

The Euro - The Most Socially Destructive Political Act Since WWII

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As we welcome the New Year, there are, as always, good reasons for both optimists and pessimists to make hay. While the optimists may rejoice in the continued recovery of the US and UK economies as potential drivers of growth in 2015, the pessimists will focus on the ongoing and seemingly intractable stagnation in the Eurozone and the looming of another potential Euro crisis as Greece heads towards another election with uncertain results.

There now seems little doubt that the introduction of the Euro in its current, half-baked form has been the most socially destructive European policy decision since World War II. The introduction of the Euro has led to the following chain of events: an initial period of inflation as traders took advantage of prices being changed to the new currency; a fake "wealth bubble" during a period of seeming prosperity driven by loose (some would argue irresponsible) credit in countries for which the adoption of the Euro provided artificially low interest rates; the inevitable crash which has caused untold social destruction in many countries; a German-driven obsession with austerity which has gone way beyond its usefulness and has left Greece and others buried under a mountain of unpayable debt, and the Eurozone languishing in stagnation and probable deflation. It is no wonder that Matteo Salvini, Italy's second most popular politician, calls the Euro a "criminal currency."

The economic dangers associated with the introduction of the Euro were predictable - and indeed predicted by many. Yet political leaders at the time chose to make a grand and hubristic political statement irrespective of the devastation it could bring to their citizens. The Euro is, maybe, the best example of the consequences of a political and policy elite living in their own world and totally divorced from the consequences of their actions on ordinary people.

The logical response is the "orderly" dismantling, or at least shrinkage, of the Euro. Professor Peter Morici of Maryland University recently bluntly stated: "Now it's time to junk the Euro." Yet European leaders have decided that their efforts should be directed at saving the Euro - whatever it takes - to use Mr Draghi's most famous utterance. Even, it seems, if what it takes is social devastation across the Eurozone and the ruin of millions of people's lives. Now that the original stated aim of monetary union - to increase the prosperity and wellbeing of European citizens - is clearly failing, the preservation of the Euro has become an end in itself for the political elite. For countries like Germany, this has, so far, made sense. The cost of bailing out others has been far lower than the gains from an artificially low exchange rate that feeds its beggar-thy-neighbour mercantilist economy. But that may change as the costs of protecting the Euro continue to rise and as the German people draw the line at being asked to borrow to finance the whole of the Eurozone.

That said, junking the Euro carries unknown and unknowable risks. Nobody knows what a supposedly "orderly" dismantling of the Euro would entail and the consequences that would arise. Neither do we currently have the strength of leadership in Europe that could even start to grapple with such a question or intermediate alternatives like the use of parallel currencies. For the ideologically blinded, the answer to a failing Europe is always more Europe. Just like, in the dying days of the Soviet Union, the problem was, according to the political elite, not a failure of communism but not being communist enough.

Yet, what does not seem to have been predicted were the political consequences of the Euro and the resulting devastation. Nationalist and anti-Euro parties are on the rise everywhere and, over the next few years, will, inevitably, either gain power or, at least, the balance of power in many countries. The Greek election later this month may be the first real test. A potential Syriza victory strikes terror in the hearts of the European political establishment. They may be forced to abandon their Alice in Wonderland existence where austerity is the answer, where structural reform can actually be delivered and will, magically, have an immediate rejuvenating effect, and where countries like Greece will eventually be able to re-pay the bailout money put up by taxpayers across the Eurozone. The harder European politicians are determined to cling on to these fictions, the greater the negotiating power they give to an eventual Syriza led government and others like it that will emerge across the continent.

As we enter 2015, Europe finds itself between the devil and the deep blue sea. On one side is the Euro - the devil that we are wedded to, that will continue to keep the Eurozone economy in stagnation, and that will continue to limit the flexibility that individual countries need if they are to re-build their economies. Where the only available "solutions" are ones that we know will be ineffective - like the much talked about but ever-delayed quantitative easing programme from the European Central Bank, continued austerity, and persistent bleating about structural reforms that cannot be delivered. On the other side lies the unknown - meaningful reform of the Euro and the European Union as a whole - a project that requires the sort of political leadership that is currently unavailable anywhere in Europe and that involves exploring a future that is risky and unknowable.

As always, the direction will eventually be determined at the ballot box. The Greek election this month is the first of a series of 2015 elections across Europe where voters will be asked to choose between the steady-as-she-goes policies of the incumbent parties that have, themselves, brought us to this current situation, and newly emergent parties whose policies seem outlandish but who represent the voters' collapsing faith in the status quo. It is hard for anyone to predict what the New Year will eventually bring.

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