A convincing diagnosis of the eurozone’s flaws presents prescriptions that are useful if at times fanciful


After containing a populist backlash in May’s European Parliament elections, and with the fractious designation of Jean-Claude Juncker as Commission president all but complete, there are hopes that the EU can finally turn the page on some of its most difficult years. Yet, while sovereign bond yields in countries such as Ireland and Spain have come down sharply from the heights reached during the eurozone crisis, there is little sign of a sustained recovery. Many remain unconvinced that the EU, and the currency union in particular, have done enough to fix the institutional flaws exposed by the crisis. The new Commission president faces the task of trying to restructure a still imperfect union in spite of the reform fatigue that has permeated Brussels and national capitals.

Mr Juncker, as he embarks on his journey, may want to pick up a copy of Unhappy Union, a dispassionate diagnosis of the bloc’s faults written by John Peet and Anton La Guardia, journalists from The Economist. The book offers a convincing summary of the eurozone crisis, as well as a useful list of prescriptions to ensure the EU and the currency union at its heart regain the mojo and the stature they have lost since the start of the decade.

As La Guardia and Peet argue, the eurozone’s politicians made a serious conceptual mistake in confronting the turmoil that entangled Greece and the rest of the bloc’s periphery. Policy makers assumed the crisis was the consequence of the lack of enforcement of fiscal rules but “it was property bubbles, imbalances and the unstable structure of the eurozone”.

The error had its roots in the Maastricht treaty, which focused on deficit and debt targets but failed to ensure labour and product markets were flexible enough to withstand shocks.

Was the euro introduced prematurely? La Guardia and Peet think so. “Monetary union should have been the culmination of political union, not the means to achieve it,” they write. But while it is tempting to blame the single currency, Europe’s woes were mainly the result of the authorities’ incompetent crisis response.

Furthermore, as the book correctly contends, ditching the euro would not wash away the bloc’s original sin. A break-up would set off a wave of defaults. Companies in weaker countries would struggle to repay euro-denominated debts using steeply devalued national currencies. Governments would then rush to implement protectionist steps to support local businesses, bringing the single market to an end. Without the freedom to ship goods across member states, the EU would become a frail and futile entity.

So the single currency should be preserved but the eurozone requires reforms deeper than those implemented during the crisis. As the authors suggest, the calm that has prevailed in the bloc’s markets for the past year is largely the result of the European Central Bank’s promise to buy unlimited quantities of sovereign bonds, but the Outright Monetary Transmissions programme is untested. Any rescue involving the OMT would also require the approval of German lawmakers who have been critical of bond purchases by the central bank. Nor is the banking union, which officials agreed to set up, worthy of its name. It lacks a taxpayer-funded backstop, which is essential during a crisis.

Unhappy Union calls for the eurozone to copy Alexander Hamilton, the 18th-century Treasury secretary who laid the foundations for the US fiscal infrastructure. The authors would like a bigger federal budget that could pay for a common unemployment benefit scheme. This would help individual member states as they experience phases of economic distress. The book also includes a plea for euro bonds. These are all sensible proposals, even though the political constraints are unlikely to disappear soon.
Politically, the authors say, the road ahead includes a stronger role for national governments at the expense of both the European Parliament and the commission. Here they are less persuasive. They contend that parliament lacks legitimacy because of the low turnout in its elections. The presence of a rising number of populists and eurosceptics is likely to diminish its status in the eyes of the public. Yet the variety of views among lawmakers shows the body is representative.

National elections in several countries, including the US, are marred by low turnouts. This makes them no less valid than elsewhere.

Still, the writers are right in arguing that no federalist leap forward will take place without government leadership. Germany, as the bloc’s creditor-in-chief, holds a special role. Angela Merkel’s “step-by-step” strategy may have succeeded in securing her three terms as chancellor. But a truly successful eurozone requires a different kind of vision and courage from the one Berlin has shown so far.

*The writer is the FT’s global economy news editor*

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**John C C Stevens**

A good review.

**Waterthegarden**

It is hard to know what the 'Euro' has done wrong, since its creation. Against the US Dollar it has proved a particularly strong currency; and against Sterling relatively so!

The Economic Crisis that has caused unemployment throughout Europe, includes those countries not in the Euro: it also includes the USA, Japan, etc; and clearly has reasons that go far beyond the mere issue of a Currency Union.

**rrp1973**

The faults of the euro since its creation? Helping to push euro zone unemployment to double digits and inflicting a contraction comparable to the Great Depression on a number of the peripheral states are two items that would probably be on the charge sheet. If you really think that sustained strength against the dollar or sterling has been worth this then I suspect you'd be in a minority.

**maljoffre**

@ Waterthegarden:

What the euro has done "wrong" is to have been successful in the first place and, unforgivably, not only to have survived its first serious crisis but to have grown stronger and the eurozone to have become more cohesive as a result of it. Much worse, that the euro has turned to confront the all-holy dollar is a sin for which there is no penance.
How refreshing to read an anti-euro, anti-Europe article in the British media for a change.

I would also look forward to the review of a book supporting the Euro - but there aren't any.

In fact I don't recall reading any serious economist or commentator who would launch the Euro in the same way if history could be re-run. The problem lies not in explaining how wonderful it is but in setting out a roadmap of how to get out of it - something else I would look forward to reading.

You don't have to look any farther than the currency exchange charts of any newspaper, including this one, that show the euro as one of the strongest, most stable and most desirable in the world even after an "existential" crisis that has resulted in a confirmation of its importance, value and cohesion.

Greece unemployment rate 27.5%; Spain unemployment rate 25.9%; Portugal unemployment rate 15.1%; Italy unemployment rate 12.7%.

And yet you tell yourself 'you don't have to look any farther than the currency exchange charts. . . .'

The euro is not responsible for the tragic unemployment rates nor for the corruption and mismanagement that led to the economic collapse in those countries and the Spanish and Greek citizens who live their lives in and around the euro, who reject a return to national currencies, and who continue to support the common currency in polls at the 70% level know this very well.

Spain and Ireland are not corrupt and they both followed all the economic rules put forward by the EC and they still got into trouble.

The euro is a straight jacket and that's according to my European friends. Also, Europe did turn a blind eye to corruption. And for what?

You are one of the very few who is not at all aware of the Irish banking scandal where banks went on a stealing-spree and drove the "Celtic Tiger" into bankruptcy.
You might also want to learn something about the massive corruption in the Spanish housing bubble and roulette mortgages that shady politicians at all levels caused the national economy to fall to its knees, requiring bailouts in the case of both countries.