



# Synthesis Is Project Europe Doomed?

Probably, unless something is done about the euro. *by David Champion*

**T**en years ago, Project Europe looked like a resounding success. A reunified Germany stood at the core of the world's second-largest market, the European Union—an economic giant of 27 countries, many of which shared a common currency, the euro. Citizens of the EU were free to live and work in any member nation, and controls across most borders were light. For a time it looked as if the EU had achieved what Francis Fukuyama described as “the end of history.”

But Project Europe's future looks a lot less rosy now. Worries over immigration, brought to a boil by the refugee crisis, have contributed to a general resurgence in right-wing nationalism. All this is exacerbated by a persistent, region-wide depression that has triggered a series of sovereign debt crises and contributed to growing economic inequality across the member

nations. It's perhaps not surprising that the United Kingdom voted in a referendum earlier this year to withdraw from the EU. Many voters and policy makers believed that the country's economy and its security would benefit from the divorce.

What went wrong? Three new books attempt to make sense of Europe's economic crisis, and all put much of the blame on the design of the single currency and the approach taken by euro-zone governments to manage the fallout from the Great Recession.

Nobel laureate Joseph Stiglitz pulls few punches in *The Euro*, a masterly analysis of how the new common currency has served only to deepen preexisting economic differences among member states. In the face of his data, it's hard to disagree with his conclusion that the euro is doing today what the gold standard did in the 1930s and that the governments involved—especially Germany's—are

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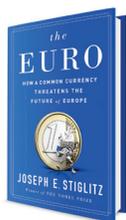
"This delightful, wise podcast is, in the broadest sense, about design. Mars and his coconspirators celebrate the best we humans have to offer, without ignoring our foibles, and make seemingly dull topics fascinating. I think because they show so much empathy for their subjects and interviewees."

Bob Sutton is a professor at Stanford University and the coauthor of *Scaling Up Excellence* (Crown Business, 2014).

once again turning a crisis into a catastrophe. He argues that German leaders are guilty of confusing private and public virtue: They believe that good people, like Germany's famously frugal Swabian housewives, pay their debts, and good countries should do the same. It's an appealing notion for an electorate with memories of the *Wirtschaftswunder* decades, when the country rebuilt its war-shattered economy and transformed itself, according to popular narrative, into an industrial powerhouse through hard work and discipline. German voters feel, unsurprisingly, that bailing out a profligate Greece should not be their reward for adopting the euro. But real life is not that simple.

The big problem is that Europe is emphatically not what the economist Robert Mundell would consider a natural currency zone. The euro's architects knew this and tried to force economic convergence by imposing limits on government spending and borrowing that were designed to make everyone in the union act more like its dominant economic power, Germany. But this was an impossibility. Leaving aside the fact that Germany itself repeatedly broke the agreed-upon budget-deficit and debt-to-GDP-ratio limits after the euro's introduction, each EU country counted its fellow members as major trading partners. If all became export powerhouses, to whom would they export? They couldn't all be Germany.

Instead, the euro has created a dangerous dynamic of divergence, in which nations' economic differences become increasingly entrenched. The result is that ordinary working stiffs in, for example, Greece lose jobs and pensions so that large banks in (you guessed it) Germany stay afloat. Germany, meanwhile, insists that if debtor countries could just put their finances in order, investment would



**The Euro: How a Common Currency Threatens the Future of Europe**

Joseph E. Stiglitz  
W.W. Norton, 2016



**The Euro and the Battle of Ideas**

Markus K. Brunnermeier, Harold James, and Jean-Pierre Landau  
Princeton University Press, 2016



**Europe Isn't Working**

Larry Elliott and Dan Atkinson  
Yale University Press, 2016

flow and their economies would boom. But most experts agree that there is little evidence to back this theory of "expansionary austerity."

Stiglitz's solution is rapid fiscal integration to compensate for the loss of the monetary tools (exchange and interest rates) with which national governments normally regulate their economies, and he sketches a blueprint for how to achieve it. He acknowledges the political hurdles but says that if they can't be overcome, EU leaders will have no alternative but to abandon the euro—possibly returning to national currencies or creating two or three workable new currency zones.

The second book is less apocalyptic. *The Euro and the Battle of Ideas*, by economist Markus Brunnermeier and historian Harold James, both from Princeton, and Jean-Pierre Landau, a political scientist at France's Sciences Po, presents the European crisis as a battle between two very different theories of how economies work—a German one anchored in accountability and a belief in free markets versus a French model anchored in solidarity and the idea that markets should be managed.

More comprehensive than *The Euro*, the book is a difficult read, combining a dense explanation of macroeconomics with a rather livelier history of ideas. But it does bring out the nuances of the crisis, which is not as cut-and-dried as Stiglitz suggests, and it demonstrates (with some irony) that France and Germany have often swapped philosophies. Before World War II, for instance, France was the country insisting on accountability, market forces, and adherence to a gold standard, while Germany was all for a managed economy.

For Brunnermeier et al., the underlying problem with Europe is that policy makers on both sides of the ideological divide are engaging in a

dialogue of the deaf. Rather than work through their differences, they muffle them with compromises in the hope that an economic recovery will bail everyone out. Given the increasing unlikelihood of that scenario, the authors call for greater understanding between the two camps. They believe that each new crisis can prompt a small step toward greater integration—the evolution of the European Central Bank, now the EU's premier institution, is an example—and as integration deepens, the seemingly interminable flow of crises will abate. Bottom line: Europe will muddle through.

British journalists Larry Elliott and Dan Atkinson, authors of the third and most readable book, *Europe Isn't Working*, don't agree. They present a diagnosis and gloomy prognosis similar to Stiglitz's, but offer only the briefest discussion of ways forward. In the end they seem to favor a return to national currencies, since it would be easiest to implement. Still, their book offers useful insight into why so many people thought the euro was a good idea in the first place: In the eyes of many politicians, financial markets are little more than casinos, where shady types make money at the expense of hardworking people. Abolish separate currencies and you abolish speculation, making the world a better place. Back in 2000 it was an easy sell, and felt modern. Integration equaled social progress; those against it were on the wrong side of history.

And that origin story explains why "Europe isn't working." The single currency was a political, not an economic, initiative—an attempt to give history a shove, as Lenin put it a century ago. Unfortunately, as Lenin's successors realized and as Project Europe's managers will learn, history doesn't take kindly to being shoved. ▣



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