Saving the euro or saving Europe

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The biggest decision European governments will have to take does not lie on whether or not to flexibilize the fiscal austerity policy they are embracing to face the euro crisis, but rather on determining whether it is worth it seriously risking the survival of the European Union itself in order to save the common currency. We are aware that the fiscal austerity policy is wrong. A problem which in its origin is not fiscal (the immoderate debt of each State or government) but rather of exchange nature (the immoderate debt of each country or nation- state) is handled as if it were a fiscal problem. It is true that insofar as private debt was nationalized, which always takes place during financial crises, public debt has increased, and the financial market lost confidence in the capacity of States to pay it. But in the countries plunged into crisis, austerity exacerbates instead of mitigating the fiscal situation of governments, since the reduction in its income outstrips the decrease in expense.

The real aim of the austerity policy is to spur recession, to increase unemployment and consequently, to decrease salaries. This way the real imbalance existing in the Eurozone is corrected: the soaring deficits in current account resulting from the implicit exchange rate overvaluation of the countries under speculative attack. But the cost of this policy of depreciating implicit exchange rate through unemployment is unacceptable in democracies. And it is inefficient. To promote the depreciation of overvaluated currencies is more rational.

I know this alternative is unviable for the countries of the Eurozone. Is it really so? If the austerity policy turns out as a critical threat not only to the survival of the euro, but to the European Union itself, why not seriously consider the extinction of the euro?

It is hard to assess the extent to which the crisis of the euro is threatening this remarkable accomplishment of political engineering called the European Union. But it is getting increasingly clear that this threat is a real one. The right-wing nationalist parties in Europe are becoming steadily aggressive towards the euro and the European Union itself. We have recently witnessed this in France, where the candidate of the National Front garnered 20% of the vote, and in the Netherlands where the Prime Minister was compelled to resign due to the pressure of the right-wing party. But there is no point in limiting the problem to the right. There is a burgeoning number of Europeans who challenge a union that – in the way it is being installed, with a common currency – entails more costs than benefits.

After having published in this column an article entitled “Euro, thinking the unthinkable” (27.2.12), I found out there are already many groups in Europe seriously discussing the alternative of agreed extinction of the euro. The great objection put forward concerns the solvency of the banks of countries of the indebted countries that took loans in other countries. As these countries, also in an agreed manner, would devalue their new currency on the day of the monetary reform, their banks would run the risk of bankruptcy. This is a legitimate objection, but the reform would encompass an ample bailout package to the banks. The cost of this bailout, nevertheless, will be much lower than the cost of the austerity today and that might be a crisis of the euro which the governments are not able to control.