

Letters

Stronger than its critics suppose

From Mr Yves-André Istel.

Sir, Most recent articles about the euro, including the FT's, could be summarised as "Alas, poor euro. I knew him well." (For example, "The euro's big fat failed wedding", Gideon Rachman, March 30; "A euro exit is the only way out for Greece", Comment, March 26.) But are they wrong?

Some of the sceptics argue that the euro was built on faulty premises that are now causing its downfall (including, among others, the inability to adjust monetary policy and currencies to changing competitiveness, and inadequate enforcement of fiscal standards).

Others, depending on their viewpoint, urge Greece, or Germany, to leave the eurozone, or suggest dual currency regimes for Greece or the eurozone. All these arguments have understandable roots in the severe sovereign debt financing issues of the weaker countries as a result of the recent crisis and/or lax fiscal policies. The problems are clearly serious, but there are several euro strengths that deserve more attention. First, the eurozone is comforted by a euro consumer on solid footing, with substantial savings, modest debt, and the benefit of generally free, decent quality education and healthcare. (Note the contrast with the US, home of the currently favoured dollar.)

Second, the creation of the euro was not just based on anticipation of the lower borrowing costs presently threatened for Greece and Portugal. Let's not forget the greater advantages to competition, democracy and trade of economic and monetary union; the euro has



That Yorick moment: but not for the euro

appreciated about 1 per cent a year versus the dollar in the past 10 years.

Third, there was also a powerful marriage of convenience, combining those countries that wanted to dilute the strength of their currencies (Germany, Netherlands and the rest) with those countries that wanted to strengthen their currencies to force improvements in productivity (Spain, Portugal, etc). These needs persist: How would Germany, for example, cope with the appreciation of the currency if it were back on its own or even part of a stronger euro stripped of, say, Greece and Portugal?

So, the eurozone may have far more underlying strength, and far stronger incentives to continue as it is, than its critics suppose.

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These are the writer's personal views