

**Non-Fiction****EuroTragedy: A Drama in Nine Acts, by Ashoka Mody**

The author highlights the unwillingness of European governments to clean up and restructure their banking systems © Getty  
Review by Martin Sandbu 10 HOURS AGO

Writing about the euro runs up against a difficulty: doing justice to the technicalities threatens to kill any narrative, while simplified storytelling risks misguided analysis. Ashoka Mody's analytical chronicle of the single currency's history and prospects is an ambitious attempt to avoid this trap.

The sweeping chronology of the euro is well told. With evident passion — more of the exasperated than of the forgiving kind — the former IMF official goes back to the start of the European project, covering early stillborn attempts at monetary unification and the push that finally stuck.

The analysis is, on the face of it, conventional. Mody repeats standard criticisms of the euro: that it removes the exchange rate as a “shock absorber”, and that a single monetary policy cannot fit different national economies. He berates leaders for talking the talk without walking the walk on various “unions” — in particular not putting their taxpayers' money together to help economies or banks going through a bad patch.

This much is unoriginal and neglects recent developments in economics — such as the diminishing usefulness of exchange rate flexibility in a world of cross-border supply chains, or evidence that monetary independence is elusive even for countries with a floating currency. Mody asserts that in the US a large federal budget provides the “risk-sharing” a monetary union allegedly needs, but fails to say that empirical research finds very little stabilisation of local economic fluctuations through this means.

Nevertheless, he has such a good eye for what is economically important that his observations trump much of the conventional analysis he echoes. He shows that the roots of European economic underperformance and political disquiet have little to do with the fact of monetary union itself — noting, for example, that neglect of training and education causes slow long-term productivity growth and political disillusionment among the young. He highlights governance failures such as corruption and the extreme unwillingness of European governments to clean up and restructure their banking systems.

Thus Italy in particular is blamed for repeating Japan's mistake of being too lenient with banks. Mody is correct in this criticism. But in the Japanese case, he would surely not say this was a problem with the yen. This conflation of problems in the eurozone with problems of the euro is all too common. When the US posts negative productivity growth in a number of states — and for the country as a whole in 2016 — is that a “tragedy of the dollar”? Is the dollar to blame for political resentment in the US?

Mody is on surer ground when he slams policymakers for inappropriate macroeconomic policy choices: excessive fiscal tightening and insufficiently loose monetary policy. And he nails the biggest policy error of them all: the insistence that euro member states could not default on their own debt, or allow their banks to default on senior bondholders.

The most original parts of his book are the reasoned explanations of why debt restructuring of both sovereigns and banks should have been embraced early in the crisis and should be made a regular tool in future crises. Another highlight is his debunking of the “Deauville myth”. It is taken virtually as gospel that Angela Merkel and Nicolas Sarkozy caused financial market contagion in 2010 by announcing in the French seaside town that sovereign debt should be subject to restructuring. Mody shows that this is a factual error. If only this lesson is taken away, the book will have rendered a public service.

It is hard to understand how Mody combines his clear-eyed advocacy of predictable debt restructuring (which Germany pushes for) with a complaint about insufficient bailout funds for countries or banks (and the associated Germany-bashing).

Even wrong policy choices are just that: choices, which could have been made differently. The hallmark of tragedy is that protagonists are compelled to self-destructive action. The euro's leaders have no such lofty excuse. Nothing in the euro compelled them to keep monetary policy tight, prematurely end fiscal stimulus, or fail to write down debts. A disaster, perhaps, but no tragedy.

*The reviewer is an FT economics commentator and author of Europe's Orphan*

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