

Can the Euro Survive?

Written by Roland Bensted

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ROLAND BENSTED, JUN 9 2011

When Estonian Prime Minister Andrus Ansip marked his country's adoption of the Euro on 1 January 2011, by withdrawing cash from a specially installed ATM in Tallinn, not all of his compatriots shared his enthusiasm.

Many people, both within Estonia and further afield, question why the Baltic state would wish to join the troubled single European currency and, indeed, whether the Euro can even survive.

There is no doubt that the Euro faces significant challenges. As Mats Persson, Director of Open Europe, states, "the current Eurozone crisis is the number one challenge for Europe". The 2010 bailouts of Greece and the Republic of Ireland highlighted one of the most negative aspects of having monetary union without fiscal or political union- that the strongest members of the Euro are compelled to support the weakest.

This is a point of particular lament in Germany, Europe's economic powerhouse, which underwrites €120 billion of loans to other EU members. Many German citizens question why Germany should support countries that have managed their economies poorly. Would it not have been better, many wonder, if Germany had retained the Deutschmark? Yet, malaise is not limited to the single currency. Latvia, outside the Eurozone, has taken on even harsher reforms than Ireland or Greece following its December 2008 bailout by the IMF. There is also a growing scepticism about the European project as a whole. The summer 2010 Eurobarometer opinion survey found only 49 per cent support for the EU.

Although Europe's economic troubles stretch beyond the single currency, the Euro is cited by some as an exacerbating factor. The charge is that a number of countries, particularly in southern Europe, failed to take the necessary reforms to their domestic economies after they joined the Euro. Perhaps the Euro was a disincentive for economic reform – member countries felt they were able to hide behind the security of the single currency from 2002 without having to take the measures that were needed. For five years before the 2007-2008 banking collapse Europe was sleepwalking towards economic trouble. The present reality that Europe faces is of high unemployment, costly public deficits, and internal incoherence.

The scale of the economic challenges has cast doubt on the European political project, of which the Euro is a key part. It is not without justification that President of the European Council, Herman van Rompuy, warned in 2010 about "a crisis of survival of the EU and the Euro". Similarly, German Chancellor Angela Merkel has stated that the Euro's survival is key to EU survival. It is for this reason that failure of the Euro is inconceivable. Put simply, for all its faults, the single currency, like many large banks during the financial crisis, is too big to fail.

Survival of the Euro is an existential necessity for Europe. What is less certain is what Europe's economies will look like in a few years. The question is not so much about whether the Euro can survive, more about on what terms existence will be and what scope there is for renewal.

Just when Europe needs to be looking outwards to arrest its declining influence in the world, it is looking in the opposite direction. Illiberal political parties have achieved greater prominence; even tolerant Sweden and Netherlands have seen far right anti-immigrant parties make gains at the ballot box. Member states express angst about the how well the Lisbon Treaty is bedding in. And in ethno-linguistically divided Belgium it took nearly twelve

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months to form a national government after the June 2010 election. Many observers worry that, as the US continues to recalibrate its strategic focus towards the Asia-Pacific region, the EU risks becoming irrelevant.

Yet in many ways the European project remains a remarkable success. The peaceful transitions of former communist states to market democracies were almost unprecedented, both in terms of speed and for the lack of bloodshed. The 2004 accession of eight central and east European countries, plus Cyprus and Malta, to the EU marked the next stage of progress. That Slovakia, Slovenia and Estonia have since gone on to join the Euro currency is a significant post-Cold War success.

And if Europe has lost influence in the international system it retains considerable soft power, perhaps its greatest single asset. The Euro remains second only to the US Dollar, as the world's largest reserve currency and the most traded. Europe, when it negotiates with the US or China as a unified trading bloc, has clout.

That the Euro must not fail should encourage Europe to take measures to overcome the current challenges the single currency faces. As Richard Youngs of the think tank FRIDE hopes, Europe should adopt a unity in adversity approach. Now is the opportunity for individual member states to make necessary domestic reforms that were delayed after 1 January 2002. This is perhaps easier said than done; the 23 March resignation of Portuguese Prime Minister, Jose Socrates, after his austerity budget was rejected by parliament, provides evidence of this. And now is the time for Europe, so preoccupied with the workings of its internal institutions, to step up its engagement with the emerging Asian powers.

Ironically, institutional reform is needed to achieve this. To speak as one, it is not helpful for Europe's institutions to have five presidents. And reaction to the new role of High Representative for Foreign Affairs and Security Policy, one of the Lisbon Treaty provisions, has been, at best, muted.

The Euro will survive. Survival is an economic, political and social necessity. Yet for the Euro, and the European project as a whole, to achieve success, there must be a shift both internally and outwards. Internally, European countries must make economic reforms and move to overcome ethnic and linguistic divisions. Europe must look outwards. It must use its soft power to build the stronger global relationships that will enable greater economic success. It must not let the world leave it behind. And a strong Euro will be central to Europe's success.

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This piece was originally published on The Heptagon Post, a dynamic blog for news and analysis, covering politics, security, economics, life and culture.