University of Castilla-La Mancha

Received on February 28, 2019

Accepted on March 15, 2019

The euro was launched in 1999, 20 years ago. This seems to be a good time to take stock of the role played by the single currency in the performance of the European economy and to take a look forward at its future.

The euro was an essential ingredient in the European Union project. The fact that we are considering its 20th anniversary, that it is the official currency of 19 countries, that it is used in almost 40% of cross-border payments and, according to the November Eurobarometer, that three out of four European citizens think that the euro is good for the EU (two thirds believe it to be good for their country), helps to prove its success.

However, there are also reasons leading to discontent with the euro, in terms of economic growth, unemployment, productivity and inflation, especially (but not only) since the Great Financial Crisis that began in 2008. The first decade did not go well, particularly when compared with US figures. And the second one was rather worse than the first.

Table 1: Eurozone vs US. Some indicators

	Eurozone		US	
	1999-2008	2009-2018	1999-2008	2009-2018
GDP growth	2.1%	0.8%	2.6%	1.8%
Unemployment	8.7%	10.1%	5.4%	6.5%
Inflation (CPI)	2.2%	1.3%	3.2%	1.4%
Labor Productivity	0.8%	0.5%	1.6%	1.8%

Source: AMECO and author's calculations.

[1] eladio.febrero@uclm.es

Further, with the introduction of the euro, regional divergences and imbalances piled up. During the first decade of the euro's existence, a debt-led growth pattern in the Euro zone periphery, driven by falling interest rates and deregulated and liberalized capital markets, coexisted with an export-led growth pattern in core countries. This occurred simultaneously with huge gross capital flows that more than funded current account imbalances. When the crisis shocked the Euro zone, that growth pattern collapsed, once financial investors in the core attempted to bring their money back to safe harbor. Creditors were able to recover earlier once they found new markets for their exports, but debtors found themselves with a banking and sovereign debt crisis that seriously threatened the continuity of the euro.

The response to this situation consisted of wage devaluation and fiscal consolidation in debtor countries, which aggravated their situation. At the same time, the European Central Bank (ECB) sluggishly adopted a relatively active role, which was rather beneficial to banks in the core that were highly exposed to debt in the periphery (Thompson, 2015). Some financial assistance was also provided, first by the so-called Troika –the ECB, the European Commission and the International Monetary Fund (IMF)— and next by the European Stability Mechanism, under certain conditions. With the shift of the burden from the crisis onto debtors, the creditors' interests prevailed, while the debtors' economic situations recovered rather slowly.

Additionally, the crisis made clear that there were serious drawbacks in the institutional architecture of the Euro zone. However, the reforms that followed the turmoil were inspired by the rejection of any possibility of crisis burden-sharing among citizens in creditor and debtor nations. Hence, the Fiscal Compact, the Macroeconomic Imbalance Procedure, the European Stability Mechanism and the Banking Union illustrate the effort made by creditor countries to prevent increasing (public) indebtedness in troubled economies, to firewall the debt aftermath within national borders as much as possible when further problems arise, and to force peripheral countries to shift from a debt-led model towards one that is export-led.

The measures adopted to sort out the crisis were (presumably) grounded in a supply side view of the functioning of an economic system. Reforms largely focused on labor markets and public deficits, with a view to unleashing market forces to work within a more neoliberal framework. Net exports were expected to play a pivotal role. And national interests prevailed over the interest of the European Union. Against this view, progressive economists have recalled that there was a Keynes-inspired policy option which, in order to be implemented, would have required a move towards further political, fiscal and economic integration. These reforms would include a European Treasury, an ECB able to play the role of lender of last resort, a credible banking union with a sound deposit insurance system and an effective resolution mechanism, the possibility of implementing anticyclical fiscal policy, and checking trade imbalances in a symmetrical way, among others (see contributions in Herr *et al.*, 2018). Moreover, these non-mainstream economists have warned that supply side reforms would not deliver the expected outcome. As we all know, Euro zone institutions, notably influenced by core countries, have rejected this alternative and its implications regarding the required changes in the institutional setting of the EU. Hence, the peripheral countries could only choose between fiscal austerity cum wage devaluation and continuing to use the euro, or else leaving the single currency, while core countries should go on relying on exports. Creditors are in complete control, essentially ruling the roost.

In short, the ordo-liberal, neo-mercantilist German model has become the new normal for all nations in the Euro zone whose institutional setting has slowly evolved towards accommodating this objective, not only in the context of fighting the crisis but as a reference for the future. However, although there is a shared view that the worst part of the crisis is behind us, the upswing since 2015 is rather fragile (and there has been no upswing at all in countries like Italy or Greece). Without the required reforms towards a fully-fledged union, all we can do is wait for the next setback.

The current situation seems to be the result of a combination of three factors: convictions, interests,

and values or vision in a Schumpeterian sense (Heilbronner and Milberg, 1995). And these elements are useful for the organization of the contributions gathered in this Special Issue. Firstly, we use the term *convictions* to mean the strong belief in official contexts that the working of an economic system fits the so-called New Consensus Macroeconomic model, which assumes that an economic system gravitates around full employment (compatible with the NAIRU) position, that there is no trade-off between inflation and unemployment in the long run, that the only macroeconomic policy is monetary policy for maintaining control of inflation and that unemployment can only be fought through reforms in the labor market. Philip Arestis critically recognizes this in his contribution, noting that the ECB assumes this model, with the exception of the monetary analysis, in order to implement its policy. Faith in this model is conditioning not only the economic policy but also the reforms in the EMU. Carlos Rodríguez-Fuentes and Diego Padrón Marrero analyze the conduct of the monetary policy by the ECB by considering the two-pillar model, and conclude that the ECB has used it with remarkable flexibility to say the least.

Secondly, governments in creditor countries have imposed their remedies to the Great Financial Crisis of 2008-09 on the Euro zone periphery, in accordance with the interest of their ruling classes, causing not only the second crisis of 2011-13 in periphery countries, but also the direction of the changes being implemented in the institutional architecture of the EU. Jörg Bibow holds that the euro has been created in the image and likeness of the Deutsche Mark, and the economic policy in the Euro zone, especially after 2010, has been decided in accordance with the export-led German model. Unfortunately, as he concludes, what is good for Germany is not good for the whole area.

Ramon Boixadera and Ferrán Portella point to German ordo-liberalism as an inspiring-model for the construction of the Euro zone, thus remaining coherent with Bibow's contribution.

Ricardo Cabral and Francisco Louçã provide a critical account of the crisis and the measures adopted to sort out the mess, where the main objective was to force debtors to settle their debts to banks in core countries. João Carlos Graça and Rita Gomes Correia delve into the evolution of the Portuguese economy after the crisis, concluding that it would have been better for Portugal to leave the euro, questioning why, despite the poor performance of that economy, people still are in favor of the single currency, like the victims of some sort of Stockholm syndrome. Sergio Rossi argues in favor of a monetary reform where troubled nations might return to old currencies, thus recovering monetary sovereignty, while the euro should be used as a means for final debt settlement between national central banks, with the corresponding payment system being managed by the ECB. Esteban Cruz-Hidalgo, Dirk Ehnts and Pavlina Tcherneva suggest creating a Euro Treasury in agreement with the neochartalist main tenets, which could then put into motion a Job Guarantee Program in order to achieve full employment without sparking inflation.

And thirdly, the vision underlying the model that is coherent with the ruling interest of the creditors is dealt with in Massimo Pivetti's article, where he argues that the Monetary Union is a deliberate project to weaken workers' bargaining power, in which dismantling national states without replicating such structures at the supranational level is yet another class conflict episode.

I conclude this introduction with a reminder to the reader that the purpose of this Special Issue is to inspire debate about the role of the euro in the performance of the economies we live in, and not so much to cover all relevant topics. As a disclaimer, if the reader finds many points that have not been dealt with here, it is my sole responsibility.

Finally, just a few words of gratitude towards contributors, to referees, and to the management of the Revista de Economía Crítica, for having generously hosted this proposal.

REFERENCES

Heilbroner, Robert and William Milberg (1995): *The Crisis of Vision in Modern Economic Thought*, Cambridge: Cambridge University Press.

Herr, Hansjörg, Jan Priewe, and Andrew Watt, editors (2019): *Still time to save the euro: A new agenda for growth and jobs with a focus on the euro area's four largest countries*, Berlin: Social Europe Publishing.

Thompson, Helen (2015): "Germany and the Euro-Zone Crisis: The European Reformation of the German Banking Crisis and the Future of the Euro", *New Political Economy*, 20 (6): 851-70.