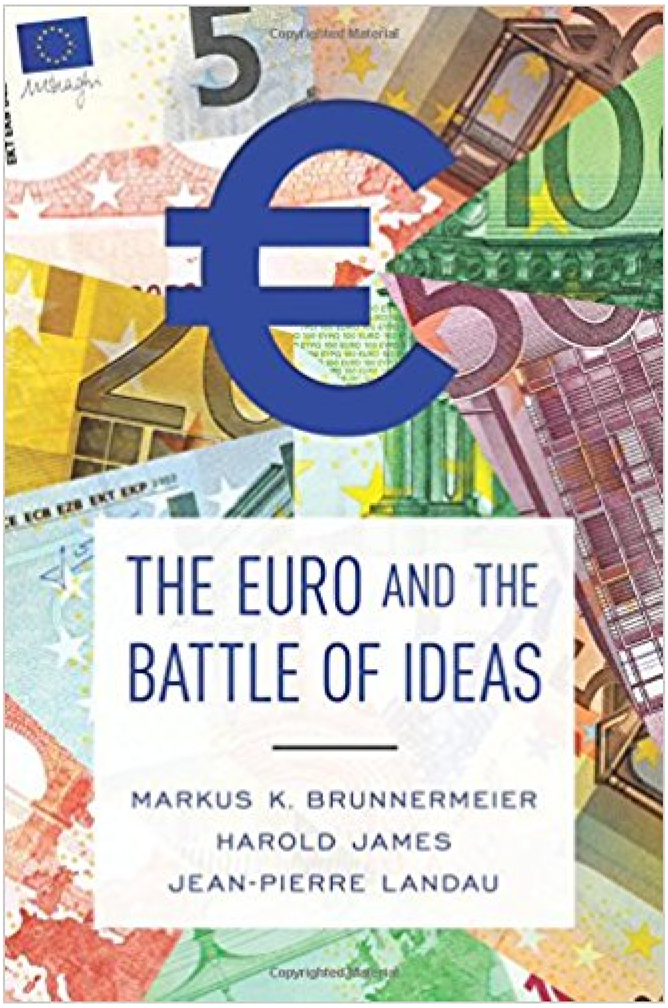
The Euro And The Battle Of Ideas



Synopsis

Why is Europe’s great monetary endeavor, the Euro, in trouble? A string of economic difficulties in Greece, Ireland, Spain, Italy, and other Eurozone nations has left observers wondering whether the currency union can survive. In this book, Markus Brunnermeier, Harold James, and Jean-Pierre Landau argue that the core problem with the Euro lies in the philosophical differences between the founding countries of the Eurozone, particularly Germany and France. But the authors also show how these seemingly incompatible differences can be reconciled to ensure Europeâ ™s survival.As the authors demonstrate, Germany, a federal state with strong regional governments, saw the Maastricht Treaty, the framework for the Euro, as a set of rules. France, on the other hand, with a more centralized system of government, saw the framework as flexible, to be overseen by governments. The authors discuss how the troubles faced by the Euro have led its member states to focus on national, as opposed to collective, responses, a reaction explained by the resurgence of the battle of economic ideas: rules vs. discretion, liability vs. solidarity, solvency vs. liquidity, austerity vs. stimulus.Weaving together economic analysis and historical reflection, The Euro and the Battle of Ideas provides a forensic investigation and a road map for Europeâ ™s future.

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Customer Reviews

Winner of the 2017 Gold Medal in International Business / Globalization, Axiom Business Book AwardsOne of The Economistâ ™s Economics and Business Books of the Year 2016One of Financial Times (FT.com) Best Economics Books of 2016One of Bloombergâ ™s Best Books of

2016"If we turn to The Euro and the Battle of Ideas by Markus K. Brunnermeier, Harold James, and Jean-Pierre Landau, we start to find an explanation. The three authors are, respectively, a German academic economist, an English economic historian, and a French banker turned economics professor, and their book is an attempt to explain the euro’s ideological and historic background. They explore the dichotomy between French and German political-economic philosophies. The first values flexibility and solidarity and state intervention; the second stresses rules and consequences and free markets."--John Lanchester, New Yorker"In The Euro and the Battle of Ideas, the economists Markus Brunnermeier, Harold James, and Jean-Pierre Landau turn a sharp lens on the basic divide between France and Germany."--Rana Foroohar, New York Review of Books"A book of depth and subtlety that is helpful in understanding matters well outside the questions it seems to address. . . . This is a fascinating and informative book."--Geoffrey Wood, Central Banking Journal"[The authors] have the advantage of being deeply involved. . . . If Europe is high on your list of concerns, you should read this book; European leaders will."--David Warsh, Economic Principals"[The Euro and the Battle of Ideas] demonstrates the value of sophisticated syntheses of policy analysis and intellectual history."--Foreign Affairs"Markus Brunnermeier, Harold James and Jean-Pierre Landau have just published a fascinating book, The Euro and the Battle of Ideas, in which they bring together their respective skills in economic theory, economic history and economic policy to bear on one of the most important macroeconomic problems of our timesâ •the rules versus discretion debate. Anyone who has studied this debate--and thatâ ™s just about anyone who has taken a course in economics--would benefit from reading this book."--Economics One bog

"The advent of the Euro is a singular event in monetary history. This is the best and most important book so far on an experiment with profound economic and geopolitical implications."--Lawrence H. Summers, former Secretary of the U.S.Treasury"I very much appreciate this book’s efforts to explain the highly diverse approaches to economic and fiscal policy in Europe and to shape them into a common strategy. If this could succeed in reality in today’s Europe, much would be gained indeed."--Wolfgang SchÃ¤uble, Finance Minister of Germany"International divergences in economic policy are as much the result of differences in intellectual frameworks as of variation in economic circumstances. This valuable book explains the critical differences in national economic philosophies and how they have conditioned policy choices over the past decade."--Ben S. Bernanke, former Chairman of the U.S. Federal Reserve"Europeans have lost their sense of direction. Most demand increased sovereignty without considering what it takes to live under the same roof. Another cause of disaffection is that interests have diverged so much that we are no longer behind the veil of ignorance. This book offers a complementary, brand-new, third angle on the crisis of European institutions: cultural differences between France and Germany that developed following World War II. Nations interpret their interests through the lens of their worldview. This exciting historical, sociological, and psychological fresco, which also covers the visions of other countries and multilateral organizations, is a must-read for all who want to understand where Europe is heading--and how worldviews can get in the way of international cooperation."--Jean Tirole, Nobel Laureate in Economics"This rich and articulate work is an important addition to the existing books about the Eurozone crisis. The authors identify the core intellectual and political differences framing the debate regarding the institutional developments required for Eurozone survival."--Giancarlo Corsetti, University of Cambridge

An impressive accomplishment. A journey to the history of German and French visions and how the Economic and Monetary Union was built up. A careful analysis of the European Banking Union and its pillars. Three writers with different backgrounds make it rich. An enjoyable read.

Very simply put, this is a difficult book to read, very thick with ideas and concepts, demanding. It helps a lot to have some previous background on the subject, but, when you have it is one of the most enlightening books I have read on the subject.

IÃ¢Â Â™ve read books about the Euro crisis by Soros, Pisani-Ferry, Sandbu, Galbraith Jr., Stiglitz, Papaconstantinou and others. IÃ¢Â Â™ve read many more that dedicate at least a chapter to it, from heavyweight authors like Alan Blinder and Mervyn King and from lightweights too.IÃ¢Â Â™ve also read more specific books, for example about the Greek crisis. Among those I really enjoyed PaleologosÃ¢Â Â™ effort; Manolopoulos quotes me, even!Ã¢Â ÂœThe Euro and the Battle of IdeasÃ¢Â Â• is not my favorite (that would have to be Martin SandbuÃ¢Â Â™s Ã¢Â ÂœEuropeÃ¢Â Â™s OrphanÃ¢Â Â•) but it is very comfortably the best. Nothing comes close, actually.It is what IÃ¢Â Â™d call a Ã¢Â Âœsecond year courseÃ¢Â Â• in understanding the EUR. So, you know, if youÃ¢Â Â™ve gotten your optimal currency area stuff down, if you understand the austerity debate, if youÃ¢Â Â™ve read one of the narratives (I enjoyed PapaconstantinouÃ¢Â Â™s) and you want more, youÃ¢Â Â™ve come to the right place. In fact, you do not need to have been introduced to the topic. It really is all here. Everything.Also, because this book has enjoyed the full access to and support from the establishment (read the Ã¢Â ÂœAcknowledgementsÃ¢Â Â• and youÃ¢Â Â™ll see what I mean), thereÃ¢Â Â™s tons of stuff thatÃ¢Â Â™s not said directly here, but is very clearly written between the lines. You read it, you absorb it, you go to bed, you wake up in the morning and youÃ¢Â Â™re like Ã¢Â Âœaha, thatÃ¢Â Â™s what that means.Ã¢Â Â•Finally, while the authors have a very strong bias (they all want Europe to work) they have strained every sinew to leave it out of the book and have made an extremely deliberate effort to present every single issue from both angles. Then they let go in the short conclusion, which consists of their (rambling and hopeful) suggestion that we need to get together and fix all the problems at the same time, in violation of the Ã¢Â Âœone crisis at a timeÃ¢Â Â• process that they describe in the first section of the book.To get things going, a good hundred pages are first dedicated to the historical, micro-economic and macro-economic background of the Franco-German relationship that lies at the center of the project and the solution that was devised post-war to keep the two together: the Ã¢Â ÂœMonnet processÃ¢Â Â• whereby we move forward and let the project become the sum of the solutions that are necessary to resolve the inevitable crises.Next comes an introduction to a more recent process: that of collective decision making giving way mid-crisis to decision making at the national level, giving way to the French and the Germans deciding everything amongst them upfront and ultimately leading to Germany deciding everything.Ã¢Â ÂœThatÃ¢Â Â™s nice,Ã¢Â Â• I thought to myself, Ã¢Â Âœbut itÃ¢Â Â™s descriptive, what did I learn here?Ã¢Â Â• The answer is evident, but the authors cannot put it in print: there cannot be an equal union between big powerful countries and small countries. It is a quid pro quo. The small countries are the ones who enjoy the more secure borders and the better terms of trade that come from associating with the big ones. But when the you-know-what hits the fan, itÃ¢Â Â™s the big guys who call the shots. Period. Unless you move to the United States of Europe (which ainÃ¢Â Â™t happening) thatÃ¢Â Â™s the deal and if you donÃ¢Â Â™t like it, Ã¢Â ÂœthereÃ¢Â Â™s the door.Ã¢Â Â• In times of trouble, the CommissionÃ¢Â Â™s job is to discuss fisheries. E basta.Next, the authors examine the two major intellectual axes on which the Euro-crisis is being analyzed:1. Solvency versus Liquidity2. Austerity versus StimulusI totally LOVED this part of the book. It is thorough and balanced. Three authors involved, whoever wrote those two chapters is the best of the three.Next comes a list, a bloody amazing and thorough list, of the technical problems with the specifics of the setup. You can be an expert on solvency versus liquidity, you can think you have a strong view on austerity versus stimulus, but who cares if you donÃ¢Â Â™t know what the problems are you will apply your principles to. Luckily itÃ¢Â Â™s all here and itÃ¢Â Â™s explained well:1. France and Germany disagree about monetization. The Germans thought they got their way when they stuck in the Maastricht treaty and the subsequent agreements the Stability and Growth Pact and the sundry prohibitions against monetary financing. Except the French let the Basel treaty do all the work for them, when it gave zero weight to government debt. When all banks were left holding peripheral debt, the Germans found themselves confronted with a fait accompli.2. Banks were encouraged to lend cross-border, but there was no EU-wide scheme to support saversÃ¢Â Â™ deposits, no cross-EU liquidation process (with banks international in their life but local in death) and no cross-EU supervision either, the latter at the insistence of the Germans, who (i) were afraid the ECB would be morally obliged to save banks it had failed to properly supervise and (ii) did not want anybody outside Germany to supervise the Landesbanken.3. Free movement of labor is not supported by the remaining institutions that go hand-in-hand with having a labor force. Retirement schemes are national, unemployment insurance is national, labor contract law is extremely different from one nation to another. This not only causes massive issues with Ã¢Â Âœautomatic stabilizersÃ¢Â Â• when recession hits (in sharp contrast with the US, for example, where the Federal government picks up the bill on the 13 weeks of unemployment insurance if recession hits in West Virginia), it also causes a one-way flow of labor to where the setup is best.4. Free movement of capital, similarly, directs investment to the lowest-tax states, creating the problems we regularly read about in the newspaper.5. Some countries have a totally antiquated microeconomic setup which makes it impossible for them to compete with the more modern economies. The authors make an amazingly diplomatic attempt to present the Italian problem as an Italian Ã¢Â ÂœperspectiveÃ¢Â Â• and list Italy alongside the IMF and the ECB and the Anglosaxons as one of the Ã¢Â Âœother perspectivesÃ¢Â Â• but I, for one, was not fooled. I knew exactly where they were going with this. Also, IÃ¢Â Â™ve been trading Italy since 1993 (indeed, my career is 100% based on a trading decision I was forced into in 1995 to buy a billion dollars worth of CcT bonds swapped into USD), IÃ¢Â Â™ve read extensively about Italy and IÃ¢Â Â™ve even written about it and I can say the book is worth buying for the Italy chapter alone. Structural reforms, baby!Finally, the book gives you the full, definitive narrative of the crisis, day-by-day. Not only what happened, but a full list of the possible motivations for all the actors. Example: IÃ¢Â Â™m reading about the LTROÃ¢Â Â™s at the beginning of 2012 and the authors are giving a tremendous analysis of how it was two birds with one stone because it was a way for the (peripheral) banks to get paid to support their own governmentsÃ¢Â Â™ debt and IÃ¢Â Â™m thinking Ã¢Â Âœsure, but youÃ¢Â Â™re leaving out the biggie!Ã¢Â Â• Except then I realize thereÃ¢Â Â™s a further chapter on how they all had debt maturing in 2012 (that had been issued mid-crisis with short-term maturities) and how the LTRO gave them three years to refund it. So this is a very thorough narrative indeed. They walk you step-by-step through all of the ECBÃ¢Â Â™s actions, all the way from that day that they stunned us with the 100 billion when subprime hit all the way to the most recent fun thatÃ¢Â Â™s been had with ELA and QE.So how come this is not my favorite book on the Euro?The answer would be that there is no passion here. ItÃ¢Â Â™s more of an Ã¢Â ÂœownerÃ¢Â Â™s manual.Ã¢Â Â• Not one bad word is said about anybody, thereÃ¢Â Â™s nothing that could have been done better, nobody ever made any mistakes. Trichet was right to oppose a Greek restructuring, Draghi was a hero when he bet Merkel would bend, even Merkozy did not really do much wrong in Deauville if you read the book literally. And both the French and the Germans are right about everything.So itÃ¢Â Â™s not a book you can love.But if you want to talk Euro with me and you have not read it, IÃ¢Â Â™m afraid I canÃ¢Â Â™t waste my time. Read it first and then we can talk. It is now The Source.

The book, The Euro and the Battle of Ideas is brilliant. As usual I first read the last chapter, "Conclusions" which I found disappointing. Good or bad fortune landed me in a hospital for 8 days with nothing to do other than studying the book. I reread the conclusions and found them brilliant.How Come? The authors taught me how to understand the cultural differences in thinking in Germany and France in financial and economic cultures. For the reader to understand that this is true requires reading the dense 374 pages that explain theories, valid and not valid. Why so many pages, why so complicated? The reader has to understand how monetary policy, fiscal policy, financial policy, economic policies interact in a dynamic system.The reader also has to accept that a county and certainly the European Union will experience shocks where countries get into trouble, get close to insolvency with the risk of contagion to the union as a whole. Consider the greatest recession that started in 2008 because countries with surplus capital in the Middle East invested large amount of capital in the USA, leading to a property bubble based on packaging of low quality mortgages packages (MBS Mortgage Based securities) that were bought in the USA and also in Europe in huge volumes. For details see "Fault lines" by Raghuram G. Rajan).The authors in this context refer to "Mortal Sin. "Mortal Sin" refers to the buyers of houses or builders to borrow money not in the home currency but instead in countries with the lowest interest rates. This happened recently in Hungary and Poland that borrowed in Euro and Swiss Francs leading to a crisis. I met a very wealthy property developer in Thailand with a degree from the top class Wharton School of Business that committed this sin. I asked him why he has fallen in this trap. His answer " If you have not experienced it you cannot believe it." He was one of those that survived with a haircut. The reality is these shocks will be repeated again and again.This is one of the reasons countries can get close to insolvency and depend on survival for financial contributions from other countries or the IMF, often referred to as "bail outs". The overwhelming problem is "Moral Hazard". A country that faces a solvency risk or a liquidity crisis has made mistakes. These mistakes require changes in policies that are painful like reductions in government expenditure, higher taxes, more flexible labor markets. The moral hazard refers to the risk a government takes the financial contribution but does not change the way it governs. That is why financial contributions are conditional on changes to be made that have to be approved by parliament. In almost all cases the country requires restructuring of economic, financial and social policies. Designing the best restructuring package requires understanding financial and economic theories, often also creative thinking and an ability to communicate with the leaders and their citizens in the problem country so they understand the causes of a crisis and the necessity of change.Solving insolvency or liquidity problems requires funds from others that are unwilling to provide any unless under very harsh conditions. The authors state correctly that this cannot be solved between two countries, between one taker and one giver. But if you consider the problem at the level of a group countries, like the European Union, the obvious answer is an insurance scheme, the "financial stability insurance plan". The plan guarantees that it can maintain financial stability for the group as a whole to cope with financial/economic shocks. All countries pay a premium. This is an excellent suggestion.The European Union and especially the European Central bank have made a lot of progress in this direction.The second question is how to get enough funds in the insurance plan so it that it can guarantee financial stability. Many politicians claim that the idea of Monnet with small progress steps and making progress when there is crisis is no longer adequate.These politicians are probably not aware of a second Jean Monnet method, "The Balance Sheet Method" that he implemented at the request of President Roosevelt at the very beginning of the Second World War.The method was to fix a date in the future, determine the strength of Germany and its allies in terms of military equipment. The next step was to get the top of the three military services, Navy, Army and Air force to agree on the materiel needed to be sure they could defeat the German armed forces. Roosevelt forced the three services to participate and presenting a united plan. The three services much preferred to negotiate with the government independent of the others. After it was done with the Balance Sheet method, together, they appreciated its merits. It is said the method shortened the Second World War with one year.This method applied to the insurance scheme would mean establishing what the size of fund should be at a target date and make a plan involving all participating countries how this target should be reached.This insurance plan would remove the problem of France and Germany disagreeing on bailout plans and their conditionality and who should take the risk.This is an outstanding book and well worth the effort to study. It is obvious that the authors have very complete knowledge of the relevant theories, their limits and the methods to be used to achieve the desired result.

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