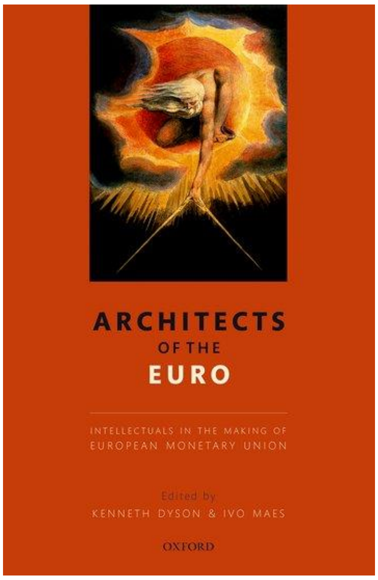
Belgian Financial Forum

# Book Review: Architects of the Euro

## Edited by Kenneth Dyson and Ivo Maes




**Book review by Prof. Dr. Freddy Van den Spiegel – Vlerick Business School, Vrije Universiteit Brussel**

The "European Currency" became reality with the Treaty of Maastricht of 1992, and was introduced practically in 1999. But the idea to create a European Monetary Union as a building block of European Integration is much older. Already in the 1950's, Triffin proposed to create a European Reserve Fund, which would support European Countries in financial distress. He also advocated the introduction of a European unit of account as a European currency, existing in parallel with the national European currencies. In the 1970's, the collapse of the worldwide fixed exchange rate system of Bretton Woods, was leading to monetary chaos and increased the need to find a solution to stabilize the currencies within the European Economic Community. The Werner report of 1971 proposed a concrete road map to create a European Monetary Union. By 1979, the intervention of Roy Jenkins was decisive to set up the European Monetary System, based on a new European basket currency, the ECU. At the end of the 1980's it became increasingly clear that the EMS framework would not be able to guarantee monetary stability in Europe, and the ultimate decision was taken to create a full monetary union, with a new currency, the EURO, replacing all currencies of participating Member States.

The authors of this book, and their advisory committee identified 10 personalities who had a major impact on the process to get to a full monetary union during the 50 years between 1950 and 2000. Each of the 10 major chapters of the book is a biography of one of these personalities, focused on his specific contribution to the monetary union idea and process: Robert Triffin, Robert Marjolin, Raymond Barre, Pierre Werner, Roy Jenkins, Hans Tietmeyer, Karl-Otto Pöhl, Tomasso Padoa-Schioppa, Jacques Delors and Alexandre Lamfalussy. The two remaining chapters give a historical and more critical overview of the process towards the EMU, including the experiences since the financial crisis.

The authors make a clear distinction between the “10 architects”, who have provided the intellectual process and the proposals, and the “politicians” who have ultimately taken the decisions, not always respecting the original proposals. This may look like an elegant way to reduce the responsibility of the architects for everything that went wrong with the Euro afterwards. But looking at the list of the selected architects, this distinction seems somewhat theoretical as at least half of the architects were also in the middle of the political process.

Looking at the history of the Monetary Union, from the point of view of these individual approaches of the architects, highlights the confrontation between two economic schools (or ideologies): the “economist” school, led by Germany, and the “monetarist” approach, with France as a major player. The “economists” believe that a monetary union should only be realized once economic convergence is a fact, were the participating countries are stable and have developed sustainable fiscal policies and economic flexibility based on market mechanisms. The “monetarists” on the other hand are convinced that a monetary union is a strong instrument to bring economic convergence and integration. As the architects were not able to find a consensus, it is no surprise that the political result of the EMU is a hybrid compromise in which long term stability was sacrificed to achieve a short term political success.

When looking at the proposals of the architects, it is striking that they are often characterized by a strange mix of far-reaching genuine ideas to create a visionary and better supra-national world, combined with sometimes narrow nationalistic or ideologic reflexes and interests. Very few of the architects proposed a balanced project, able to build a broad political consensus. Pierre Werner was probably influenced by the interests of Luxemburg as a potential financial center in the monetary union. Hans Tietmayer and Karl-Otto Pöhl seem by definition convinced that the German way of organizing the monetary system was the best solution, built on the responsibility of the Member states to be competitive and to have “their house in order”. And Tomasso Padoa-Schiopa seems to be more influenced by the Italian-French approach of macroeconomics, were political decisions will change economic realities. That remains until today one of the major challenges of the European construction: every proposal, including those about the monetary architecture is colored by the background – most of the time the “nationality” - of the author.

This book is welcome for those who want to understand the complex process of getting to the single currency, while taking into account the driving forces of the individual personalities who were at the origin of the major ideas. The “human aspect” is never far away. In that respect, the biographic sketches are interesting reading which brings ideas in a historic and human perspective. For example, the way Otto Pöhl defended his vision in the “Delors Committee” and in Germany, including the concept of the “independence” of the Central bank, reads almost like a thriller.

The last Chapter is a critical overview of the experience of the financial crisis, the observed weaknesses of the architecture, the lessons learnt and the future of the monetary union. But readers should not expect a very exhaustive analysis or a consensus view. Providing complete answers on all these issues remains outside the scope of this book and would even be impossible, given that the analysis and political processes are still evolving in a surprising way. The simple question “will there still be a euro in 10 years” is not answered and is even not asked. And given the actual tendency towards more nationalism and Member States trying to get back their sovereignty, it is probably better not to try to answer but to focus on what is a clear priority: restoring confidence in the European Union and convince populations that the EURO remains a valuable project that we should protect, whatever it takes…