The Euro: A Huge, Dangerous Gamble for Europe

By Josef Joffe

MUNICH — This weekend in Brussels, Europe will ratify its greatest gamble ever: a common money without a common government.

Come next Jan. 1, the currencies of 11 European Union member states will be irrevocably chained to each other; come Jan. 1, 2002, marks, guilders and francs will be history. There will be only euros and cents.

The gamble consists of three parts. One, most Europeans do not like the euro; for years, opinion polls have delivered solid majorities against this "Esperanto money" — or for its postponement. If there were a referendum, the euro would not make it.

Two, history confirms the doubt. Who remembers the Latin monetary union? Or the Scandinavian one? Or the East African shilling shared by Kenya, Tanzania and Uganda? They did not last long because their members did what nations always do: They went their own way in matters monetary and fiscal, breaking the bonds that held their currencies together.

Three, the task is gargantuan. For European monetary union to work, Europe will soon have to become like the United States in at least one of two ways. Either the EU becomes *e pluribus unum* — a common state with a common identity and sense of obligation — or it turns "Reaganite," that is, into a common market that sheds its rigidities, regulations and redistributive habits. Or, even better, it does both.

The 11 euro club members will have to give up their sovereignty where it matters most. They cannot cheapen money to stimulate investment, they cannot go into deficit spending to spur consumption, they cannot devalue to increase exports. They will have to stay in a straitjacket.

But economics is about relentless change. How will governments deal with "asymmetric shocks" that affect the 11 countries in different ways? With monetary policy "outsourced" and fiscal policy heavily constrained, there are only three ways left, and each requires responses that Europe is badly equipped to execute.

Take a simple example: mounting unemployment in northern France. If Europe were like the United States, wages would drop, attracting investments and new jobs. But wages in Europe do not fall, least of all in France; they are only upwardly flexible. Nor do wages differ much between regions, which are in the grip of nationwide bargaining agreements.

Second, if jobs do not come to the workers, workers go to the jobs — as Americans do. But Europeans do not move, not inside their own countries and certainly not from France to Denmark. Traditionally, lavish subsidies for declining industries have allowed people to stay in place.

The third solution is transfer payments on a Europeanwide scale — analogous to what happens in the United States. When the Midwest is in trouble, stabilizers kick in automatically. Washington takes in less in taxes and injects more money from various support funds.

But that demands more than just monetary union. It requires political union — a central government, a sense of national identity and obligation that Belgians, say, do not feel for Portuguese.

Moreover, the EU's taxing powers are limited to 1.7 percent of gross domestic product, a pittance compared with what governments can do in the way of redistribution.

So the euro is more than a gamble.

Living within the straitjacket of economic sovereignty foregone, Europe must part with its cherished statist and corporatist traditions; it must unleash the market and allow wage flexibility and geographic mobility to carry the brunt of adjustment.

Or Europe must understand that it cannot put the cart before the horse — that it cannot have a common currency without a common government, a United States of Europe. Again, the United States offers an instructive example. First, it had a constitution; then, in 1913 and with the Civil War in between, it established true monetary union in the guise of the Federal Reserve. That process took 126 years.

Yet Europe thinks it can do that by 2002. It is a huge gamble.

If it fails it may contaminate much of what Europe has achieved in the last 50 years.

The writer, editorial page editor of the Süddeutsche Zeitung, contributed this comment to The New York Times.