Breaking up the Euro would empower the nationalists

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There is a strong consensus among Anglo-American economists that the Euro was, and remains, a bad idea. It has proven to be a failure, they say, and should be dismantled. Criticism is pervasive across the spectrum, from Martin Feldstein on the right, Mevyn King in the center and Paul Krugman and Joseph Stiglitz on the left.

It is likely that this perception will only intensivy after **Donald Trump** surprise win last week. Many believe the European integration project is extremely fragile and if **Marine Le Pen** wins the presidential elections in France next year it is all over.

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Yet, these scholars are misreading the public mood across the Continent. Despite recent tensions, the single currency has created deep ties that go beyond economic cooperation and are integral to European identity.

Most euro experts on the Continent will agree that the eurozone needs to develop further its joint fiscal capacity in order to survive the next crisis. European think tanks have produced reports advocating the introduction of Eurobonds, a common budget and a ministry of finance for the eurozone with appropriate democratic oversight. In these issues, consensus is transatlantic.

Where there is profound disagreement is in assessing the feasibility of further integration. Anglo-American scholars and pundits believe that the possibilities of **Germany** accepting a transfer union and **France** relinquishing its fiscal sovereignty are extremely low. Hence, in their view, it is time to accept that the euro experiment has failed and start divorce procedures as soon as possible.

Their European counterparts disagree, and for good reasons.

From outside the eurozone, it is easy to blame high unemployment in Italy, Greece and Spain on the single currency "straightjacket." But people in these countries see it differently. They know that the problems they face have mostly domestic roots. Leaving the euro, they feel, would only make matters worse.

More than two thirds of eurozone citizens –even in crisis countries like Greece and Spain– want to keep the single currency. According to Eurobarometer, in autumn 2005 only 46 percent of Greeks supported the euro. Ten years later, in late 2015 this number climbed to 70 percent, despite the pain and humiliation of two near Grexits in 2012 and 2015.

In "The Euro: How a common currency threatens the future of Europe," Joseph Stiglitz argues that Greece could leave the eurozone with only minor disruptions, by adopting new "e-greekeuros" and implementing capital controls. An electronic currency would make it impossible for Greeks to smuggle their savings overseas or dodge taxes, and this would bring monetary sovereignty back to the Greek state, Stiglitz argues.

What is worrying about this proposal is that Stiglitz has failed to specify whether the decision would follow a democratic process or whether an overhaul of this nature – essentially a *mega corralito*– would be forcefed. Given the widespread distrust of national elites that exists in all Mediterreanen countries, a decision like this enforced from above would most likely trigger social unrest. Current capital controls have worked because Greece has remained inside the Eurozone, if exit were in sight the situation would be very different.

Portugal, Spain, Greece, and Italy have fought hard to be in the rich and democratic eurozone club. They will not give it up so easily. Yes, the euro has structural flaws that need fixing but, even so, the currency has been a pillar of stability throughout the crisis. The same can not be said of national institutions.

We must not forget that before the euro was introduced, most people in these southern European countries would keep at least 30 percent of their assets in hard currency, sometimes overseas. The fear of devaluations and consequent loss of purchasing power was constant.

Few want to go back there. This is why Syriza and Podemos –and even Catalonia's proud separatists– have held back from calling to ditch the euro. While Beppe Grillo has more openly questioned Eurozone membership, few believe he is really serious about it.

It is important to understand the sociology of the eurozone countries before making recommendations. The idea of a euro of the north and one of the south, as suggested by the winners of the Lord Wolfson Prize, is not feasible –because France is in the middle, and it will never enter into a union with its more-productive neighbors to the north, or dare to separate itself from Germany to lead the less-productive southerners.

Neither will Germany leave the euro, as suggested by Stiglitz and King. No German chancellor wants to go down in history as the one who killed the European project. Because, as Merkel made clear during the recent crisis: if the euro fails, Europe fails. This is precisely why Alternative für Deutschland (Afd) has morphed from an anti-euro into an anti-immigration party.

There are very few votes to win by bashing the euro in Germany –and in France, as Marine Le Pen has also realised. She advocates now a concerted dismantling of the euro (an unrealistic endevour), excluding thus any unilateral approach without a referendum on the issue.

Currencies, like languages, create a sense of community. Even traumatic monetary phenomena, like the recent eurozone crisis, create bonds.

> "Take away the euro, and the bonds tying Europeans together will dwindle while nationalism will grow stronger."

A far larger number of people in the eurozone say they feel European than do those in European countries outside the single currency. Contrary to popular opinion, recent research shows that a majority thinks there should be more cross-border solidarity within the eurozone. This holds even true for citizens of a net contributor like Germany.

Stiglitz and like-minded scholars in America argue that the EU would not be worse off for abandoning the euro, citing the example of the United States, Mexico and Canada, who each have their own currency and get along just fine.

But again, they have misread the sociology of Europe. Since the collapse of the Bretton Woods system, there is a strong historical commitment to avoid exchange rate instability and hence deepen monetary cooperation between European countries –this is the bedrock of the European project.

There are no tensions between the United States, Canada and Mexico because the United States is by far the strongest power of the three, and thus trade is mostly done in US dollars.

In Europe, however, the balance of power is more distributed and since nobody wants to use the dollar in intra-European trade, a split up of the eurozone would mean going back to the 1980s "tyranny" of the German mark as the anchor currency. This would in turn revive the ghost of the **'German Problem'**. That, not the euro, would be a threat for Europe.

The euro did not create the national tensions we see in Europe today. They were always there. The single currency simply brought them to the fore because it increased and consequently exposed the interdependencies of the Old Continent.

Take away the euro, and the bonds tying Europeans together will dwindle while nationalism will grow stronger.