REVIEWS AND ANNOTATIONS

Markus K. Brunnermeier, Harold James and Jean-Pierre Landau. The Euro and the Battle of Ideas. Hardcover: 2016, 448 pp.

This monograph is about the future of the European project, and the battle of ideas over Europe's embattled single currency. The authors review the main decisions and innovations introduced by European leaders, in a bid to overcome the crises in the Eurozone since 2008. A 'war of ideas' lies at the heart of their book between the dominant French and German understandings of economic shock and recovery. They see the EU's crisis response as a struggle between ordoliberalism in Germany, and 'the leaving behind of Malthusianism (population control) in France', with Germany winning out through 'structural power and shear bloody-mindedness' (66).

The authors sketch the tale of how, since 2010, several sovereign governments in Europe's periphery came to the brink of default and sought emergency financial assistance from European and international creditors. Following these ad-hoc bailouts, Europe's leaders introduced more permanent measures, which involved a centralisation of economic policy at EU level, described collectively as the EU's 'new economic governance' regime. These measures grant the European Commission greater surveillance powers over national economic policy-formation than had hitherto existed. This new regime reveals the growing pre-eminence of fiscal policy in the EU and amounts to the deepest phase of European integration in a generation. The book explores some of the actors and human actions that lie behind these matters of monetary policy. A better understanding of these challenges will be crucial in the next phase of European integration (or disintegration) as Europe turns from austerity, and it is here that the authors seek to make their contribution.

The authors review the role of some of the main actors that have been involved in the EU-led crisis responses, including the European Commission, the European Central Bank (ECB), the International Monetary Fund (IMF) and the EU's member states. Notably, they broaden out their analysis to consider other actors, including the US, China, Russia, and the financial sector, as well as a wide range of exogenous challenges which further complicate matters for the EU's political economy, including the Russian annexation of Crimea in 2014, the UK's 2016 vote to withdraw from the EU, and Europe's 'refugee crisis' from 2014 onwards.

The authors explain how, despite resistance from both France and Germany, the International Monetary Fund (IMF) was invited by the European Commission to play a major role in the bailouts of sovereign countries. The fund brought much-needed experience and expertise and, more importantly for the authors, the involvement of the IMF took some of the 'sting out of support operations', and provided 'a way of extracting political poison from a situation that was complicated by historical sensitivities and injustices' (21). Meanwhile, despite its constituent part in the troika, the Commission was marginalised, while the power of the ECB has only increased, with the bank in Frankfurt now at greater liberty to act compared to the other institutions, unconstrained by constituencies, parliaments and democratic oversight. The authors thus present a vision of an incomplete EU which, to date, has had to rely on the expertise (and financial contributions) of external actors to solve its problems.

To explain this, the authors identify a fundamental and well-documented challenge to stability in the Eurozone: that is, the lack of a transfer union to facilitate automatic social transfers from areas experiencing a surplus to areas experiencing recession or economic shock. In explanation, they cite tension between the aforementioned dominant French and German perceptions and understandings of economic shock and recovery. This 'Rhine Divide', which is, of course, an oversimplification, depicts France as valuing flexibility, solidarity, and state intervention, while Germany stresses rules, discipline and free markets. In essence, the German view is characterized by a fear of creating moral hazard, while the French approach sees society as owing a debt to unfortunate citizens (which the authors trace back to the 1793 French Declaration on the rights of man and the citizen).

In the French view, monetary policy must serve general goals, including the promotion of economic growth and tackling unemployment, while the German view is concerned primarily with price stability, a hangover from that country's post-World War II experience of hyper-inflation. Ultimately, the Germans lean towards fiscal responsibility, rules, rigor and consistency, with the authors explaining German tolerance for austerity by observing a willingness to 'sacrifice growth at the altar of credibility' (386). Meanwhile, the French lean towards debt forgiveness, and the need for flexibility, adaptability and innovation, which is closer to the Keynesianism position which evolved as a response to the Great Depression (75). The authors ask whether it is possible to reconcile what they refer to as the 'Latin lens', which leans towards discretion, and the 'Teutonic lens', which leads towards responsibility (13). If it is not possible to settle these differences, the authors consider if it is at least possible to foster a better understanding between these camps, with a view to speeding up the EU's, as yet insufficient, crisis response. Crucially for the future of Europe, the authors argue that for the single currency to succeed, it needs both the 'French' concept of solidarity and the 'German' belief in liability. Support for the weak — which is central to the French tradition — can only work if it is credible and does not distort incentives — which is central to the German tradition. In short, the German view and the French view need each other to work.

In the context of this clash, the authors point to two potential solutions to the Eurozone crisis. Firstly, the EU itself, rather than individual countries, could provide banking supervision and deposit insurance directly through the ECB, gathering taxes for the EU budget in the process. Secondly, a new EU-debt agency, or private issuers, could create pan-European sovereign bonds by buying government debt and using it to back securities with different risk profiles, so called "ESBies". However, the authors acknowledge that EU member states continue to focus on national, as opposed to collective, responses. Previous EU-level agreements remain essentially a carve-up between France and Germany, to the exclusion of smaller member states. To be sustainable, further integration will require a compromise between the French and German world views, but also the involvement of smaller member states, and meaningful engagement with Europe's citizens.

The authors emphasise that Europe is where trade-offs and compromises are made, not where sovereignty is destroyed. They provide a relatively optimistic account which present solutions for how the EU can overcome its problems, particularly in the Eurozone, but only if the political will can be mobilised. However, the book underplays the most significant obstacle to the introduction of fiscal transfers within the EU, which transcends differences in national economic and philosophical traditions: the simple political reality that voters in better-off regions are reluctant or unwilling to transfer tax revenue to less-well off regions. Nonetheless, the book tackles many of the major challenges facing the European project in impressive depth and in a way that is readable and engaging. As French President Emmanuel Macron pursues his plans for deeper integration in the Eurozone, and as German Chancellor Angela Merkel settles in for a fourth term, a serious consideration of these important questions is timely.

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