Tied to the German euro

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Folha de S. Paulo, November 18, 2013.

The creation of the euro was a mistake for which European countries are paying dearly, the rational solution is the concerted discontinuation

In May of next year there will be elections to the European Parliament, and many analysts are predicting a large advance of extreme-right parties, characterized by xenophobic nationalism, rejection of immigrants, and "Euroscepticism" – an euphemism to designate their rejection of the European Union.

This is understandable. If we compare the support for the European integration measured by the way each people regards its participation in the European Union, the decrease in this support is impressive. Taking 2007 and 2013 as references, the participation of the Netherlands in the European Union was considered a good thing for 75% of the interviewees, and dropped to 28% in 2013; in Spain the corresponding percentages are 75% and 20%; in Germany, 68% and 37%; in France, 52% and 33%; in Italy, 50% and 35%; and in the United Kingdom, 38% and 20% (Eurobarómetro, Gallup - *FT*, Oct. 16, 2013).

The reason for this brutal decline in supporting the European Union is clear: it is the euro crisis; the problems caused by the huge mistake that was the adoption of a common currency; the fact that the countries of the Southern Eurozone and Ireland are either in recession or have seen their growth rates sharply drop; and that the countries of the Northern Eurozone, headed by Germany, have seen their growth rates decline as well.

The reasons for the crisis are not fiscal but exchange rate ones; they do not result from public deficits but rather from current account deficits. It is the fact that the "internal exchange rates" of the Southern countries, including France, have appreciated as compared to the "German euro", because, in 2003, the Germans entered into a social agreement according to which the workers accepted not to have wage increases in exchange for job security, whereas in the Southern countries there was no such an agreement. Consequently, the unit labor cost (average wages divided by productivity) increased in those countries as compared to Germany until 2010, when the crisis erupted.

If the Southern countries had their own currencies, the adjustment would be simple: it would be enough to depreciate their currencies in relation to the German currency. Since they have a common currency, the solution is either a concerted discontinuation or the "internal devaluation", that is, recession, unemployment, and a drop in real wages. It is this policy that is being adopted under the command of Germany, of the European Central Bank and of the IMF.

It is clear that the creation of the euro was a mistake for which European countries are paying dearly. The rational solution is the concerted discontinuation of the euro. Then the European Union will be saved. But for this we need courage in the Southern countries, particularly in their chief country, France, and Germany's willingness to come to an agreement. Neither one seems today available in Europe.

The situation of the Eurozone countries reminds me greatly of the Argentinian situation and its “plan de convertibilidad”. A huge crisis was necessary to untie the peso from the dollar. Now we are seeing the euro of the Southern countries tied to the “German euro” and, apparently, only a huge crisis could lead the Europeans to get rid of this curse that is the common European currency.