



## Which countries profiteer from the Euro?

**Philipp Bagus**

In my book *The Tragedy of the Euro* I explain that the Euro is a political project. Proponents of the socialist vision of Europe under the leadership of French political elites pushed for the single currency as a vehicle to political centralization and a European super state.

The monetary setup of the Euro leads to redistribution in favor of more profligate governments residing mainly in the south of Europe. When I bring my arguments forward, sometimes I hear the counterargument that the main profiteer of the Euro would not be the proponents of the socialist vision of Europe and Southern states but rather Germany.

The argument is quite common among press commentators and economists alike and goes as follows: The single currency has made competitive devaluations impossible. Southern states that are not competitive cannot devalue their currency anymore to gain an advantage. Thus, Germany can export more and is therefore the main beneficiary of the Euro ripping off the periphery. This opinion is not only propagated in Southern Europe. Even in Germany, Chancellor Angela Merkel has used the argument of higher exports to justify the bailout fund (European Stability Mechanism).

First, a caveat must be applied: There are only individuals that benefit or lose from an institution such as the euro. Whole countries do not act and cannot benefit or lose in a strict sense. In Germany, some people have won, other have lost due to the euro.

Putting these considerations aside, we have to emphasize that exports alone do not make someone happy. Let us apply the reasoning to an individual. When someone works, he exports services to the rest of the world. When he sells his stuff to others, he exports goods. The individual does not do that because he likes exporting per se, but rather, because he wants to import sooner or later. When he buys a car or groceries or gets a haircut, the individual imports goods and services. If one had to choose between only exporting (working and giving away goods) and importing (consuming), most people would choose the latter option.

Indeed, Southern Euro countries have opted for the latter. They import more from Germany than they export to it. The result is German export surpluses interpreted by German politicians as a great success. Other Eurozone governments have criticized Germany for having export surpluses, i.e. giving more goods away than receiving. On the EU-level, there has been even the suggestion to punish countries for too high export surpluses. Apparently, it is a crime to be too competitive and give away goods without receiving anything in return. Maybe as a punishment even more goods should be shipped to countries with import surpluses.

What is the reason why Southern states can have enduring import surpluses? The answer to this question brings the European fiat currency, the Euro. There are several independent governments that can use one banking system to monetize their debts. Let examine the case of Greece. The Greek economy with too high wage rates is no competition to the innovative German industry enjoying moderate wage increases.

The result of these artificially high Greek wages would be poverty and unemployment. These effects, however, are partially counteracted by the profligate spending by the Greek government. To finance the spending, the Greek government simply prints bonds. Transferring new funds to the Greek government, the banking system buys these bonds and uses them as collateral for new loans from the ECB, which thereby monetizes the government deficit. The Greek government uses the new money to pay for early and high retirement schemes, an army of public servants and generous social benefits. Thereby, the uncompetitiveness of the Greek economy is sustained and increased.

For instance, the Greek government could issue a bond, receive new money and pay a minister. The minister buys with the new money a BMW. As a result prices in the Eurozone rise and Greece enjoys a trade deficit with Germany. Greeks live beyond their means financed by the issuing of government bonds and the production of new money. Cars flow into Greece in exchange for new euros and debt promises. Europeans from fiscally more responsible states pay the bill in form of higher price inflation and since 2010 in form of direct guarantees for subsidized loans to the over-indebted Greek government. These loans are most certainly "restructured" again. In other words, some of the debt promises will never be honored. Who has benefitted from the Euro?