

## **How the euro could fail ...**

A couple of weeks ago, I chaired a conference given by Computer Weekly on the subject of EMU. The conference had a wide range of speakers, and I believe that it went very well by presenting different views and practical examples from various countries and sectors.

In the evening there was a dinner at which the discussion at one point exposed two interestingly contrasting viewpoints. On the one hand, one of the participants believed that the collapse of the euro, once started was, in any practical sense, inconceivable. The other view was that the collapse was sufficiently likely to warrant serious expenditure on contingency facilities.

In this and the next paper, I should like to explore, first the nature of a collapse, and then to consider what steps should be taken.

The dissolution of the euro could take one of several forms, and they are neither of equal significance, nor equal probability.

In recent years, we have seen the collapse or division of several currencies, of which the most significant are the split between the Czech and Slovak currencies and the creation of a wave of new currencies in the countries formed out of the collapse of the Soviet Union.

However these took place under circumstances which are close to the opposite of those which attend the formation of the euro. In the Czech and Slovak case, the divorce took place as part of an increasing desire for separation of the two components of Czechoslovakia, and the reflection of the great differences between the eastern and western parts of the former country.

Similarly, the new currencies of the former Soviet Union reflect, in part, the assertion of national independence.

So in both of these cases the creation of a new currency reflects, in part, the assertion of independence. A related example was the development of a new keyboard for the Ukraine, which had a slightly different character set from the Russian and other nearby countries. Thus the currency is a symptom of independence; not something caused by an economic necessity.

Now like anything else which people put together, the European Union could collapse acrimoniously, and in such a case, the component states would, presumably, assert tokens of independence currently subsumed under the various European treaties and agreements. They might also at the same time set up or re-establish today's currencies (although the new currencies would not, in any real sense be a continuation of today's currencies).

But the creation of the euro is an example of the *opposite* of the forces which drove apart the components of Czechoslovakia and the USSR. It is, at least in the treaties, a positive assertion of unity. So we must suppose that the *political* collapse would only take place in a very different Europe from that which exists today.

The other form of collapse, and the one most commonly considered is the inability of some (or perhaps all) of the countries to survive economically in a single currency area presided over by the strictures of the European Central Bank).

In this scenario, one or more countries decide that they cannot live in the euro zone and exit, re-establishing their own currencies.

Since the scale of this collapse is smaller, we must suppose that it is more likely. But this must mean that it is also more manageable. For if the political will which brought us to the consolidation which we now see, it would presumably be enough to assist a government in trouble at home to overcome the particular difficulties with some form of regional aid.

So perhaps it is the case that the *general* rather than localised collapse is actually the more likely. But the general collapse is the one which would virtually guarantee central action to reverse the circumstances which caused the collapse – independent central bank or not.

The collapse of the euro must be considered possible, but certainly not likely.

In my next article, I shall consider how much we should be spending as part of our projects on insuring against collapse.