

1/ In your book "Euro Tragedy ", you wrote that the single currency was a French idea to take control of Germany. Could you develop this reflexion for us ?

One of the first tasks that French president George Pompidou undertook was a humiliating devaluation of the franc in August 1969. France had needed repeated devaluations in the postwar years to compensate for high domestic inflation rates that caused French producers to lose competitiveness. In the hope of eliminating the need for future devaluations, Pompidou called for a summit in The Hague to begin work on a European monetary union. «Monetary union, » Pompidou said, was « France's priority. » A monetary union would fix the exchange rates into a single currency. Magically, there would be no further need for franc devaluation.

But German chancellor Willy Brandt pushed back. As he said to economy minister, Karl Schiller, « We should be careful to stamp our hallmark on future work to implement the [proposed monetary union]. This offers the best guarantee that, throughout the Community, our monetary views prevail in the widest possible fashion.»

Frustrated by German reluctance, in January 1974, Pompidou said to his finance Minister Valéry Giscard d'Estaing, « I [have] noticed that [the Germans] do not have much understanding of our situation. As soon as one comes to them with monetary questions, they react completely egoistically. They like to exploit their superiority. »

Once Giscard d'Estaing became president, he was forced to continue devaluation of the franc. Such devaluations were always a source of national angst. Giscard d'Estaing renewed the push for a single currency. He persuaded chancellor Helmut Schmidt to agree to a fixed exchange rate system, named the Exchange Rate Mechanism. But Schmidt, having given word to Giscard d'Estaing that Germany would help countries whose currencies were under pressure, secretly reneged on that promise, authorizing the Bundesbank to hold back assistance if its management decided that providing help was not in the German interest.

French devaluations continued after François Mitterrand became president. Mitterrand now aggressively sought to move beyond fixed exchange rates to a single currency. Chancellor Helmut Kohl, following his predecessors, understood that a single currency was a bad idea for diverging economies. Kohl resisted Mitterrand's clamour for a single currency. A European currency, Kohl explained, was like a « grand speech made on a Sunday, » and the « rest of the week we deal with reality, which is a bit awkward. »

Kohl eventually did agree to the single currency, which he then championed, until it became a reality as the euro in January 1999. Thus, Kohl gave the French the euro they desperately wanted, but on German terms. He insisted on strict fiscal discipline and a hyper-independent European Central Bank. France no longer needed to feel its repeated humiliation at more franc devaluation.

But French leaders had mistaken the currency as their problem rather than recognize and address the country's real problem : rapidly slowing economic growth and disappointed aspirations that fed increasing social anxieties. The single currency, and its associated fiscal and monetary austerity regime, did dampen inflationary tendencies. But there was no free lunch. Unemployment replaced inflation as France's problem. And in recent years, the French economy has developed deflationary tendencies, which causes consumers and investors to delay purchases, which slows down growth and pushes up debt burdens.

2/ Recently, a German study from the CEP (European Policy Centre) revealed that the two countries which benefited the most from the Euro were Germany and the Netherlands, and the two countries which suffered the most from it were Italy and France. Do you agree with that?

I suppose the euro is a more depreciated currency than the deutsche mark might have been ; to that extent, Germany has benefited. But Germany exports on quality, which allows it to gain export momentum whenever world trade is strong. Hence, a depreciated exchange rate, while helpful, is not as important for Germany as it is for France and Italy, both of which have weaker competitive ability.

Hence, the extent of German benefit is, I believe, modest ; but France and Italy have clearly been hurt. Both France and Italy were experiencing long-term economic decline at a relatively rapid pace (Italy only more so than in France). That pace of decline speeded up after the Global Financial Crisis started. French per capita income has been essentially flat since then ; and Italy's has fallen. For France and Italy, depreciated currencies would have helped cushion the shock of the crisis. The costs of a single monetary policy for divergent countries was well-understood before the euro's introduction. France and Italy were keen on the euro ; they are now living with the consequences.

3/ The German economy is currently slowing down, even though the country benefited from the Euro. For what reasons ?

Germany has been a leader in engineering and pharmaceuticals manufacturing technology. It is these skills, way more than the euro, that have made Germany so successful, for so long. That era may be ending. I believe that Germany's recent economic slowdown is not merely because of the slowdown in global trade growth, which traditionally has been the main source of German economic declaration.

The German car industry's heavy reliance on diesel technology makes it vulnerable. After the revelation that carmakers were cheating on emissions' standards, Hamburg introduced a partial ban on diesel cars ; consumers are shying away from such cars. The advent of the electric car will steadily make the old combustion-engine car obsolete. Layers of networks of parts' suppliers, will need to adapt or face their own obsolescence. Whatever form the global car industry takes in the future, German producers will no longer occupy the prized position they have so long had. The pharmaceutical sector faces similar global challenges as it competes with large multinationals and new nimble bio-tech based producers.

Germany needs to make a transition from high-quality engineering to science-technology driven industries. But German universities have lagged world leaders in science and technology education. No German university features in the world's top 15 science-technology universities. On that list, American and East Asian universities about equally share the prized spots.

German banks suffer from chronic low profitability. Many publicly owned banks remain under stress even years after the financial crisis. Among the larger banks, Commerzbank and Deutsche Bank are struggling, charitably stated. Deutsche Bank has already paid large fines in an implicit admission of guilt on charges of money laundering. Its long association with U.S. president Donald Trump's troubled businesses shines a further light on its poor governance practices.

Put simply, the German economy is undergoing its first major structural change in postwar years at a time when domestic politics is turning increasingly fragmented and contentious. Very likely, Germany's economic growth will significantly slow down in the coming several years.

4/ Many observers are predicting the advent of a global financial crisis in the upcoming years. If this happened, could the ECB save the Euro as it did in 2012, by implementing an heterodox monetary policy ?

The eurozone may be on the threshold of a recession. The tendency to relapse into recessions whenever world trade growth slows down in large part because domestic growth potential is low and falling. I believe the ECB will stand by helplessly during the current episode and future periods of economic weakness and stress.

The reason is simple. Hobbled by ideology and conflicting national interests, the ECB has always denied the need for economic stimulus and, when forced to act, has responded late and in half-measures. The eurozone, therefore, has had the worst of all worlds. ECB policy has contributed little to improvement of economic prospects. These ineffective past measures have brought the ECB to the end of its political and technical limits. Thus, drained of firepower, the ECB will have a tendency to brandish toy guns, like enhanced liquidity measures (which can help little but can make things worse).

5/ Should France get out of the euro? How can this be done ?

France should never have pushed for the euro. But now it cannot get out of the eurozone without huge costs to its own people and to the rest of the European economy. A Frexit will almost certainly cause a sharp depreciation of the French franc against the euro. Debts due in euros will become unpayable by financially weak households and companies. Debt defaults will cascade through banks and their creditors. A financial crisis could snowball.