

We should join euro – but won't

IF THE financial crisis through which we are living was indeed born and bred in America — a result of that nation living beyond its means for a generation and using its economic power to suck in the disproportionate share of the world's savings it needed to balance its books — one might expect our politicians to be looking to prevent this country from being similarly traumatised again.

They have had ample time to think about it. The history of Europe since the 1960s has been one of its learning to live with the swings in the American economy and seeking ways to minimise the pain these caused. It goes back to General de Gaulle who, as leader of France in the 1960s, became so alarmed by American profligacy he insisted on exchanging France's dollars for gold — thereby adding to the pressure that in 1972 brought about the revaluation of the dollar against gold and, when that proved not to be enough, the collapse of the postwar Bretton Woods system of fixed exchange rates.

Thus it is that the dominant themes in European politics and economics for the past 30 years have been working out how to live with periodic bouts of American fiscal irresponsibility and economic



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selfishness on the one hand, and finding on the other hand ways to curb Germany's overwhelming economic influence. The fascination of a recently published book by David Marsh on the euro* is not just that it chronicles in meticulous detail how the European single currency came into being but rather how it was from the outset almost 40 years ago conceived by intelligent national leaders as a way of coping with these two separate but potentially destructive forces.

A single currency was seen as a way to consolidate Europe's economic power so it could better resist the fluctuations of the dollar and not fall victim to the mood swings in the White House or Congress,

which throughout the 1970s and 1980s precipitated one foreign exchange crisis after another. Later, and particularly with the reunification of Germany in 1990, a single European currency was also seen as a means to spread wider and dilute the influence of Germany.

The great irony is that while in the UK the euro is widely seen as undermining national sovereignty, the French in particular saw it as quite the opposite. France's President Mitterrand and others believed it was the one way to preserve national independence in the face of what would otherwise have been overwhelming German economic might.

What Marsh discovered poring through the political archives was that while Mrs Thatcher's response to the proposed unification of East and West Germany was to try to encourage the Soviet Union's Mikhail Gorbachev not to allow it, Mitterrand understood it was inevitable, and sought a way to make the post-cold war world a safer, more stable place.

The transfer of a degree of national sovereignty to what became the European Central Bank in the setting of interest rates was the sacrifice countries made to enable their governments to retain much more freedom of action elsewhere. Otherwise, it was understood

that they would spend their time reacting to events from outside, and have very little freedom in reality to do what they wanted to do in terms of national self-interest.

When one looks at how our economic policies today are shaped by what has happened in America, and trying to mitigate those impacts rather than addressing the specific needs of the British economy, who is to say that analysis was wrong? Certainly the arguments are much more finely balanced than the opponents of the euro would concede.

In world terms, too, there is no doubt the ECB has had a good crisis. It was much quicker off the mark than the Bank of England in understanding what had been unleashed on the banking world, and in reacting appropriately to it. It is unquestionably the second most important central bank in the world after the US Federal Reserve.

Given the scale of the storm raging in world markets, it has been remarkably successful in protecting Europe from the worst excesses of the enforced devaluations and interest rate rises that were a feature of all previous crises. The contrasting fortunes of Iceland and Ireland make that obvious. There is no doubt

that — notwithstanding the difficult adjustments faced by countries such as Spain, Ireland and Italy — the euro has made mainland Europe better able to cope with the instability of the modern economic world.

There is a powerful case for the UK to think seriously again about joining it — a case highlighted by Jim O'Neill at Goldman Sachs among others — not right now in the midst of turmoil but within the next few years while the economic cycles of Britain and the continental countries are aligned and the exchange rate is realistic.

But it is equally obvious it won't happen. Our current Prime Minister does not possess the leadership skills or the perception, and the Tories under David Cameron could not begin to contemplate it. So Marsh's conclusion is probably right — it could be 20 years before this country is ready to think rationally rather than emotionally about the euro and the benefits it could bring.

**The Euro, the Politics of the New Global Currency, by David Marsh. Published by Yale University Press, £25.*

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