

A very singular currency

This book builds up a thorough, unbiased politico-historical account of the euro, and it will help us to make better decisions in this crisis, says **Geoff Mulcahy**

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The Euro: The politics of the new global currency
David Marsh

Yale University Press £25.00

This book is an exciting, interesting and very readable history of the euro, going back, as the author says, 'into hundreds of tributaries and eddying currents that collectively flow into the European single currency'. It takes a historical approach to its evolution in the context of the politics that has shaped the Europe we know today, and its relationship with the US and the rest of the world.

It is not just for economists or financiers. It's a must-read for anybody running a business.

Political scientist David Marsh has researched his subject extensively, talking with many of the leading players and accessing both official and unofficial records. He largely succeeds in his stated objectives of assembling an accurate account of events and writing from an international viewpoint, rather than a purely British one.

Deep research has enabled him to allow for the inaccurate, incomplete, and/or partial state-

ments about past events and the imprecise and different interpretation of meetings and discussions by the participants.

Anybody running a business is inevitably more focused on the future than on history. But, as many have learnt to their cost, a good understanding of history enhances decision-making and can prevent bad mistakes. Indeed, many of the current challenges facing European monetary union (EMU) were predicted at the outset.

The book describes in some detail the many factors – political, economic, personal and historical – that have helped to shape the business environment and will continue to do so. The detailed description of key events and personalities adds colour, interest, and understanding to the evolution of the euro, making for an exciting read. Having this perspective is of huge benefit in making the right business decisions.

A particularly interesting aspect is the ideological debate as to whether economic convergence had to precede monetary union or whether monetary union would provide a catalyst for convergence.

The first years of the euro benefited from relatively benign economic conditions. During this time, large imbalances accumulated. Between 1998 and 2007, Germany's competitiveness improved by 10%, compared with a worsening of Italy's by an astonishing 34%, according to OECD figures.

The overall result was that Germany's trade surplus with the rest of the world tripled during the euro's first decade. We have a new set of challenging economic and political issues.

The political environment in particular has changed. The approach of Germany and France has historically been different, particularly with regard to the independence of the European Central

Bank (ECB). Europe's citizens are not universally happy. The economic benefits are not yet proven.

The EU average on many indicators is still mediocre, according to the OECD, although there are signs of improvements in some areas. Leaders have changed.

The failure of governments to win popular support for European policies has been exemplified by the rejection of the EU's constitutional reform treaties in the Netherlands and France in 2005 and in Ireland in 2008. There is a growing gap between the governments and the governed. Will the central bank retain its hard-fought independence?

A quotation from Dominique

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Strauss-Kahn highlights the political issue: 'I know of no country that has a currency but with no finance minister in charge of that currency. We have a very strong central bank, but in front of that no real person in charge of the economy.'

The one-size-fits-all monetary policy provides new challenges to politicians, who have to manage their economies within new constraints. Politicians are elected locally, so there will be increased pressure to demonstrate to the electorate that policies are bringing benefits.

While noting cultural differences between different countries, I wonder whether the book gives these enough attention. Countries within Europe have their own ways of working, their own institutions and labour laws. What works in one country does not necessarily work in another. One way is not necessarily better than another; it's

just that cultures are different and need different approaches. Politicians, economists and financiers ignore these at their peril.

To return to the beginning, 11 years is a short time in the history of monetary unions. It is too early to call EMU a success or failure.

Not all political unions automatically involve monetary union but uniform money has generally been the hallmark of political homogeneity. The first decade has been relatively easy. The significant imbalances that have built up will have been compounded by the credit crunch.

The difficulties for any country leaving the EMU are rehearsed but if the single currency is to

survive, politically acceptable solutions to the new challenges will need to be devised.

The research was largely completed before the credit crunch and a sequel will no doubt be written. It is too early to say whether the euro will withstand the stresses and strains of the present crisis, but we now know more about life both within and outside the eurozone for Britain, and, in particular, for London as Europe's premier financial centre. And we will soon know how different countries in and outside the eurozone recover from the current recession.

How events unfold will have an impact on most businesses. The book provides a much better understanding of the factors that have shaped events so far and will undoubtedly continue to do so.

Sir Geoffrey Mulcahy is chairman of the British Retail Consortium