Europe Isn't Working. By Larry Elliott and Dan Atkinson. New Haven and London: Yale University Press, 2016. ISBN 978-0-300-22192-3.

Larry Elliott and Dan Atkinson are two men with a mission. In the preface to their book *Europe Isn't Working*, the two British journalists are upfront about what that mission is:

> There are those on the left who feel uneasy about voicing their concerns about the euro, in the main because of the company they have to keep. This book explains why those misgivings are unnecessary. The single currency was not, is not, and never will be a progressive project. (p. viii)

This sets the tone for a self-confident attack on the European single currency – part left-wing take-down of the euro, part take-down of the europhile left.

Elliott and Atkinson are keen to remind the reader that their first collaborative effort, *The Age of Insecurity* (1998), anticipated that European Monetary Union (EMU) would stumble. They are acutely aware that if a version of *Europe Isn't Working* had been published in the late 1990s, predicting some of the subsequent events instead of describing them in hindsight, it would now be hailed as prophetic. Appearing in 2016, however, it is hard to escape the impression that the book is fighting yesterday's war. As the authors themselves note about their main target audience, the British left, it has become "quite cool… to be not just against the single currency but to voice doubts about the European Union itself" (p. 157). Given this, the misleading reference to "Europe", which has somehow crept into the title of a book preoccupied with the euro, whiffs of a sales ploy for the Brexit era.

Many of the book's key themes will be familiar to anyone who has followed the birth and life of the euro through the financial and opinion pages of UK newspapers: EMU was conceived as a political project, with too little regard for the economics of a single European currency; its membership criteria and design reflect predominantly political considerations and compromises; the resulting heterogeneity of its members and institutional flaws left the euro vulnerable to crises; when such a crisis hit, the Eurozone's emergency response was botched and consistently behind the curve; the consequences have been high unemployment in Southern Europe, economic stagnation for the Eurozone as a whole and political strife among its members.

Elliott and Atkinson take aim at those parts of the left which had cheered the euro on, expecting EMU to deliver economic growth, convergence and cooperation among its members in a pan-European social-market economy. In practice, they argue, its effects have been the exact opposite. They illustrate their point by dedicating a chapter each to the euro experience of several different EMU countries: France, Ireland, Greece, Italy and a counterfactual euroised UK ("a bullet dodged").

While their account of the euro's failings is opinionated, the flaws of the single currency which Elliott and Atkinson highlight are real. In the face of the asymmetric economic developments triggered by the global financial crisis across the Eurozone, the worst-affected countries were unable to cushion the blow through national monetary policies or exchange-rate devaluations. Together with limited labour mobility and insufficient fiscal coordination across European borders this set the stage for large losses in output and employment. This aspect of the euro crisis vindicates the theory of optimal currency areas (OCA), which harks back to Robert Mundell's (1961) pioneering article.

Some of the euro's early critics whom the authors cite approvingly – such as Paul Krugman, Joseph Stiglitz, the late Rudiger Dornbusch and the former UK Shadow Chancellor Ed Balls – were guided by OCA theory. Elliott and Atkinson acknowledge this intellectual debt as somewhat of an afterthought. From an economist's perspective, the theory would have merited greater prominence in an endeavour such as theirs. It could have provided a framework around which to organise some of the themes of the book. Moreover, it would have allowed the authors to explore which of the euro's troubles were foreseeable, and which have only become apparent *ex post*.

According to the emerging academic consensus (see Baldwin and Giavazzi, 2015), the inability of EMU members to conduct their own interest and exchange-rate policy is responsible only for part of the Eurozone's woes since 2010. The unchecked build-up of large internal imbalances during the boom years, fragile banking sectors and the absence of national lenders of last resort created the conditions for sudden stops in capital flows, which amplified the crisis. Yet, as Frankel (2015) recalls, economists' initial appraisals of EMU paid little attention to the issues of debtor moral hazard and the appropriate bank supervision framework in currency unions. On a pessimistic reading, the euro proved more crisis-prone than economists anticipated in the 1990s. More optimistically, the crisis has laid bare underappreciated weaknesses of the single currency, which initiatives such as the fledgling European banking union now seek to address.

Elliott and Atkinson are sceptical about the ability and willingness of the Eurozone to take the steps towards further integration which are required to complete the euro. They strongly believe the time has come to ditch the single currency. To them, the seeming unwillingness to abandon a failed project is yet further evidence of the EU's frustrating inflexibility. At no point do they take a stance on what a "progressive" alternative to the euro should look like – or, at least, a more workable one.

Devising the former might be too tall an order, but even the setup of the latter is far from clear: a fixed exchange-rate regime, floating currencies or some hybrid thereof all present their own challenges to a group of countries seeking closely integrated goods and factor markets. Furthermore, as the authors readily admit:

> All of these options would be costly, especially the demise of the euro. But all break-ups are painful and expensive. (p. 256)

Since this is so, perhaps the EMU partners can be forgiven for trying to "work on it" first.

References

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