THE FUTURE OF THE EURO

Matthias Matthijs and Mark Blyth, editors
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With the acute phase of the crisis in the euro-zone seemingly over, is there much left for scholars to pick over and dissect? After all, the contours of this crisis are by now quite well-established: they include poor policy choices by many euro-zone governments; macro-economic imbalances that have fed market pressures connected to public debt loads and untamed deficits; and a profound disconnect between euro-zone political institutions and Europe-wide economic dynamics. Above all, the puzzling role of Germany has loomed over the entire escapade, seemingly unable or unwilling to 'do the right thing'. But as this volume makes clear, the euro remains a fit topic for academic discourse.

The editors have assembled a distinguished group of scholars with an excellent record of scholarship on the political economy of the euro. Their point of departure is framed by Kathleen McNamara, who uses a stylized version of Karl Polanyi's embedded/disembedded dichotomy to engage with the existing literature on optimal currency areas, one of the central theoretical tropes used to anchor discussion about the euro-zone's problems. Her main point is that we need to develop a conception of an 'embedded currency area' in order to come to grips analytically with the depth of the disconnect that currently plagues the euro-zone. She considers the degree to which such 'embeddedness' is at work in currency areas in general and the euro-zone in particular, and calls for more attention to be devoted to the fundamental requirements of a successful, embedded currency area: a lender of last resort, fiscal and economic union, banking and financial union, and political union. The remainder of the volume follows this political economy centered frame of reference to interrogate and explore how the euro-zone's current economic and political arrangements fall short of the standards of embeddedness identified by McNamara.

To begin with, we have three chapters that consider in much greater detail the absence of a proper financial union (Erik Jones), a genuine form of economic governance (Nicolas Jabko) and a fully-engaged democratic process in the European Union (EU) that delivers something more than technocratic policy decisions (Vivien Schmidt). These are all nuanced chapters that key off of these authors' previous research, and they work in unison to establish how incomplete – or *disembedded*, in McNamara's terminology – the euro-zone remains. Perhaps the most unsettling aspect of these analyses is that they have great difficulty in identifying the sources of support for rectifying the deficits they specify: Jones cannot see how the push for a genuine financial union can gain traction; Jabko despairs that the centralized/decentralized dynamic of economic governance enshrined by the Maastricht Treaty can be surmounted; and Schmidt admits to almost complete uncertainty about the possibility for a genuine democratic opening for EU institutions despite the demonstrable need for one. Indeed, each chapter ends on a distinctly pessimistic note about how the challenges they outline can be addressed.

This pessimism is carried over into the second part of the volume, where the experience with the euro of key nation-states is canvassed by Abraham Newman (Germany), Mark Vail (France) and Jonathan Hopkin (Italy and Spain). Newman's chapter is perhaps the most sobering: he sees clearly that Germany is indeed the indispensable nation in terms of saving the euro, but its own domestic political (and economic) institutions – for uniquely historical reasons – are simply unable to accommodate themselves to facilitate EU-wide embeddedness. Moreover, this position is neither illogical nor absurd given Germany's own experience with reunification, and is reinforced in a later chapter by Wade Jacoby (who examines the latest version of the 'German Problem' to challenge Europe). Combined with a weakened France, which has been reduced for a variety of reasons to acting as a kind of petulant 'middle child' (this is Vail's description of France's new position in Europe), there is a leadership vacuum in the euro-zone precisely when enlightened leadership cognizant of the challenges of embedding the euro much more deeply across Europe is desperately needed. Indeed, Hopkin's chapter on the experience of southern Europe with the austerity and reform demanded by Brussels in response to the crisis clearly suggests that more of this kind of 'leadership' will in all likelihood destroy the euro-zone as it currently exists. As he notes at the close of his chapter, 'The founders of monetary union may come to regret pinning the future of Europe to a now discredited economic dogma'.

The final section of the volume looks to the future of the euro, and it too has a pessimistic tone. Wade Jacoby asks why Germany has persistently failed to get the right policy at the right time, and concludes rather forlornly that 'German indecision persists, as does the misery in Europe. There is little reason to expect it to abate any time soon'. Craig Parsons and Matthias Matthijs in their chapter open the door a crack to optimism. They confront what they argue is a dangerous myth of European integration, namely that it has always advanced through crisis. Their contention is that the euro-zone crisis is the first genuine crisis policy-makers in Europe have confronted since the launch of the Common Market, and that the absence of a bold and integrated vision of Europe's future is the most important barrier to a successful resolution of the current debacle. Nevertheless, if a new generation of Europeanist policy-makers were to step forward, then a glimmer of hope might just be perceptible. Surprisingly, this glimmer is fanned just a tiny bit by Eric Helleiner's chapter on the global context of the euro, where he notes the strange attraction which China's leaders have for the euro; strange bedfellows can sometimes be united when the chief attraction is to compromise the still significant pull of the US dollar in the global monetary and financial system. From Helleiner's perspective, even with a set of weak Europe-wide institutions the euro remains only one of three possible global currencies. Thus not all is pessimism and gloom for the future of the euro.

What then are we to make of all this, especially in light of the final chapter by the editors which ends with a mish-mash of eight bullet points describing in descending order the future possibilities of the euro? Their final point seems to me to be the key: 'The euro's international position may help it at the margin, but it is European domestic politics that will determine its future in the end'. This is absolutely correct, and also a challenge to those of us who pay attention to the deeply interlocking dynamics that bind national with global structures in the world political economy. The euro is one of three key international currencies; it is used by nearly 350 million people who collectively produce approximately 20% of the world's product; the institutions which connect the euro to its populations and to global economic governance arrangements are not trivial in terms of their impact on world affairs; and if these institutions harm rather than improve the lives of its populations, we need all be concerned. That the authors of this volume collectively strike a pessimistic tone should not be surprising; that they offer so few clues as to how to retrieve the situation is rather more troubling. For aside from Helleiner – who is looking outside Europe for support for the euro – the contributors to this volume see few possibilities to steer around German intransigence, and provide few reasons to think that France, Italy and others will be able to forge a new vision that can better meet the standards McNamara outlines in her lead chapter. Maybe the future of the euro is rather dim after all?

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