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The Euro: The Politics of the New Global Currency

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When it all finally made cents

Roger Morgan learns of the diplomatic deal-making that made the eurozone a reality

The global economic turbulence of 2008-09 has obscured an important anniversary: January 1999 saw the creation of the euro, the European Union's single currency, managed by the European Central Bank (ECB) in Frankfurt. David Marsh, whose previous books include an authoritative study of the German Bundesbank, has marked the euro's tenth birthday with a detailed and illuminating account of its origins, its record and its prospects.

This is a blow-by-blow account in a fairly literal sense. Marsh's survey of Europe's monetary politics, from the gold standard in the 1920s to the arguments for and against economic and monetary union (EMU) in the 1970s, is full of conflicts.

There were bitter disputes between the "European monetarist" school and their "economist" opponents. The former school, predominant in France, argued that the fixing of exchange rates between currencies, and their eventual merger, would impose convergence between diverse national economies. The "economists", predominant in Germany, argued that to lock currencies together without first securing durable macroeconomic convergence would lead to disaster.

Squaring the circle of these barely compatible positions, which was more or less achieved in the Maastricht treaty of 1991, was only one of the challenges in the quest for EMU. The Stability Pact, vitally important for inflation-conscious Germany, was acceptable to France only once it became a "Stability and Growth Pact", reflecting the French view that monetary policy should aim at prosperity and employment, as well as curbing inflation.

As Marsh shows, dissent of this kind lay at the heart of the debate about how the new ECB should be designed and what its status should be. Germany wanted the ECB not only to be located in Frankfurt but to have the same high degree of autonomy as the Bundesbank, with total authority to fight inflation by setting interest rates. France wanted the opposite: a European bank on the model of the nationalised Banque de France, constrained to follow the economic and monetary policies of the elected government. In the end, the German view prevailed (at least formally) and the Banque de France was privatised before some of its functions were handed over to the ECB. (Marsh comments that Gordon Brown's 1997 handover of interest-setting powers to the Bank of England, likewise, could be seen as a necessary step towards a possible British decision to join the euro, which was, of course, not taken.)

Marsh's book, based in large part on highly revealing interviews with most of the key protagonists, brings out very clearly how all these battles were fought, and ultimately resolved, by individuals with strong views and diverse personalities.

He points to the irony in the fact that the leaders of France and Germany between 1974 and 1982, Valéry Giscard d'Estaing and Helmut Schmidt, although well versed in economics, were unable to bring the EMU project to a successful conclusion. It was left to their

successors, Francois Mitterrand and Helmut Kohl, to clinch the decisive deals at Maastricht and later.

Neither of them claimed any expertise in economics, but both were imbued with a sense of Europe's history and recognised the need for decisive action when faced with a critical challenge.

The challenge that finally forced Europe's leaders into creating EMU was the fact that the unification of East and West Germany, long regarded as only a remote possibility, suddenly became a realistic prospect in 1989 as the Soviet bloc fell apart.

Marsh's penetrating analysis of the impact of this on the EMU debate shows how Kohl's position underwent a dramatic change. His first reaction was to try to shelve the European project and concentrate on unifying Germany, but he accepted Mitterrand's view that an enlarged Germany would seem less threatening to its neighbours if it were embedded in a European Union consolidated by a single currency.

Thus the great Franco-German bargain, in essence, involved Kohl's endorsement of EMU in exchange for Mitterrand's acceptance of Germany's rapid unification: as Marsh's account confirms, Margaret Thatcher profoundly objected to both parts of this package.

The Euro is essentially a historical narrative, in which Marsh sometimes abandons strict chronology to pursue a strand of the story before returning to pick up another one. The book requires a certain degree of knowledge of postwar European politics, but it will be valuable to anyone who wants to know more about the euro's record.

Although Marsh suggests that the single currency may well be strong enough to survive the storms that were starting to batter the world's finances as he wrote, he also admits the possibility that these storms may force the eurozone apart. Whatever happens, the next phase of the euro's story should provide material for another significant book.