Europe Isn't Working
Larry Elliott and Dan Atkinson
London: Yale University Press, 2016, £14.99, h/b

There are many virtues to the books by Elliott and Atkinson (this is their fifth), chief among which is that as journalists they write simply and they write short. The website which Atkinson shares with the historian Alwyn Turner, 'The Lion and the Unicorn', is named after a George Orwell essay; and Orwell was the master of writing simply and short.

This is the story of the European Union's single currency: how it happened, the steps on the way; and studies of how it went wrong. It isn't difficult: if you understood their previous books, Elliott's writing in the *Guardian* or Atkinson's on his site, you will understand this.

Here are two quotations. The first is from Elliott and Atkinson (p. 282) quoting the late Peter Shore, sometime Labour cabinet minister and one of the few Labour MPs to understand political economy.

> 'Peter Shore asked how a country was to regain competitiveness once it had [joined the single currency and] surrendered the option of adjusting its exchange rate, interest rate and monetary policy. The answer, to Shore, was only too clear.
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> The alternatives, he said, were stagnation, rising unemployment and large-scale emigration or, on other other hand, deep cuts in wages and salaries....'

The second is from Boris Johnson, making the same point, in May 2016:

> 'On our doorstep we have a vast and developing tragedy – caused by the folly of trying to impose a single currency on an area with different labour markets and different rates of productivity. Take away their ability to devalue – with their own independent currencies – and many parts of the EU have found it impossible to

compete.'[1]

This book elaborates this central point in great detail and shows that the main reason Europe isn't working is the single currency.

As so often, the problem is partly the rubbish in people's heads. If, like me, you were raised on what is loosely known as Keynesian economics – as the authors were – almost everything that has happened in the so-called free market revolution since the mid 1970s has just been nonsense, with about as much connection to reality as the revolutionary left's ideas. But along with the delusions of the true believers, the ideologists, there has been politics, as usual. Those around Mrs Thatcher and Keith Joseph in the mid 1970s adopted so-called monetarism[2] (a) because it gave them a stick with which to beat the (Keynesian) Heathites who had screwed-up the economy between 1970 and 1974 and (b) it provided the alibi for the recession they believed was necessary to reduce inflation but could not openly advocate. Even though they knew it was nonsense, the UK Treasury eventually adopted monetarism in the late 1970s because they saw it as a useful tool to use against ministers who wanted to spend more than the Treasury thought was sensible.

It's the same combination of fantasies and politics with the path towards the single currency. Another quote from the

1 <http://www.telegraph.co.uk/news/2016/05/29/the-only-continent-with-weaker-economic-growth-than-europe-is-an/>

Professor Scott Newton commented in an e-mail to me:

> '..the euro might have worked if accompanied by a eurobank with a brief to sustain full employment, and able to do this by providing overdraft facilities to deficit countries (ie those whose internal costs made them relatively uncompetitive within the single market). That, after all was Keynes's idea for the postwar global economy: his Clearing Union was designed to permit national economic autonomy within an open market system.'

2 I was an undergraduate in the early 1970s and a subsidiary course in economics was part of my degree. Monetarism was then known as the quantity theory of money and so little was thought of it that my economics tutor gave it to us non-specialists in our second year to kick around. Four years or so later this nonsense was adopted by the Conservative Party. It is unclear to me if they believed it or not. My guess would be that Mrs Thatcher and Geoffrey Howe – both tax lawyers at the time and none too bright – may have done so.

book, this time from Anne Pettifor:

> 'The plain truth is that the euro is a product of utopian neo-liberal economists and their ambitions for a monetary system governed only by market forces. According to the ideology, market forces must be beyond the reach of any European state.' (p. 83)

This is true but there is politics here, too; the EU is as much a political as an economic project. One of the ideas behind the (then) EEC was the belief that the (West) German 'problem' could be only be solved by enmeshing it deeply with its neighbours. Thus the EEC-EU project. But thanks to the particular nature of (West) German society and its economy,[3] (West) Germany became the dominant economic force in Europe and was able to extract a price for its increasing enmeshment: it's version of economic policy would be the policy of the EEC and then the EU. Everybody had to behave like the Germans and adopt their absolute aversion to anything which smells like inflation. Whereas for 'normal' economies a little inflation can be either a useful thing or, at worst, a reasonable trade-off for the attainment of other objectives – reducing unemployment, for example – for the Germans, having experienced hyper-inflation in the 1920s, it was a complete no-no. As the EU moved towards a single currency (the now united) Germany said that to give up the *deutschmark* the *euro* had to become another *deutschmark.*

Thus were born the Maastricht convergence criteria: states wishing to join the euro had to meet targets for inflation, long-term interest rates and government debt as a proportion of GDP which were similar to Germany's. But the euro was also a political project and a blind eye was turned as countries – Greece, Italy and France that we know of – faked their stats to meet the criteria.

3 Too complex to discuss here but: no overseas empire and low military spending; industrial relations that had resolved the labour v management issues (thanks in part to the British TUC which helped design the system); no significant financial sector and an elite committed to the domestic economy; 'patriotic' consumers and a prevailing 'never again' attitude among its citizens after two wars and hyper-inflation in the preceding 40 years are in the mix.

And so the euro was launched and produced the familiar problem which was seen with the gold standard (and explains why that was abandoned). Elliott and Atkinson again:

> 'If one of the variables in the economic mechanism – the value of money – is not allowed to move, everything else, such as employment, living standards and export sales, must move more violently. Hard money ensures that the burden of "adjustment" to each economic shock falls on those in work and those otherwise dependent on the income from work, rather than sharing the pain across society with some rise in inflation and a depreciation of the currency, thus allowing the internal and external value of the currency to absorb some of the sting'. (p. 85)

Thus the situation post 2008 in which the smaller, weaker EU economies – Greece, Spain, Portugal and Ireland – unable to reduce the value of their currency, were forced into what is euphemistically called 'internal devaluation': higher unemployment and cuts in living standards and state services. Depending on your point of view, this is either returning to the mistakes of the pre-Keynesian era, or returning to the true international capitalist system. For it would only take a minute or two of looking at the statistics of 19th and early 20th century economic history to see that the boom/slump cycle, climaxing in the really big slump of the great depression of the 1930s, is how the 'free market' system actually works left to its own devices.

The belief of the free market ideologists was that the abolition of exchange controls within the EU would lead – spontaneously, naturally – to the efficient allocation of capital. Instead we got property booms and the busts in Spain and Ireland, 'misallocation of capital on an epic scale'. (p. 105)

Elliott and Atkinson:

> 'The euro planners' fundamental mistake was to assume that the creation of a "United States of Europe" would be facilitated by a currency akin to the dollar and a central bank akin to the Federal Reserve Board. This,

> though, misunderstood the lessons of the US, namely that the dollar and the Fed emerged only after more than a century of economics and political development, and that the US had the preconditions in place to make a single currency work: a large federal budget, a flexible labour market and – most importantly – a single language..... The attempt to reverse-engineer a political federation was woefully misconceived.' (p. 58)

It was the late Gore Vidal who described ' I told you so' as the 'The four most beautiful words in our common language'. In this splendid book, the authors, who knew the euro would fail, give us a resounding chorus of 'We told you so'.

Robin Ramsay