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Bring back the D-Mark

A detailed account of how the EU got things so badly wrong and how to fix it

EUROPE

Dominic Lawson

EuroTragedy A Drama in Nine Acts *by Ashoka Mody* OUP £22.99 pp672

Ashoka Mody is far from the first economist to have written a book on the self-inflicted wound at the heart of the European Union known as the euro. But Mody's tome (and it is a real door-stopper) comes from a uniquely valuable perspective. He was deputy director in the International Monetary Fund's Research and European Departments, and the IMF's chief representative to Ireland during its bail-out from the banking crisis that threatened to tear the eurozone asunder.

Disappointingly, Mody gives away no secrets about what went on behind the scenes during these seismic events: not what one would have hoped for from someone actually involved in the fraught negotiations. But EuroTragedy is immensely valuable nonetheless: it is the most detailed account yet of how the EU got things so badly wrong, and why.

Like almost every reputable economist, Mody points out that it was inevitable that a single currency across multiple divergent economies would have the effect of widening those disparities by removing the adjustment mechanism provided by currency depreciation. Not only have the economies and peoples of the southern European eurozone countries suffered dreadfully, such an outcome was forecast as long ago as the 1960s when the Werner Plan set what was then the European Community on this path. Mody gives historic chapter and verse, citing the monetarist Milton Friedman and the Keynesian Nicholas Kaldor, both of whom presciently warned of what would happen.

But as Mody also points out, the European project, from its inception under Jean Monnet, was based on two principles. First, that those behind it had a teleological vision of full political union, a federal end-state, against which the arguments of mere economists (let alone of the unfortunately nationalistic public) were irrelevant. And second, that any resulting crisis on the way would send the member states in the right direction. Mody terms this the "falling forward" philosophy, which encapsulates it neatly.

Again, in common with other economists (and, indeed, President Macron of France), Mody argues that, as with the US and the dollar, monetary union requires considerable fiscal transfers from the richer to the poorer regions. But German voters (and Dutch ones) are not prepared to fund that: indeed, Germany only agreed to the French demand that the Deutsche mark be subsumed in a common currency if the treaty setting it up guaranteed there would be no fiscal or debt union.

The result has been to poison relations between the poorer and richer EU states, in a way that risks restoring old enmities rather than the intention to make them even more a thing of the past. The Nazi invasion of Greece has never been forgotten, of course, but the crudely condescending attitude towards the Greeks in the German tabloid press, and the proliferation of cartoons in Athens portraying Angela Merkel with swastika armbands, would have been unimaginable in the days of the Deutsche mark and the drachma. And Mody reminds us of how the then Dutch finance minister, Jeroen Dijsselbloem, sneered to the southern Europeans in 2017: "You cannot spend all the money on women and drinks and then ask for help." At this point, the visionary rhetoric of European unity is replaced by old-fashioned power-politics and the crudest expression of national interests.

What of Ireland, which itself was bailed out by the

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so-called troika of the European Central Bank, the European Commission and the IMF? They (and Germany in particular) regard Ireland as the best example of how their system worked to pull a troubled EU nation out of a banking crisis. They do not like to dwell on the fact that it was the inability of the Irish to set their own monetary policy that greatly exacerbated a property boom that ended in the mother of all busts.

Merkel described Ireland as "a superb example" of a Eurozone nation that successfully followed the troika's harsh recipe of "structural economic reforms" (unlike Greece). But, from the point of view of an actual participant, Mody begs to differ: "Ireland recovered not because of but despite eurozone-imposed strictures." Ireland implemented virtually no "structural reforms... Ireland's special advantage arose from its nearly three-decades-old corporate tax regime, which combined a low corporate tax rate with assorted side deals to attract foreign investors...The American multinationals provided Ireland with a vent for export growth. That export vent...allowed Ireland to escape the eurozone trap." As Mody also points out, Brussels is determined to end Ireland's tax incentives for foreign capital investment, to Dublin's fury.

And what next? This is where Mody's book is rather less helpful. Or at least his remedies are either fanciful or unrealistic. He ends by calling on the EU to transform itself into something quite different: "a new European Republic of Letters, competing in the marketplace of ideas". Lovely, but how? And he argues that the only way the euro could hope to work for its members is if the German hegemon left it, and went back to the Deutsche mark. This is exactly the remedy advocated by the Nobel prize-winning economist Joseph Stiglitz in The Euro and its Threat to the Future of Europe, which I reviewed here two years ago.

But, as I also pointed out then, there is zero chance of Germany agreeing to that – and absolutely no mechanism for forcing them out. So now we wait for the next crisis, the 10th act in the EuroTragedy.

“The euro was always going to widen any disparities

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Greece in crisis Burning the EU flag, Athens, 2010