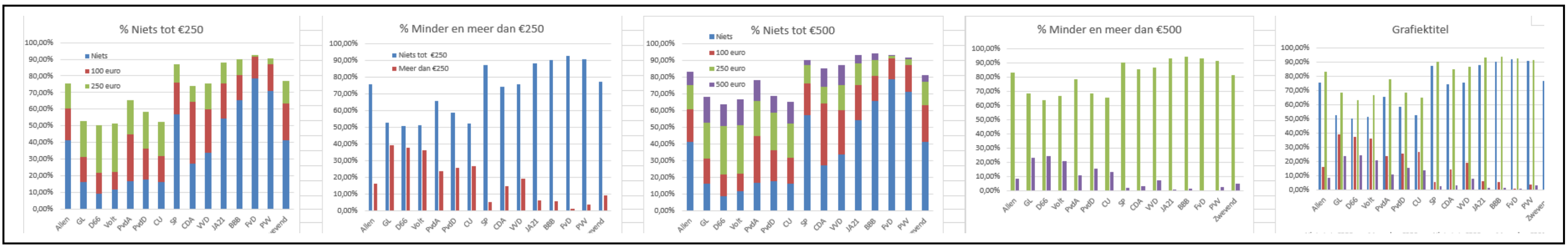
Our lagging purchasing power and the euro

The role of the euro in our purchasing power lagging behind the growth of our GDP



Stichting Milieu
Wetenschap & Beleid

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March 1, 2022

Stichting Milieu Wetenschap & Beleid

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Stichting Milieu
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Introduction

The 20th anniversary of the euro is a good reason to map out what the euro has brought us as the Netherlands. Two decades of data form a sufficiently large basis to draw conclusions about developments, in particular about the relationship between the introduction of the euro and our purchasing power development.

This report looks at the purchasing power effects of the euro, in conjunction with our exports and our trade surplus, as well as other effects of the euro currency union on us and the eurozone as a whole.

It is shown that the euro has far-reaching negative effects on our purchasing power, which can lead to problems, partly due to the recent increase in inflation, and that this is an important argument for taking a renewed critical look at the functioning of the euro for the Netherlands and for the other members of the monetary union.

On the occasion of the 30th anniversary of the EMU, the CPB published the report “Trade benefits of the EU and the internal market” at the end of January 2022, which concluded that the EU has helped the economy of the Netherlands and virtually all EU Member States grow.
This claim contradicts the conclusions in this report. That is why the CPB report is analyzed at the end of the second part of this report, and it is explained why the CPB claims do not follow from the research that was carried out.

Shortly before the publication of this report, the sudden sharp fall in purchasing power became an important topic in the debate. It seems to come at a good time, and hopes to make a useful contribution to this debate.

The report
The research behind the report was conducted from March to June 2021. Most of the data and links are therefore about a year old, although more recent data and links have been used at some points.

Reviews by a dozen economists and monetary specialists, and their processing in the report, took place from June to December 2021.

The report starts with a summary on points in 2 pages.
The first part of the report briefly explains in 7 pages what the connection is between the euro and our lagging purchasing power.
Both provide a sufficiently clear picture of the substantive claims of the report.

In the second part, these claims are extensively substantiated in 24 pages and explained in more detail. This part was largely created in response to the comments of the reviewers .

Resume

Issue

Our economy is stronger than ever, but our purchasing power growth has been stagnant for decades.

Since the introduction of the euro, our trade surplus has grown excessively, but purchasing power has lagged sharply behind GDP growth. There is an imbalance in the economy.

The labor market is already seriously overstrained, while we are still in a corona crisis and the government is still spending large amounts on stimulating the economy. This also points to an imbalance in the economy.

Due to the rising costs of the energy transition, higher energy prices and rising inflation, purchasing power is likely to decline significantly in the coming years.

The ECB keeps interest rates artificially very low. In combination with rising inflation, this is very detrimental to savings and pensions. For pensioners, the decline in purchasing power (without additional compensation) will be even greater.

Monetary wealth optimization

In countries with an independent currency, rising productivity will lead to an increase in exports and thus a rise in the value of the currency, inhibiting export growth and increasing purchasing power. We call this mechanism the **monetary welfare optimization** . The value of the currency, which moves along with the trade balance, thus ensures optimum prosperity development in a country, and a fair distribution of this among the population.

Strong growth in exports is excellent for an economy, but it is better for a country's prosperity if it is slowed down somewhat by a correspondingly growing value of the currency, and growing purchasing power leads to more imports, and therefore to controlled growth of the trade surplus, with maximum growth in purchasing power and prosperity.

Within the eurozone, all countries have a common currency, and this welfare optimization disappears in the individual countries.

The euro is too expensive for the weak euro countries and too cheap for the strong countries such as the Netherlands and Germany. This destabilizes the economies of both groups of countries.

The consequences of the euro

The main disadvantages of the euro monetary union are:

- The strong countries compete with their relatively increasingly cheap products in the market for the weaker euro countries, even domestically
- The strong countries no longer benefit from an increase in purchasing power due to the increase in the value of their currency, because they are in the euro with the weak countries

The weak euro has the following disadvantages for the Netherlands:

- A lagging purchasing power due to the high price of foreign services and products
- Higher costs for SMEs, which are passed on in prices, which also indirectly affects purchasing power
- Lagging value of our savings and pensions
- The too weak euro makes Dutch exporting companies lazy: their products are much too cheap and sell well anyway, even without innovation
- The extremely high costs incurred by the EU and the ECB to keep the euro alive, which will have to be paid for in large part by us.

Dutch politicians only see the positive effect of the euro on our trade balance, but do not understand the negative influence of the euro on purchasing power and the labor market. In addition, a large trade surplus since the introduction of the euro has only very limited benefits for our prosperity.

The decrease in purchasing power growth due to the replacement of the guilder by the euro is at least 9%, but probably more than 18%. This concerns a loss of purchasing power of € 18 billion to more than € 36 billion per year .

This purchasing power deficit cannot be repaired without causing major other problems.

The euro currency union and our exports

Before the arrival of the euro, we were already a strong exporting country, from around 1985.

Only 30% of Dutch exports go to the 24 EU countries other than Germany, Belgium and France.

Dutch exports to non-euro countries have been growing faster than those within the EU since 2002, while the euro would actually lead to increased mutual trade due to fewer obstacles.

In the ranking for business climate, the Netherlands is far behind the other countries in the area that are not in the euro: Switzerland (2), Sweden (6), Denmark (10), Norway (11) versus the Netherlands (16). Being part of the Eurozone apparently brings little benefit to international companies.

The growth of our GDP was the same before and after the arrival of the euro

The future of the euro currency union

The Eurozone is not " optimal currency area", and is therefore unsustainable in its current form in the long term.

For countries that do meet the optimal currency area criteria, a currency union is indeed possible and sustainable indefinitely, but this does not eliminate the economic differences within the union, but rather anchors them. A successful monetary union also leads to a lasting transfer union and lasting differences in prosperity in mutually differing economies.

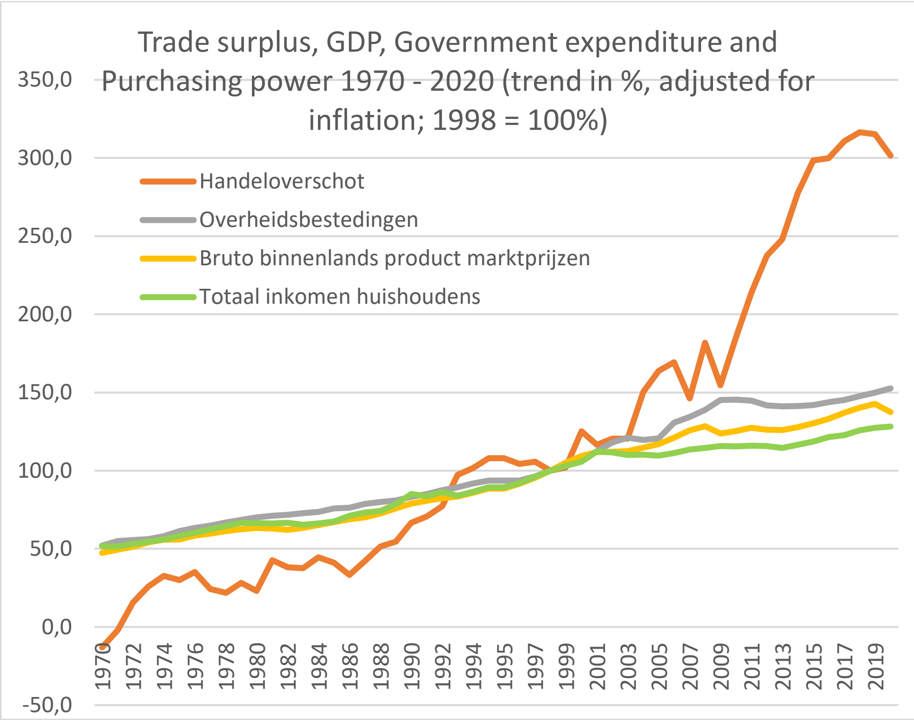
Centralizing the economic and budgetary policies of the euro countries in Brussels will therefore not lead to a recovery of monetary welfare optimization and prosperity growth in the euro countries, or to converging economies.

Conclusion

The euro has major disadvantages for all countries in the eurozone, including the stronger countries such as the Netherlands, and is not sustainable in the long term. Consideration should therefore be given to a far-reaching reform of the eurozone, in which monetary flexibility, and thus monetary welfare optimization, is restored.

1 . What causes the lagging purchasing power?

Problem statement: our economy is stronger than ever, but our purchasing power growth has been lagging behind for 20 years
Our economy has been doing very well in the last 20 years: our exports and our trade surplus have exploded and are both (absolutely, in euros!) the fourth highest in the (non-oil) world [1]. This makes them no less than 26% and 15% respectively of that of giant China, and (relatively) twice that of Germany. An incredible achievement for such a tiny country.



Trade surplus, government spending, GDP, household income.
The trade surplus skyrockets after the introduction of the euro in 1999 (Source: CPB)[2]

In the wake of this export growth, we have also achieved reasonable growth in our GDP, although that growth has not increased following the introduction of the euro and the explosive growth of our trade surplus.

But the purchasing power of Dutch households has lagged behind the growth of the economy for decades, even stood still between 2001 and 2012, and is now threatening to fall structurally after a number of years of some increase. This is currently mainly due to rising energy prices [3]and rising inflation[4]

Less growth in our purchasing power than in our economy is not consciously felt by citizens: progress is still experienced. A significant drop in purchasing power now seems unavoidable, and will lead to problems with paying energy and rent for many low- and middle-income families.

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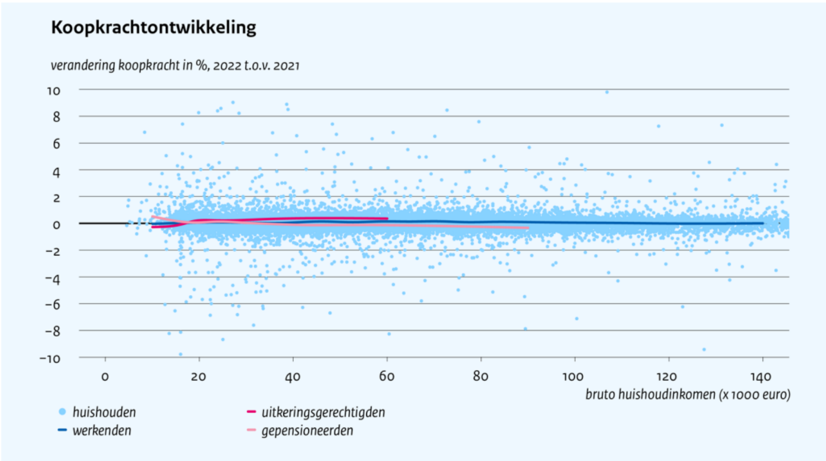
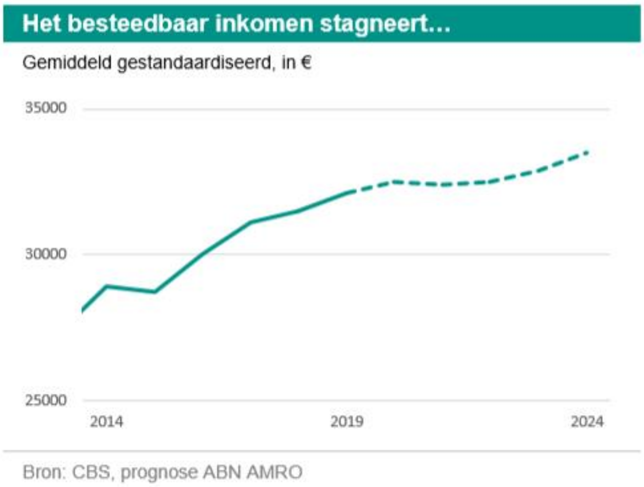
[1] https://countryeconomy.com/trade/balance
[2]Appendices to the Central Economic Plan 2021 and the Medium-term Outlook 2022-2025 Update https://www.cpb.nl/centraal-economic-plan-cep-2021
The graph shows the cumulative volume increase in percent per year, so adjusted for inflation.
Volumes come from the CPB appendix, the accumulation has been done by the author
[3]The energy bill is rising both due to the currently much higher gas price and due to the continuing rising costs of sustainable energy, which are passed on to the energy bills of households and SMEs.
[4]Inflation is the result of the Corona crisis and rising energy prices for SMEs and industry.

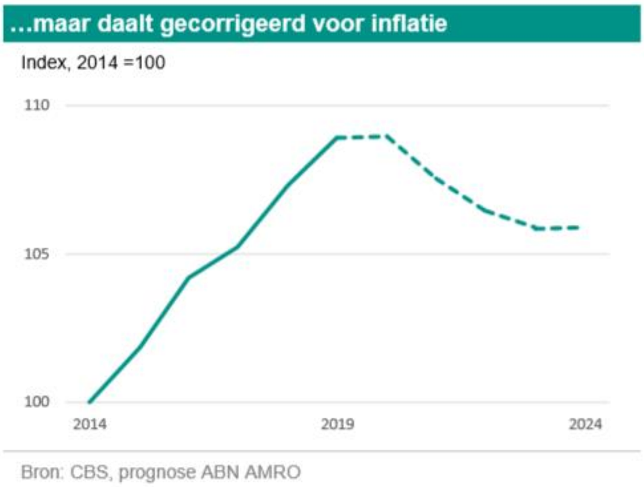
For 2022, the CPB maintains purchasing power growth at approximately zero [5]:

Figuur 3.3 Koopkrachtontwikkeling in 2022[44]



At the end of 2020, ABN AMRO already foresaw a sharp decline in purchasing power due to rising inflation [6]:





The purchasing power of the elderly has been lagging behind that of the working population for years, and these developments are now adding to that.

The fact that our purchasing power has lagged behind an extremely growing trade surplus and reasonable growth in our GDP for decades indicates a fundamental imbalance in our economy.

But not only purchasing power is behaving strangely: there is also an acute shortage of available labor in almost all sectors, while we are still crawling out of a crisis. That is something you would expect with an overheated economy at a cyclical peak, not just after a crisis, while the government is still in full stimulus. This, too, points to an economy that is out of balance.

It is striking that the frankly jubilant expectations of politicians and media for the post-Corona period last year were all about the rapid recovery of our economy, not about the recovery of our purchasing power. The latter would make the picture quite gloomy.

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[5] https://www.cpb.nl/sites/default/files/omnidownload/CPB-Raming-Macro-Economische-Verkenning-MEV-2022.pdf
[6] https://assets.ctfassets.net/1u811bvgvthc/6naR8djIhg4uJ38bWbYiDg/97c822d61eb918996988693b00b66725/Bijstand-blijft-behind-bij-inflation.pdf

The role of business and government
Why purchasing power has lagged far behind economic growth for decades is not understood in The Hague: it seems as if there is a strange leak somewhere in our system, causing economic growth to drain away before it can reach households.
The recently sharp rise in inflation has already left people in their own hands: the already meager prospects of minimal growth in purchasing power in 2022 are no longer there. Ulko Jonker wrote in the FD [7]:
" The purchasing power of households would decline by 1.4% to 1.6%, where the Central Planning Bureau in the Budget Memorandum still calculated with a zero line across almost the entire line. That was already meager, given the expected economic growth of almost 4% this year and 3.5% next year. If the economy grows by € 95 billion in two years and the citizen sees nothing in return or even has to focus on it, it will be a false start for Rutte IV. "

A number of economists and politicians blame the business sector for the stagnating purchasing power. The reasoning behind this is that businesses are pocketing the profits of the growing economy, rather than raising wages to benefit purchasing power. This fits in with the idea that the unions are too weak to enforce these wage increases, another explanation that is also given for the lagging purchasing power.

But this reasoning is incorrect: the profits of non-exporting companies have not risen markedly. Large parts of SMEs had a hard time during the euro crisis ten years ago, and had only just recovered from it when the Corona crisis hit them again, several times already. SMEs are by far the largest employer in the country, and should pass on wage increases, leading to further price increases, which would initiate a wage-price spiral.

The government, like the other very large employer, also has a problem: employees in care, education and the police can barely make ends meet on their wages, which applies even more so to pensioners and benefit recipients. But a substantial increase in expenditure on all these sectors is a huge drain on our budget and leads to an even higher tax burden or to an impermissible increase in our national debt.

So wages cannot simply rise sharply across society. And an increase in wages only in the exporting industry and, for example, ICT, mainly leads to more inequality and the (further) depletion of healthcare and education. That does not solve the purchasing power problem

In addition: the previous government already increased the burden on the business community considerably, and in addition, the enormous costs for more expensive energy and sustainability projects will hit many companies hard in the coming years. This obviously does not contribute to the recovery of purchasing power via higher wages.

Over the past 20 years, government spending has risen about 30% more than consumer spending. At first glance, economic growth therefore disappears sooner in the pockets of the government than in those of the business community.[8]

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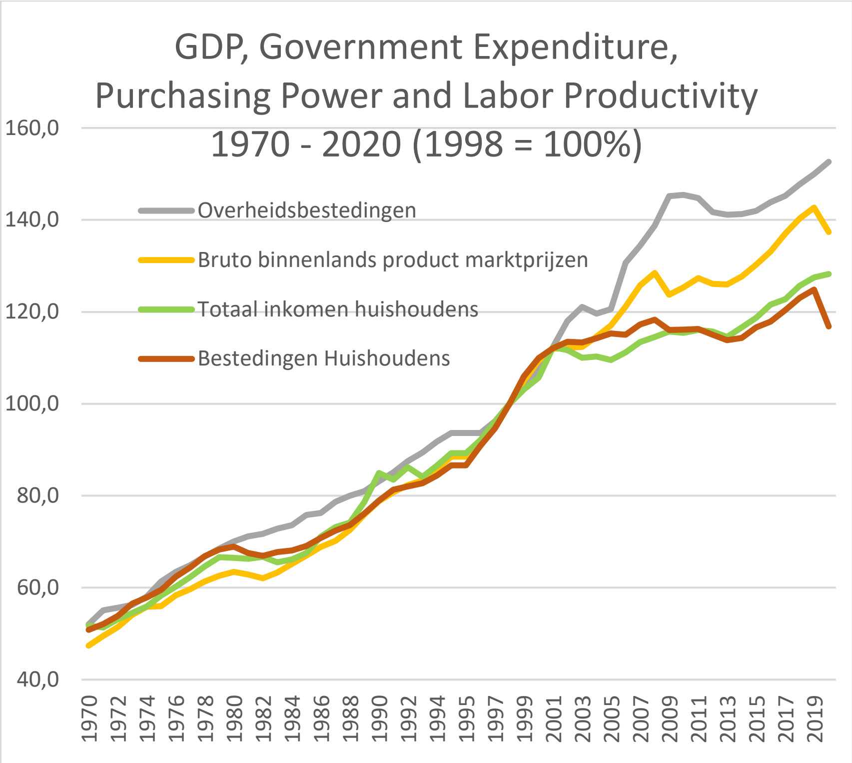
[7] https://fd.nl/politics/1422103/inflation-dreigt-de-koopkrachtambities-voor-rutte-iv-te-doorkruisen-eel1cavY9LED
[8] See part [2] for further substantiation



Government spending, GDP, household income, household spending.
Since the introduction of the euro as a payment currency in 2002, purchasing power growth has stagnated and economic growth seems to be driven mainly by higher government expenditure (Source: CPB [9])

But is that the whole story? And why is there such a clear trend break in purchasing power growth after the introduction of the euro? The chart suggests that something else is going on than just an overly greedy government, and that the euro has something to do with it.

To find out what is going on, one has to turn to monetary economics.

The " optimum currency area criteria"
In order to be able to use a common currency with different economies, they must meet a number of conditions. If these criteria are not met, the disadvantages of the monetary union will become increasingly serious and will not be sustainable in the long term.

The main criteria:

- free movement of labor and capital
- cyclical economies that are in phase, preferably converging economies
- the willingness to pay for significant transfers from rich to poor regions

The eurozone scores unsatisfactory on all three criteria. As a result, the forced maintenance of the euro currency union has increasingly negative consequences.

The main negative consequence: the euro is too expensive for countries with low productivity growth, which makes their products too expensive and their exports stagnate, and too cheap for countries with high productivity growth, which causes their exports to increase sharply. For example, due to the stronger growth of our productivity, the products from the Netherlands and Germany become cheaper every year compared to those from the weaker countries, so that we compete with them from the market, also in their own country.
And because they are in the EU, they are not even allowed to protect themselves against our competition in their own country through import tariffs.

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[9] Appendices to the Central Economic Plan 2021 and the Update medium-term outlook 2022-2025
https://www.cpb.nl/centraal-economic-plan-cep-2021

Before the introduction of the euro, the currencies of the weaker countries were regularly devalued to match lower productivity growth, so that their exports did not collapse. These were not marginal adjustments: in the period 1965-1995, for example, the value of the peseta fell by 80% against the guilder.

But since they are in the euro, the weak countries can no longer compensate for the difference in productivity by occasionally devaluing their currency in order to become competitive again.
After 20 years of the euro, the differences between strong and weak countries have become so great that the weakest countries within the euro can no longer stand on their own two feet, and ever-increasing amounts of money are needed to keep them afloat and thus prevent the collapse of the eurozone or to postpone.

The Hague and the euro
This problem is known in Brussels and The Hague, if only because new, larger money flows and financial constructions have to be devised every time (e.g. QE, Green Deal, Corona Recovery Fund) to keep these countries afloat, and our government Brussels agrees again and again, albeit after some protest in front of the stage.

In The Hague, people mainly see the enormously positive effect of the euro, which is far too cheap for us, on our exports and trade balance, also because the lobby of the large companies insists on this. The cheap euro is hailed as the source of our prosperity. But it is mainly the source of our trade surplus, which does not seem to say much about its effect on our purchasing power and therefore on our prosperity.

The disadvantages for the weak countries are invariably presented by our politicians as their own fault: then they should introduce stricter budgetary discipline and work harder, as we do.
Of course, that attitude does not solve anything: you simply cannot turn Italians and Greeks into Germans. That is a matter of culture, which needs generations to change, if at all possible. So the problem is getting more and more serious.
But that's how Dutch politicians like to get rid of it lazily, fond as they are of our own generous export figures.

The disadvantages of the euro for the Netherlands
It is one thing to dismiss the disadvantages of the euro that is too strong for the weaker countries, but politicians also overlook three significant disadvantages of the euro that is too weak for the Netherlands:

- the enormous costs of the EU and ECB policies to keep the euro alive, for which we will pay a large part
- the serious disadvantages of the too weak euro for purchasing power in the Netherlands
- the lost advantage for the Netherlands of a large surplus on the trade balance since the introduction of the euro

The first point will be dealt with in a subsequent report.
The last two points are the core of this article.

Monetary welfare optimization in a country with its own currency
In a (small) country with an independent currency, the value of the currency is a matter of supply and demand on the financial markets. That value is therefore mainly determined by the trade balance of that country: in order to buy the export products, the currency of that country must be purchased through the international banks, which increases the demand for, and therefore the value of, this currency.
The stronger currency makes everything from abroad cheaper, which is good for purchasing power in that country, but a strong currency is also a brake on exports. In order to further increase exports, companies must therefore innovate to make even better products.

This inhibiting effect of a strong currency on exports seems to be a disadvantage for the industry, but countries with a traditionally strong currency, such as the Netherlands and Germany, always turn out to have a strong industry that ranks among the world's top due to constant innovation.

For example, in a country with an independent currency, purchasing power and exports grow in an optimal mix, and economic growth is optimally distributed among the entire population through the stronger currency and higher

purchasing power.
We call this mechanism ***the monetary welfare optimization.***

The effect of the euro on trade surplus and purchasing power
With the introduction of the euro, this mechanism has disappeared in the eurozone, our exports are no longer inhibited by the more expensive currency, which leads to the current disproportionate trade surplus, but without benefiting the population through rising purchasing power. The increase in purchasing power that we would have had with the guilder is now spread throughout the eurozone, where it is neutralized by the disadvantages of the too strong euro for the weak countries. So the trade surplus in the Netherlands is soaring, and purchasing power stagnates.

The too weak euro is an attack on our purchasing power through three mechanisms:

1. **Direct loss of purchasing power of citizens**

The fact that our export products are much too cheap due to the weak euro, and our trade balance is exploding, also means that the products we import are much too expensive.

If we still had the guilder, it would have appreciated much more than the euro since 2000 due to our flourishing exports, and the Dutch could have bought much more for their money. Gasoline, electricity, gas, iPhones , electronics, coffee, holidays, cars, our food, in short, everything with a share of energy or foreign countries in the cost price would have become tens of percent cheaper. A fully automatic increase in purchasing power.[10]

2. **Higher costs for SMEs**

The (non-exporting) SMEs are also suffering greatly from the weak euro: energy, raw materials, semi-finished products and machines from abroad are all much more expensive than would have been the case with the strong guilder. This must be factored into product prices, which in turn costs citizens extra money, which deducts from their purchasing power.

3. **Savings accounts and pensions**

It is not the euro itself, but the efforts to keep it alive, that is the euro's third and final drain on our purchasing power.

For example, there are the billion-dollar schemes of the EU/ECB to keep the southern countries within the euro (in particular QE, Target 2, Green Deal and Corona Recovery Fund). For this, a debt burden of thousands of billions of euros has been built up out of sight of the citizens, which will one day have to be largely repaid by them. This already concerns many tens of thousands of euros per European family, and the amounts will continue to rise in the coming years.

In addition, the ECB keeps interest rates artificially extremely low, even negative, in order to keep the interest burden somewhat affordable for the southern countries with a much too high national debt.
However, the absence of interest at high inflation means for the Dutch, who have saved for their old age like no other country, that their savings and pensions evaporate [11]and the elderly therefore have less to spend. With an increasing share of the elderly in the economy, this also represents a significant drop in average purchasing power.

How much purchasing power does the euro cost the Netherlands?
That cannot be calculated exactly, because you have to compare it with an unknown situation, namely not joining the euro in 1999, but in any case it concerns substantial amounts.
A minimal brake on purchasing power growth since 1999 of 9% due to this effect can be well substantiated, but more than 17% is more likely.[12]

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[10] This is quantified in part [2].
[11] https://www.cpb.nl/sites/default/files/omnidownload/CPB-Netspar-Policy%20Brief-Lage-rente-en-de-toekomst-van-pensioenen.pdf
[12] See the detailed substantiation in part 2

In monetary terms, it is estimated to be at least €18 to more than €36 billion per year.
This is of course a very rough estimate, but still indicates the order of magnitude.
Probably more than 17% less purchasing power due to the euro is consistent with the approximately 25% that purchasing power has actually lagged behind GDP growth since 2000.

The advantage of a large trade surplus
A large trade surplus of a country normally ensures a strong currency, and thus growth in purchasing power: the so-called "monetary welfare optimization". With the arrival of the euro, that advantage of a trade surplus is no longer there, as mentioned.

This is separate from the major advantage of strong exports. This generates activity and many jobs in the export industry. But if the trade surplus is too large, this will lead to an overstrained and unbalanced labor market.
That also explains the puzzling problems on the labor market at the moment. This too has been disrupted by the euro, which is too weak for the Netherlands.

For example, we see that the euro has a strong negative effect on our purchasing power and prosperity, while our enormous trade surplus since the euro has hardly any positive consequences for Dutch households.

Conclusions
Purchasing power in a country with an independent currency naturally grows along with the growth of productivity, because the value of the currency adjusts to the growth of the trade surplus. But at the same time, this will also slow down the growth of the trade surplus. Optimal economic growth is created: the mechanism of monetary welfare optimization.

But within the euro currency union this mechanism is absent. The euro, which is much too cheap for the Netherlands, and the policy of the ECB have therefore caused, in addition to an unbridled but not very useful growth of the trade surplus, a considerable brake on the growth of purchasing power over the past 20 years.
This effect is not understood in The Hague.

There are no measures that can compensate for this effect without causing damage elsewhere in the economy: higher wages, for example, are possible for a number of exporting companies, but not for domestic SMEs or for the government.
And the amounts that would be necessary for the government to restore purchasing power are far too large to be able to pay from a budget deficit or cuts in other expenditures.[13]
The government has recently promised to look into whether the slumping purchasing power can be restored, but there are no instruments to increase purchasing power without (too) major disadvantages.

It is high time to take a critical look at the effects of the euro and start a serious discussion about whether it can continue to exist in its current form. Or that there may be alternatives that can eliminate the disadvantages of the current euro, while the advantages remain; for the Netherlands alone, or for the entire eurozone.
Recently, former finance minister Hans Hoogervorst came to a similar conclusion.[14]
A subsequent article will take a closer look at alternative scenarios for the euro.

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[13] See the calculation in part 2

[14]Former finance minister Hans Hoogervorst states in EW: "Leaving the eurozone should not be a taboo" and " A currency union built on an unsustainable debt burden will eventually fall apart. We cannot continue to accept this tacitly."
ewmagazine.nl/nederland/BACKGROUND/2022/02/vertrek-uit-de-eurozone-mag-geen-taboe-zijn-10257w/

2 . Explanation and substantiation

The core problem of the euro: the “ optimal currency area” criteria

Already in the sixties of the last century, Robert Mundell formulated the conditions that economic regions must meet in order to be able to use a common currency, the so-called “ optimal currency area criteria”.[15]
The main:

- free movement of labor and capital
- cyclical economies that are in phase, preferably converging economies
- the willingness to pay for significant transfers from rich to poor regions

Because in the eurozone countries with very different economic growth and low labor mobility (if only because of the language problem) use the same currency, the products of countries with high productivity growth become increasingly cheaper or better compared to those from countries with lower growth, and push them out of the market.
That is why the Netherlands and Germany export completely dull, both to the southern euro countries and outside the euro zone, and it is becoming increasingly difficult for the southern European countries to lose their products. Abroad, but also in their own country. The less efficient companies in the south are no match for our increasingly fierce competition.

This makes the strong economies stronger and the weak weaker, in other words, the economies in the Eurozone are diverging instead of converging. And that is reinforced by the common euro.

No labor mobility and no convergence: this removes two of the three conditions for a monetary union.
The third condition: accepting a permanent transfer of very large amounts of money from the strong countries to the weak countries, of course on the condition of hard reforms in the weak countries, will most likely not be accepted by the populations of both groups of countries, when they experience painful consequences. Nevertheless, the EU is strongly committed to this.

None of the three conditions for a viable currency union are met, so it must be concluded that the euro currency union is not sustainable.
For example, the euro has now led to a permanent crisis in the southern euro countries. [16]As a result, increasingly higher transfer amounts to the South are needed in order to stretch the life of the euro.

The politicians in Brussels also know that the euro currency union in its current form is not sustainable. They argue that this can be solved by centralizing the financial policies of all euro countries in Brussels.
It will be shown later in this piece that this is not true: economies will still not converge, labor mobility will still remain too low, and the willingness of the people of the Nordic countries to pay ever-increasing transfer amounts will one day come to an end. cough.
But above all, this plan has an insurmountable flaw: the absence of monetary welfare optimization would continue to unnecessarily cost all countries a great deal of wealth, which would have been built up without the euro.

Most economists in the Netherlands recognize the major drawbacks of the euro. But they become very uneasy at the thought that the euro in its current form may not be sustainable, and do not dare to really consider alternatives to it. Yet there is more than enough reason to do just that, to at least have a good plan for when the euro is no longer sustainable, and thus be able to prevent an uncontrolled collapse of the euro.
In order to restore prosperity growth and balance in the European economy, some form of monetary flexibility will have to return within the eurozone.

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[15] https://en.wikipedia.org/wiki/Optimum_currency_area
[16] https://www.climategate.nl/2014/05/1-het-coreproblem-van-de-europese-muntunie/

External and internal devaluation

When countries have their own independent currency, its value continuously adjusts automatically to economic growth. This creates optimal growth of the economy and prosperity, including purchasing power. We call this the monetary welfare optimization.

This important mechanism is discussed in more detail in the next chapter.

Since the war, the European currencies have not been completely independent, but there has always been an artificial link between them. As a result, the mechanism of monetary welfare optimization fell away, and after a while the strong and weak economies drifted further and further out of sync, until the weakest countries ran into serious problems.

Before the arrival of the euro, the currency in the Southern countries was therefore regularly devalued against the other European currencies, the so-called **external (or monetary) devaluation** , when the economy was in dire straits due to too low productivity growth. This instantly made exports cheaper, which increased competitiveness for a while.

For example, the monetary welfare optimization was somewhat restored, but very flawed, and each time in jerks, which was detrimental to international business.

For example, the value of the Spanish peseta fell by as much as 80% against our guilder between 1965 and 1995, with a few clearly visible devaluation moments:[17]

This was of course at the expense of the growth of prosperity in Spain, but it did keep the Spanish economy alive and employment at the right level: this created the maximum achievable growth of prosperity for the Spanish population that matched their productivity.

Since the southern countries are in the euro with us, their own currency can no longer be devalued, and the balance with the stronger countries can only be restored by so-called internal devaluation: making products cheaper in order to restore **competitiveness** , by reducing costs. Which translates into ever lower wages and increasing unemployment and poverty.

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[17] https://fxtop.com/en/historical-exchange-rates-graph-zoom.php?A=1&C1=ITL&C2=NLG&DD1=01&MM1=01&YYYY1=1971&LARGE=1&B=1&P=&I=1&TR=&INDICE=&DD2=22&MM2=04&YYYY2=1995&car=1

We have seen this happen in recent years in Greece, Portugal, Spain and (parts of) Italy, for example: these countries are constantly in or on the verge of a crisis. Families are experiencing a poignant decline in prosperity: too little money to buy the basic necessities of life, and adult children who have to go back to live at home because they cannot find a job and can no longer afford housing.
The highly educated part of the youth no longer sees a future and moves away to the strong countries, which further weakens the economy.

Keeping the euro alive costs a lot of money
This problem is known in Brussels and The Hague, but has not yet led to the conclusion that the euro currency union is not sustainable. People prefer to try to prevent or postpone the fall of the euro through enormous money creation, loans, donations, guarantees and the already mentioned far too low interest rates.

These transfer amounts have been hidden from public view in EU constructions such as the ECB's QE purchases, the cumulative Target 2 accounts, a dozen other EU schemes, and recently the Green Deal and the Corona Recovery Fund. Furthermore, by keeping interest rates low (for the time being) when inflation rises sharply, the debts of the Southern European countries are emptying, but so are our savings.
These are all different manifestations of the aim of Brussels and the ECB to keep the euro currency union alive through a transfer union.

Of course, this is all done - ultimately - at the expense of the citizens, mainly those of the strong Member States, although they are not informed about this. This is all the more serious because, in particular, the unprecedented scale of the ECB's bond purchases is, according to all experts, an experiment on an unprecedented scale and with enormous risks for citizens, without those who decided to do it having the slightest idea of how this will end at all.

We are already talking about amounts in the order of €10,000 billion, or €100,000 per European family. For the Netherlands, this involves a gross amount of around €500 billion, which is more than our national debt.
In a new major euro crisis, more than half of this will have to be paid and will therefore be deducted from our prosperity, approximately €60,000 per family [18]. And this amount will rise sharply in the next 10 years if no action is taken.
Yet citizens and national parliaments have never been asked for their opinion or consent.
In countries such as the UK and Norway, you don't have to contribute a penny to this.

In principle, this money is all spent to save the euro, despite the logical conclusion that, according to the generally accepted “ optimal currency area criteria” of Mundell cannot be maintained in its current form. But that idea is heavily taboo in Brussels for political reasons.

Why is the euro weaker than the guilder would have been?
It was previously stated that if we had not entered the euro, the guilder would now be much stronger than the euro is. This requires substantiation.

How does an independent currency work?
The value of an independent currency is its market value in the capital market.
In an open economy, this cannot be determined by a government. [19]This is only possible when the currencies of countries are artificially linked, as we have tried continuously in different ways (but with little success) with the European currencies since the Second World War. Only in the case of such a link can concrete step-by-step devaluation or revaluation take place.

However, governments can influence the value of their (independent) currency within certain limits via the central banks.
The market value of an independent currency is determined by five factors:

[18] These amounts come from a subsequent report by the Environment, Science & Policy Foundation that will be published shortly
[19] The Chinese currency (partly) escapes this law because the Chinese economy is not open.

1. Balance of Trade
If a country exports more than it imports, these products must be paid for in its own currency through the international banking system, so there is more demand for its own currency and its value rises (and vice versa, of course). This is the anchor for the value of an independent currency.

2. Interest rates
The national bank can influence this value by raising or lowering the key interest rate, which increases or decreases the demand for the currency as a reserve currency , and with it the value
3. Purchasing currency
The national bank can buy or sell its own currency, with (temporarily) the same result
4. Money press
The national bank can expand the money supply, which in principle causes the value to fall

5. The international financial world
A few currencies (especially the dollar) are also widely used outside the home country as a means of payment or to hold large reserves. The influence of the trade balance on the value of this so-called reserve currency is relatively small. This gives the government in question much more scope for taking on debts, albeit with all the associated disadvantages.

For the countries that are part of the eurozone, this last factor [5] would play only a very limited role if they had their own currency [20], so we will not consider it further.

The Netherlands has had a large trade surplus since 1985, and therefore had a strong guilder. Since the introduction of the euro, this trade surplus has once again increased sharply. If the guilder had been retained after 1999, it would have become stronger than the euro.

Monetary wealth optimization
As mentioned, when the trade surplus increases, the value of an independent currency rises.
This leads to a special mechanism:

- ***Export products become more expensive abroad due to the more expensive currency, which slows down export growth.***
  This encourages companies to innovate more and increase labor productivity, allowing them to lower costs or increase quality, and thus still increase their exports. Which makes the coin a bit more expensive again. In short, a very controlled upward spiral, which is entirely dependent on innovation in the companies.
- ***Foreign products and raw materials become cheaper due to the more expensive currency, which increases the purchasing power and wealth of all residents in the country, and imports increase***
  Everything we buy from abroad, such as cars, gas, petrol, iPhones , household appliances, coffee, wine, and also holidays, becomes cheaper for families when the value of their own currency increases, which increases their purchasing power.
  But energy, raw materials , semi-finished products and machines are also becoming cheaper for SMEs, so that their products also become cheaper and the purchasing power of households increases further.
  This naturally results in an increase in imports.
- ***Due to the decrease in exports and the increase in imports, the increase in the trade surplus, and thus in the value of the currency, is slowed down until it is exactly optimal for the growth of prosperity.***

In short:
An independent currency *fully automatically* ensures an optimally innovative industry, curbs exports exactly as much as is necessary to optimize economic growth, and spreads prosperity fairly across the entire population through higher purchasing power . It optimizes and, as it were, continuously automatically distributes the growth in prosperity that is earned through innovation and higher labor productivity in certain places in the economy. We call this mechanism “monetary welfare optimization”.

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[20] This will be made plausible in the sequel, including on the basis of the Norwegian Krone.

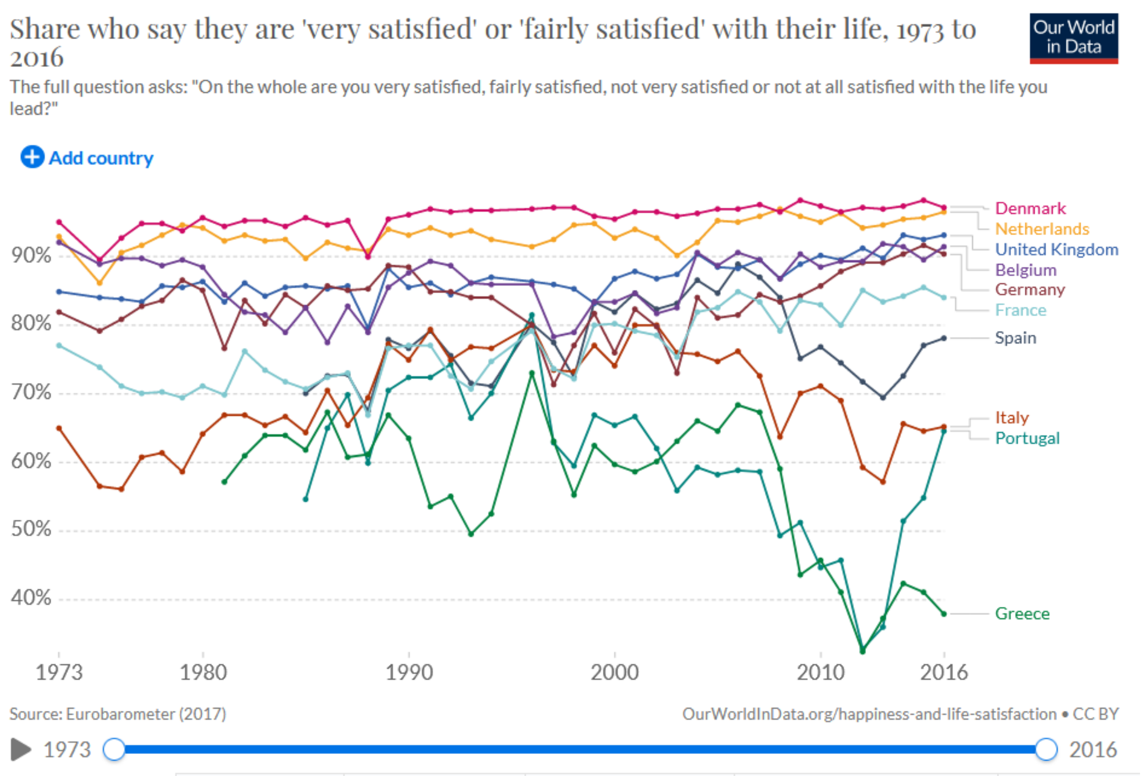
High growth countries
For countries with high economic growth, such as the Netherlands and Germany, a currency of their own would therefore work out very well, as was also proven before the arrival of the euro: a strong guilder and mark went hand in hand with a strong economy, based on highly innovative companies that rely on their area were world leaders and continued to expand that position. This despite the disadvantage of a relatively expensive currency and therefore a high price of our products abroad. GDP, purchasing power and government expenditure in the Netherlands grew at the same rate between 1970 and 2000.

The disproportionate growth of our trade surplus and the sharp lag in purchasing power since the introduction of the euro, show the disappearance of this (healthy!) restraining mechanism.

Low growth countries
But even countries with low productivity can achieve optimum growth in prosperity with their own currency. “Optimal” is of course lower than ours, but their exports remain cheaper and competitive due to a weaker currency, so the economy will continue to run. The residents therefore get the prosperity that goes with their productivity, and as long as their productivity grows, their economy will also continue to grow stably, albeit at a slower rate than ours. Incidentally, the effect of the weaker currency on purchasing power is relatively small, because people in poorer countries spend a much smaller part of their expenditure on foreign products.

Until the euro came along, people in Southern Europe were a lot less prosperous than we in Germany and the Netherlands due to the many devaluations, but life was not necessarily less pleasant there. After all, there was plenty of employment to meet people's income needs, a good life was associated more with good food than with a fat Audi in the garage, and a daily siesta is very welcome in a warm country. There was no sense of crisis either.

This has changed in a number of weak countries since the arrival of the euro in 1999 and the permanent internal devaluation it imposes:



Comparison of happiness in European countries (Source: Our World in Data [21])

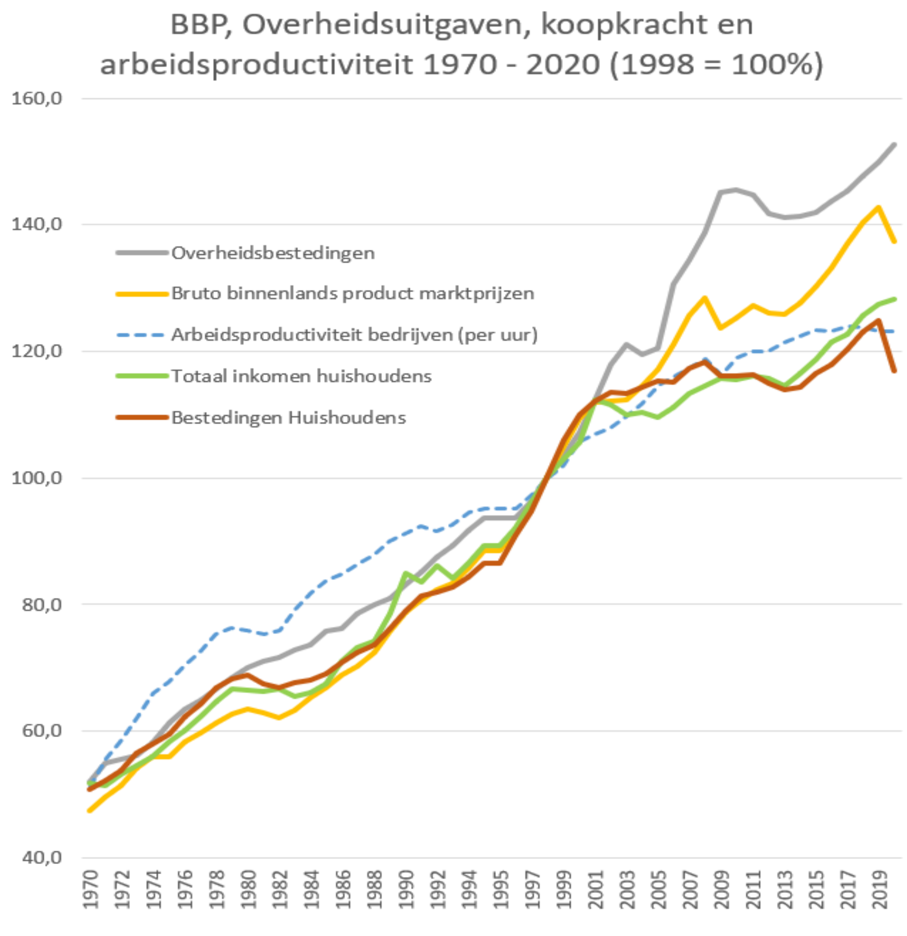
[21] https://ourworldindata.org/happiness-and-life-satisfaction

Both countries with a strongly growing economy and countries with a weaker economy therefore benefit from the monetary welfare optimization through their own, independent currency.

The effect of the unit euro on innovation in industry

The euro, which is much too cheap for us, is now driving our trade surplus to an absurd level, but the positive welfare effect of the monetary optimization for the citizen is not forthcoming, because it is spread across the entire eurozone via the euro. Purchasing power in our country has therefore been stagnating for decades, and domestic SMEs are also suffering unnecessarily.

Naturally, the weak euro has made the exporting business happy, but that does not necessarily translate into large profits: one can also simply rest on one's laurels and stop innovating. A strong currency would keep them sharp, but because of the luxury position of the far too cheap euro, companies can afford to get lazy.
This could be part of the explanation for the very meager growth of added value per hour of work in the Netherlands in recent decades, compared to other countries.[22] [23]. The lagging investments in robots, for example, while there is an enormously overstrained labor market, also point to a standstill in productivity growth.[24]



Government spending, GDP, household income, household spending, labor productivity (dotted line). Lagging labor productivity in the Netherlands[25]

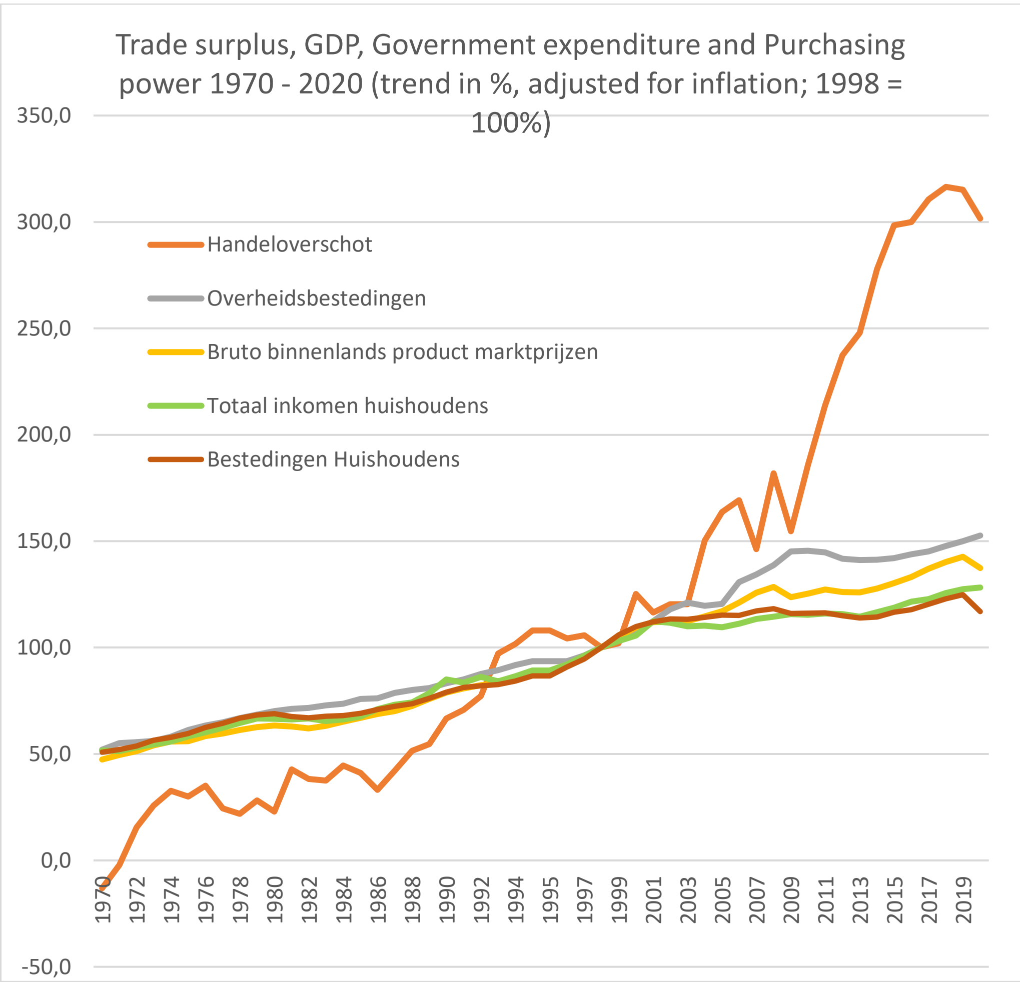
[22] https://esb.nu/events/overig/20059996/tovenaarsleerling-writet-inleiding-in-de-economie
Bert de Vries: "Over the past forty years, the growth of the added value per hour of work and thus the pie that can be divided additionally between labour, capital and government has been slower in the Netherlands than anywhere else in Western Europe. Yes, jobs grew like crazy, but this was mainly because productivity growth was so disappointing: with less modern technology, more hands are needed."
[23] This low growth of productivity per working hour is also related to the large share of services in our economy: excluding trade, this is 58%. The number of teachers per student or the number of nurses per patient cannot simply be reduced by innovations.
[24] https://fd.nl/opinie/1422181/opkomst-van-robot-weer-uitstellen-nederland-blijft-dol-op-domme-groei-xdl1cavY9LED
[25] The graph shows the cumulative volume increase in percent per year, so adjusted for inflation.
Volumes come from the CPB appendix, the accumulation has been done by the author

This is consistent with the latest figures, which show that we are still with one foot in the Corona crisis, but that there is already a huge shortage of labor in most industries. Apparently, companies have recently failed to innovate in such a way that productivity increases and fewer people are needed per product.
This will undoubtedly lead to higher wages, but the non-exporting business community cannot afford this, which will cause prices to rise and inflation to rise further.
This of course cancels out (partly) the purchasing power effect of higher wages, but it also causes a greater difference between inflation and the return on savings and pensions, and thus an additional fall in the purchasing power of the elderly. The risk of a wage-price spiral is also increasing.
And of course there is also increasing pressure on the government to raise wages in healthcare and education, as well as benefits and state pension. That would immediately lead to huge budget problems.

Furthermore, if companies stop innovating and increasing labor productivity, we will lose our industrial advantage over other countries, and our trade surplus will eventually evaporate. But without a positive purchasing power effect, and purely as a result of the weakening of our economy.
For example, due to the too weak euro, we are converging towards the southern European countries, but in a very undesirable way!
The effect of the cheap euro on the innovativeness of our companies is therefore dangerous and undesirable for the Netherlands.

What is the negative effect of the euro on purchasing power?

The illustration below shows an excessively large increase in the trade surplus since 2000 with very low growth in purchasing power (expressed in the graph in inflation-adjusted household income and expenditure).



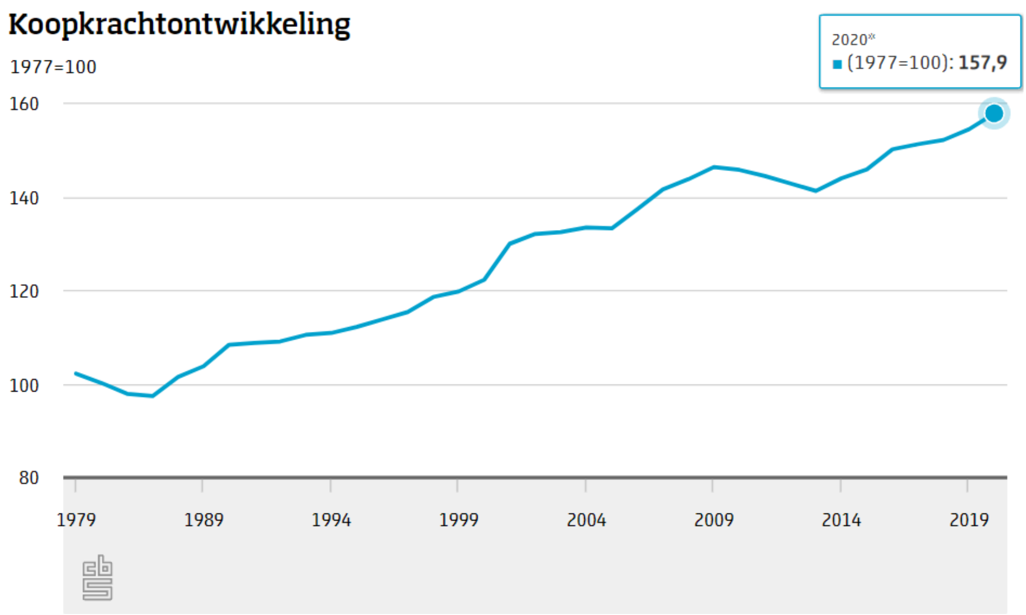
Trade surplus, government spending, GDP, household income, household spending.

This is fully in line with the mechanism of monetary welfare optimization explained in this article, which has disappeared within the eurozone.

There is no doubt that this mechanism exists, and that the euro has a negative impact on our purchasing power as a result. But whether this is also the main reason for the lagging purchasing power remains to be demonstrated. As mentioned, there may have been other reasons for this striking contradiction. In the remainder of this article, it will be made plausible that the euro is the main reason for the lagging purchasing power.

Statistics Netherlands on purchasing power Statistics
Netherlands recently published a report [26]stating that purchasing power had risen by 60% since 1977. Apparently they wanted to counterbalance the many complaints about lagging purchasing power.

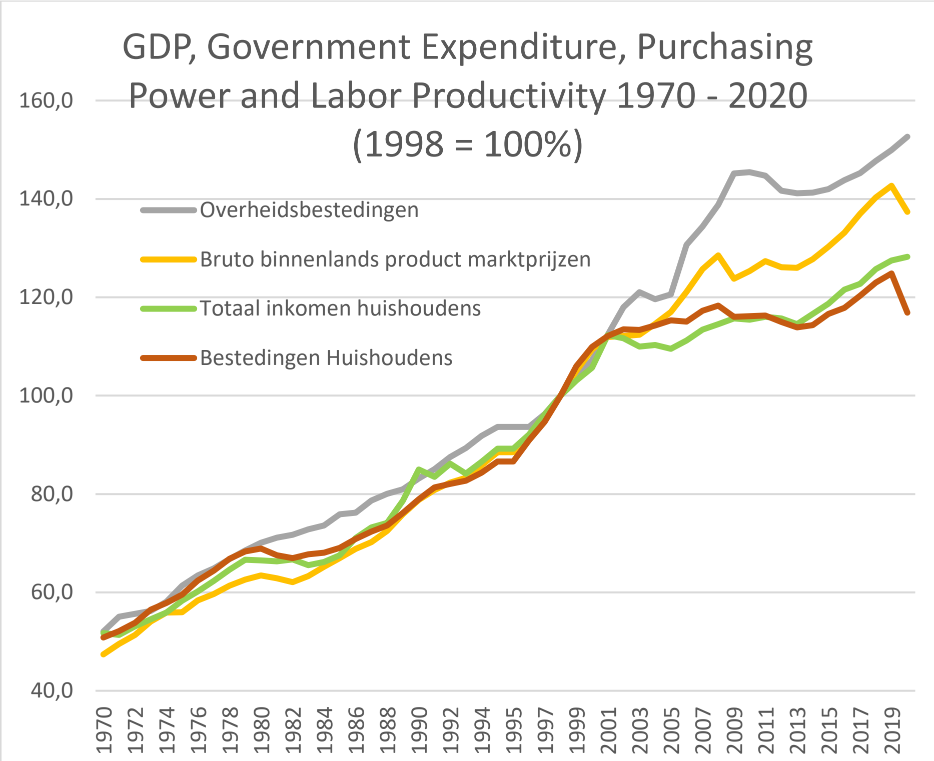
This 157.9% in 2020 compared to 1977 is of course consistent with our figures, as our graph is also based on CBS data. And everyone also experiences that we are much better off than forty years ago.



In the period up to the introduction of the euro (1970 – 1999), purchasing power grew exactly in line with GDP growth, but since the introduction of the euro in 1999, purchasing power has grown by an average of 1%, while GDP has grown by almost double percentage growth. Purchasing power has therefore lagged since the introduction of the euro.

Share of government expenditure in purchasing power decline
The main other candidate for causing the lagging purchasing power is the government. Since the introduction of the euro, government spending has risen much faster than purchasing power and GDP.

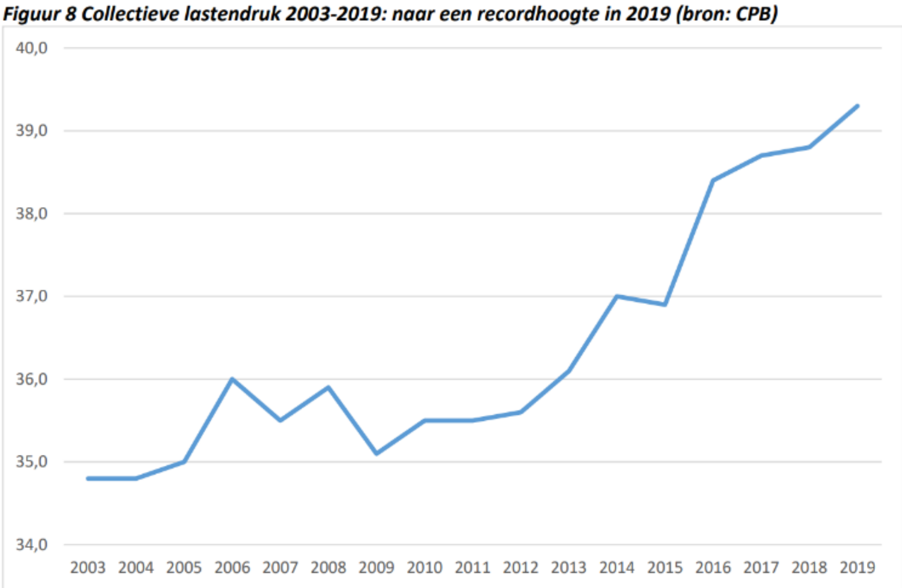
[26] https://www.cbs.nl/nl-nl/nieuws/2021/41/koopkracht-sinds-1977-met-bijna-60-procent-gestogen



Government spending, GDP, household income, household spending, labor productivity (dotted line).

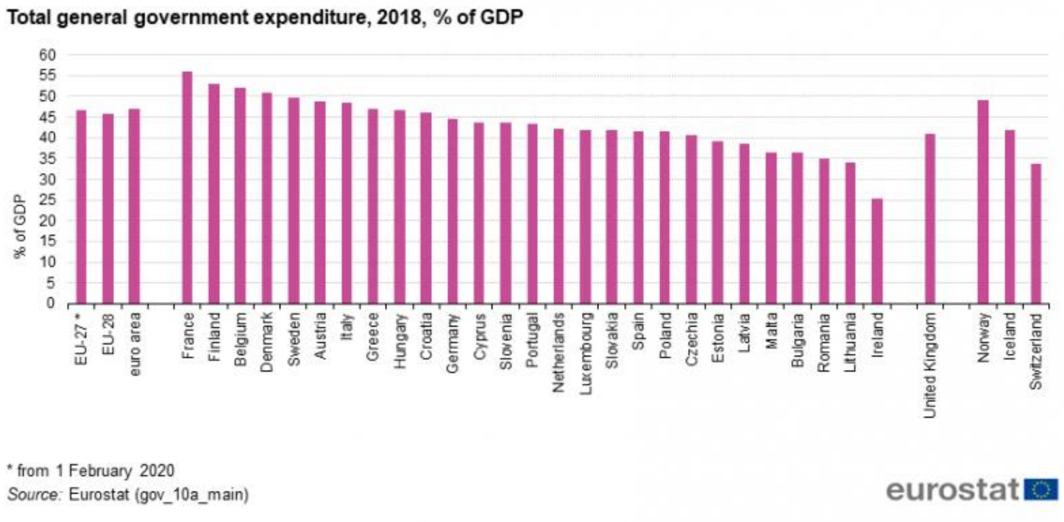
This is also reflected in a strongly increased collective tax burden, particularly in the last ten years:

Figuur 8 Collectieve lastendruk 2003-2019: naar een recordhoogte in 2019 (bron: CPB)



The lagging purchasing power could therefore also be partly the result of government policy.
On the other hand, our budget deficit and our national debt are (for now) exemplary, and our government has certainly not been more wasteful than in the past, and than other countries, where purchasing power has grown in line with GDP.[27]
Because despite the increase in the tax burden, it is low in the Netherlands compared to countries with a lower GDP and a relatively higher purchasing power:

[27] This is discussed further in the article



The following sections provide supporting evidence for the claim that the under-weak euro is the real culprit. To this end, three aspects of the effect of the euro on purchasing power are first discussed and quantified:

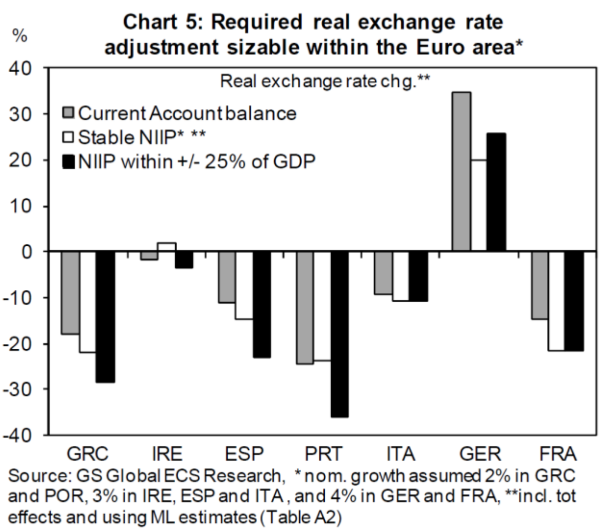
1. Direct effect of the euro on purchasing power

A rough estimate of the size of this effect can be made based on two assumptions:

- Households spend directly and indirectly (see next section) about 29% on products that come from abroad[28]
- The euro is worth at least 25% less than the guilder would have been if it had not been absorbed into the euro [29], probably even more than 50%.

From this it is easy to deduce a minimal purchasing power effect of the euro of approx. -7%, probably even more than -15%.

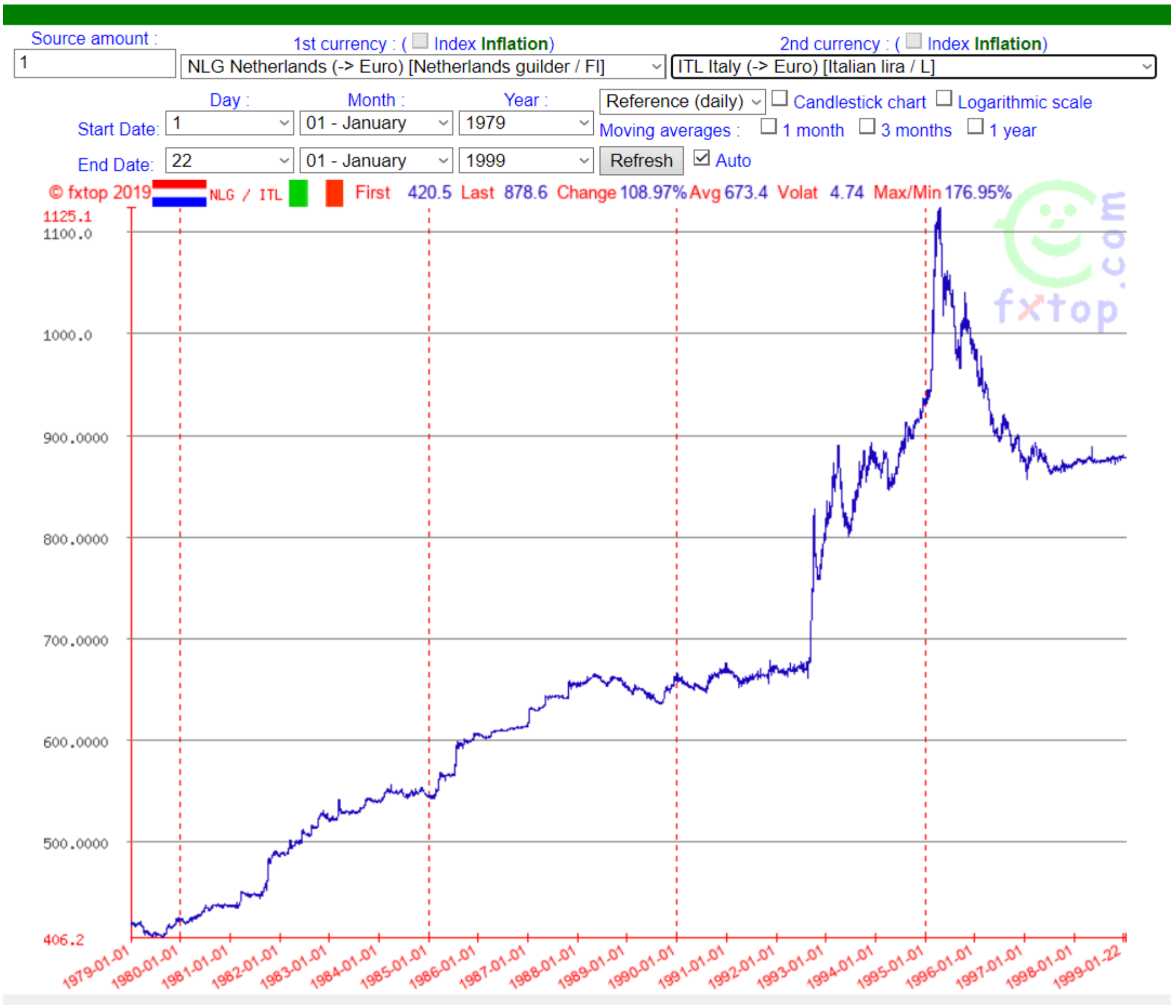
Explanation:
How much the guilder would have been worth if we had not adopted the euro can be partly deduced from a report by Goldman Sachs from 2012. [30]In it they arrive at a necessary correction of the value of the euro for Germany of 25%, in order to arrive at a value that suits their economy:



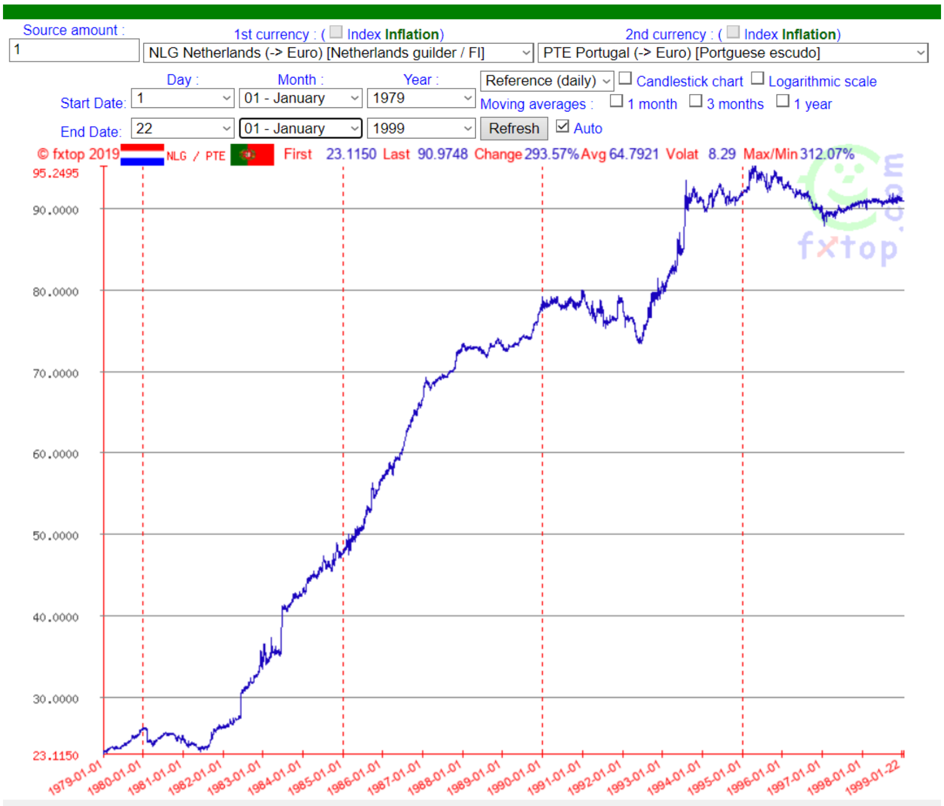
[28]Calculated from Statistics Netherlands tables:
www.nlslash.nl/mwenb/Input-outputtabel_2019_CBS_Aandeel_buitenland_uitgaven_gefamilies.xlsx
[29]Goldman Sachs https://nlslash.nl/mwenb/Goldman_Sachs_EEA_2012_01.pdf
[30]Goldman Sachs https://nlslash.nl/mwenb/Goldman_Sachs_EEA_2012_01.pdf

Even then, however, the Dutch trade surplus was already double that of Germany, so an even higher correction would have been necessary for the Netherlands in 2012. And since 2012 our trade surplus has increased by another 40%. Which would require an even greater adjustment of the currency's value.
The 25% used is therefore a very conservative minimum assumption.

This is confirmed if we look at the development of the exchange rate of the guilder against the lira, the peseta and the escudo in the 20 years before the introduction of the euro.[31]
Then the guilder rose in 20 years by 177%, 164% and 312% respectively compared to these coins.



[31] https://fxtop.com/en/historical-exchange-rates-graph-zoom.php?A=4&C1=NLG&C2=PTE&DD1=01&MM1=01&YYYY1=1970&LARGE=1&B=1&P=&I=1&TR=&INDICE=&DD2=22&MM2= 04&YYYY2=2001&auto=1



The rise against the French franc was 52%, and the fall against the mark was 7%.

The assumed minimum 25% increase in value compared to the entire eurozone in the following 20 years, during which our economy has performed exceptionally well, is therefore probably a strong underestimate. The actual increase in value is probably well above 50%. In that case, the purchasing power effect is more than 29% x 50% = 15%, instead of 7%.

2. Indirect effect of the euro on purchasing power via SMEs

Many of the manufacturing SMEs buy a large part of their raw materials, semi-finished products, machines, computers and software abroad, and therefore pay 25% to more than 50% too much because of the weak euro. This affects the cost price of the products. However, it is difficult to estimate separately how large this influence is: in general, a large part of the selling price of products and services produced in the Netherlands consists of financing costs, rent and added value.
In consultation with CBS, this factor has therefore been derived from the CBS input-output tables in the previous section, together with the direct influence on purchasing power by foreign products, resulting [32]in the aforementioned 7% to more than 15% less purchasing power.

3. Indirect effect of the euro on purchasing power through savings and pensions

The biggest threat to the euro is Italy. Of these, the government debt is so high in relation to government revenue that the country would not be able to afford a normal interest rate. If interest rates go up, there are fears that Italy will go bankrupt and leave the euro. That would be the starting signal for the disintegration of the euro currency union.

This is what people in Brussels and Frankfurt want to avoid at all costs. So the interest rate is kept artificially unhealthy low by the ECB, and in practice it is around or just below zero percent.
Even now that inflation is soaring, the ECB is hesitant to raise interest rates, while neighboring countries and the US are already raising their interest rates sharply.

But absent interest income combined with rising inflation means that our savings and pensions evaporate. And nowhere is this more striking than in the Netherlands, where citizens save more for their old age than in any other country.
the purchasing power gap between pensioners and working people is now 14%.
The start of the arrears coincided with interest rates falling below 1% in 2013, suggesting a link between the two.

Since 2013, the interest rate of the ECB has been below 1%, and the purchasing power of pensions is lagging far behind

Other factors certainly play a role, such as the stricter requirements for pension reserves, but they are not unrelated to the lower returns due to low interest rates. If it is assumed that 10% of the 14% is directly or indirectly the result of the ECB's interest rate policy, and that 20% of the population is retired, you could imagine a loss of purchasing power of roughly 2%.

The three effects added together should therefore have caused a loss of purchasing power of between 9% and more than 17%.

[32] www.nlslash.nl/mwenb/Input-outputtabel_2019_CBS_Aandeel_buitenland_uitgaven_gefamilies.xlsx

Purchasing power recovery policy

At the end of 2021, people in The Hague were suddenly talking about preventing a sharp decline in purchasing power. The very high gas prices are finally putting purchasing power as a problem on the political agenda. The higher gas costs were partly compensated with an emergency measure by a rather blunt measure: a sharp reduction in energy tax. Nothing was done about the decrease in purchasing power due to other causes.

What kind of policy could actually be used to compensate for the negative purchasing power effect of the euro?

Tax measures come before the current annual accounts and must therefore be offset against other taxes. At most, they redistribute purchasing power across income groups, with no effect on average purchasing power. That makes some groups happy, but does nothing for SMEs and for the economy as a whole.
In addition, the room for leveling has in fact been used up to above average: too many families already lose purchasing power when their income increases (the so-called poverty trap), due to the many income-related schemes and allowances. The sharp increase in the minimum wage (7.5%) in the coalition agreement obviously makes the problem of the poverty trap even more acute.
Restoring purchasing power for the lower incomes at the expense of the higher incomes is therefore not a viable path, certainly not because the amounts involved are exceptionally large.

Passing on the costs to the business community largely results in higher prices and therefore does little net for purchasing power. It would drive up inflation.

Three paths remain for the purchasing power recovery operation:

- recovering the costs specifically from the exporting industry
- derive them from cutting government spending
- paying them out of a budget deficit, and thus increasing the national debt with it

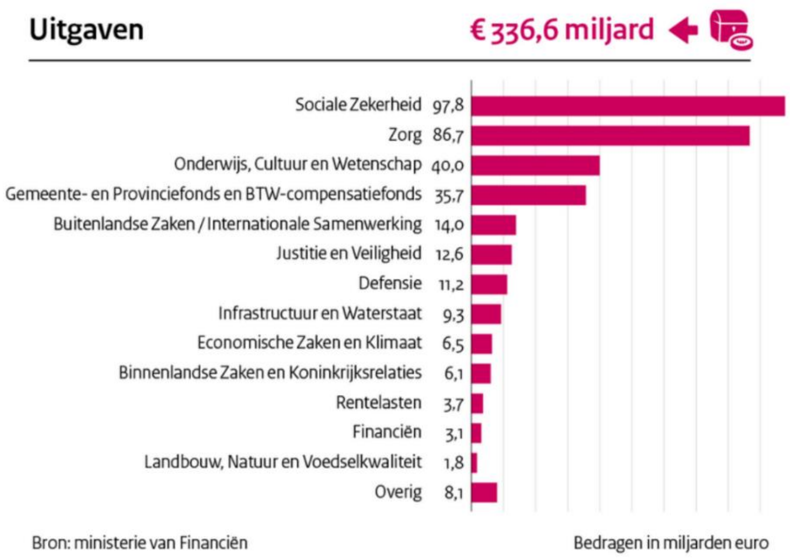
Incidentally, taxing exports poses a problem with EU rules, so the question is whether policy can be developed on this.
But in theory, these are three economically viable options, if the amounts involved are manageable.

Unfortunately, this turned out to be disappointing: the direct and indirect expenditure of households on foreign services or products amounted to €73 billion in 2019, according to the CBS tables. [33]According to the calculation explained earlier, to compensate for the loss of purchasing power caused by the euro, 25% to more than 50% of this would have to be compensated to households, ie €18 to more than €36 billion per year.

That is too much money for a sustainable policy: it would double the national debt in 10 to 20 years.
In addition, the EU's 3% rule already limits our budget deficit to €20 billion per year. Only the purchasing power policy would exceed that.

Getting the money from government spending cuts is an option, but it will be very painful:
The item social security is omitted, because that would actually reduce purchasing power. And in The Hague, a majority thinks that more money should actually be spent on care, education, safety, climate and the overburdened municipalities. And according to NATO agreements, we also have to increase defense spending considerably. Finally, interest expenses cannot be reduced.
That leaves €43 billion for small ministries, where the €17 to €36 billion should be cut. That's not going to work.

[33]Calculated from Statistics Netherlands tables: www.nlslash.nl/mwenb/Input-outputtabel_2019_CBS_Aandeel_buitenland_uitgaven_gefamilies.xlsx

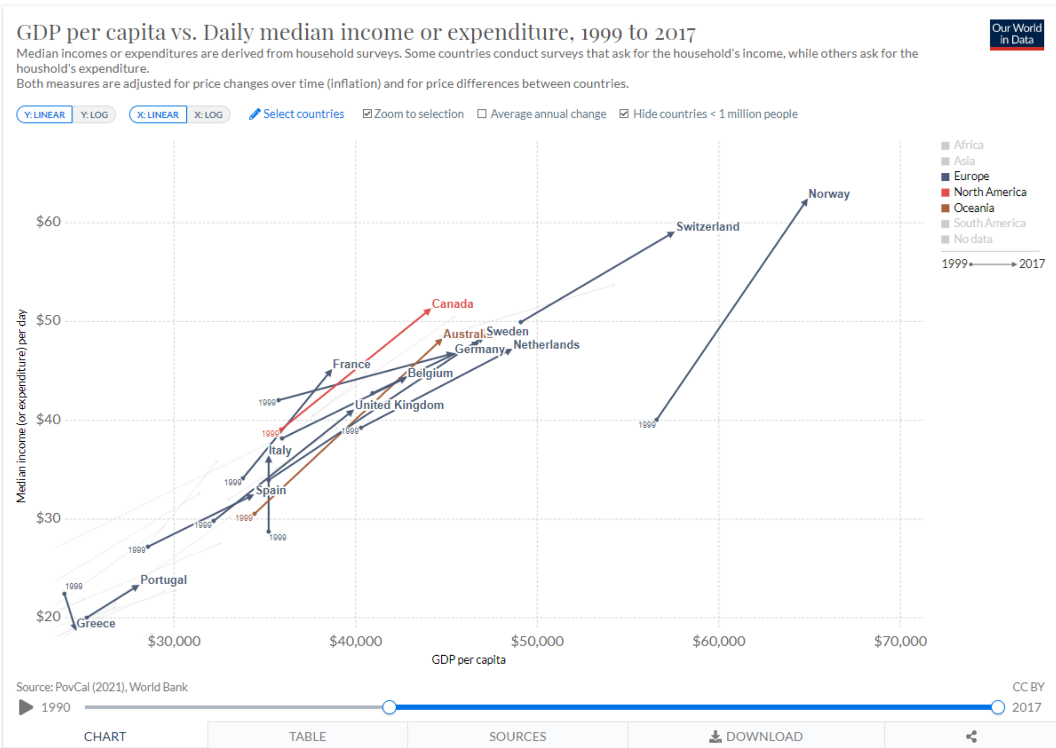


Compensating for the low purchasing power by the too weak euro therefore appears to be an insoluble policy problem. The loss of purchasing power caused by the euro is a loss of prosperity that cannot be helped.

Comparison with other countries

The presence or absence of the monetary welfare optimization mechanism should also be reflected in the development of purchasing power relative to GDP in other countries in and outside the euro.

This is very difficult to prove because there are such huge differences in economic structure and development between all these countries. But an indication is the development of purchasing power plotted against the growth of GDP per capita.



Purchasing power growth versus GDP growth from 1999 to 2017 (Source: Our World in Data [34])

[34] https://ourworldindata.org/grapher/median-daily-per-capita-expenditure-vs-gdp-per-capita?minPopulationFilter=1000000&time=1999..latest&country=BEL~DNK~FRA~DEU~ITA~NLD~NOR ~ESP~SWE~CHE~GBR~PRT

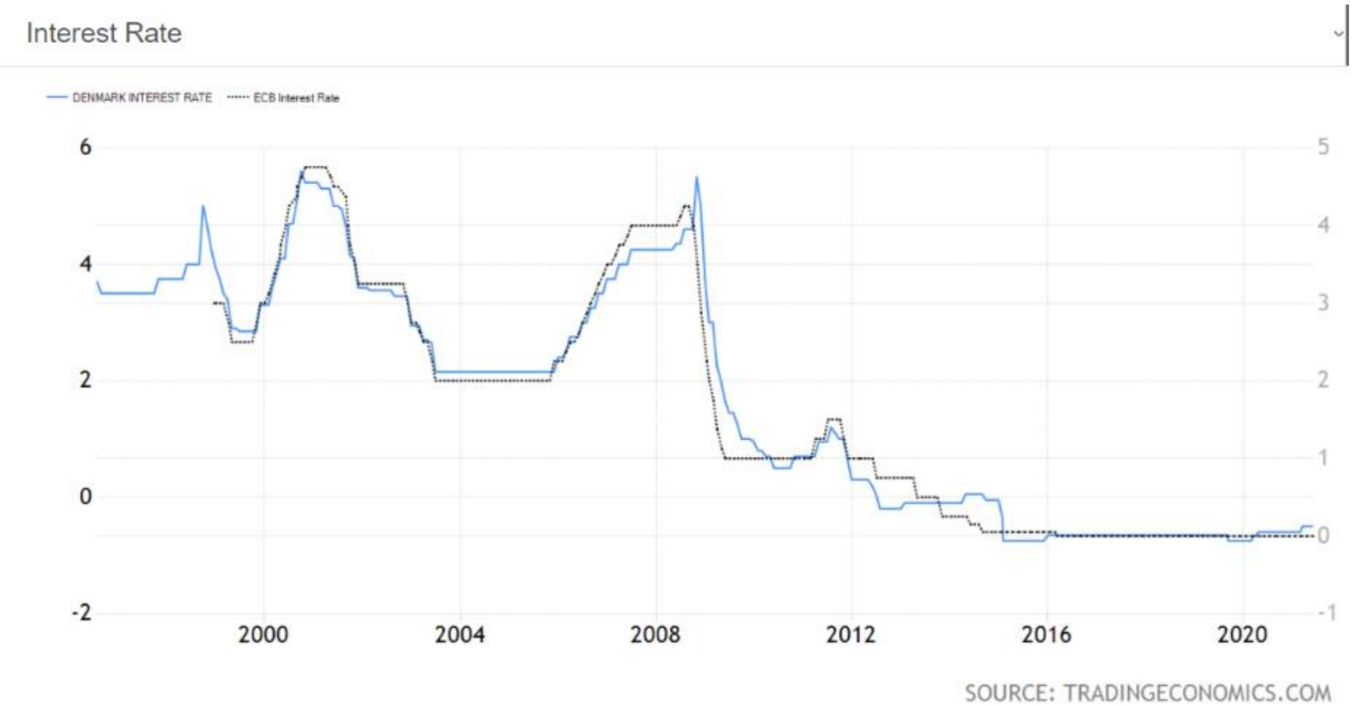
The flatter the line, the smaller the growth in purchasing power compared to GDP growth in the period since the introduction of the euro.

Among comparable countries in the middle category, we see the flattest lines in Germany, Belgium and the Netherlands, for which the euro was too cheap, and the steepest in Italy [35]and France, for which the euro was too expensive.
Of the non-euro countries, we see decent purchasing power development in Norway, Canada and Australia.
This graph is certainly not proof, but it is largely in line with the scope of this article.

Comparison with Denmark and Norway
It is actually not possible to find countries that are economically comparable to the Netherlands.
Still, it is interesting to see how the variables have developed in neighboring rich countries that are not in the euro currency union.

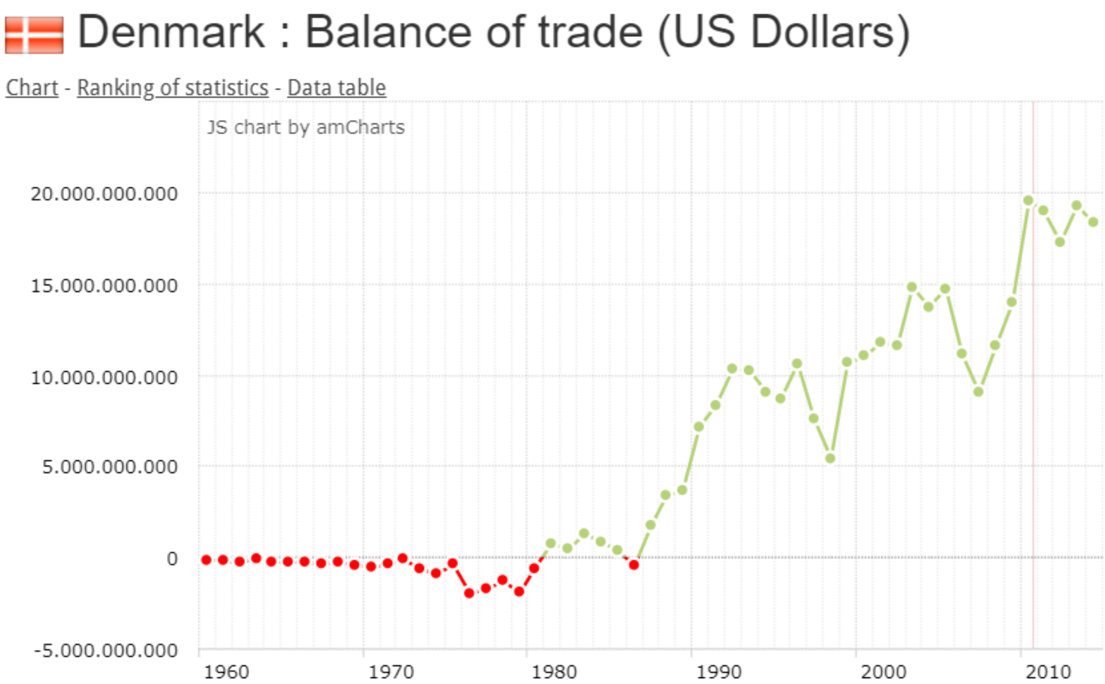
Denmark Denmark
is very interesting: it has not introduced the euro, but has linked the Danish Krone to the euro. Then two things stand out:

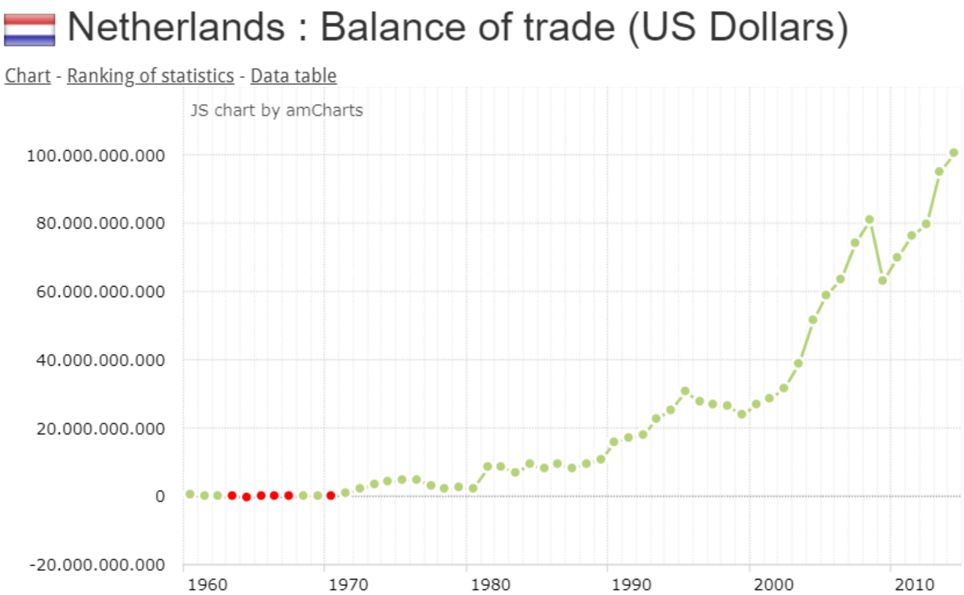
[1] The Krone appears to be easy to keep stable in value against the euro by offering a slightly lower or higher interest rate.



[2] Denmark's trade surplus has only doubled in the last 20 years and is also relatively small ($3,000 per person, 3% of GDP) compared to the Netherlands, where it has quintupled in 20 years ($6,000 per person, 9% of GDP).

[35] Italy did not experience an increase in GDP, but a large increase in purchasing power. This country is a special case: it has a nice trade surplus, which indicates that the euro is certainly not too expensive for the industrial zone around Milan. But the country as a whole has major structural problems, such as corruption, crime and dramatically poor tax collection, leading to a dysfunctional government and economic malaise in much of the country. Spending too much money as a government and not collecting taxes is obviously bad for the national debt, but good for purchasing power. The connection between the absence of growth in GDP per capita with a good trade surplus and a substantial growth in purchasing power is therefore not unequivocal here.





The Krone pegged to the euro was therefore apparently not too cheap for the Danes. This would mean that Denmark had average economic growth for the eurozone. It could be that the only country for which the euro has the optimal value is not in the eurozone.

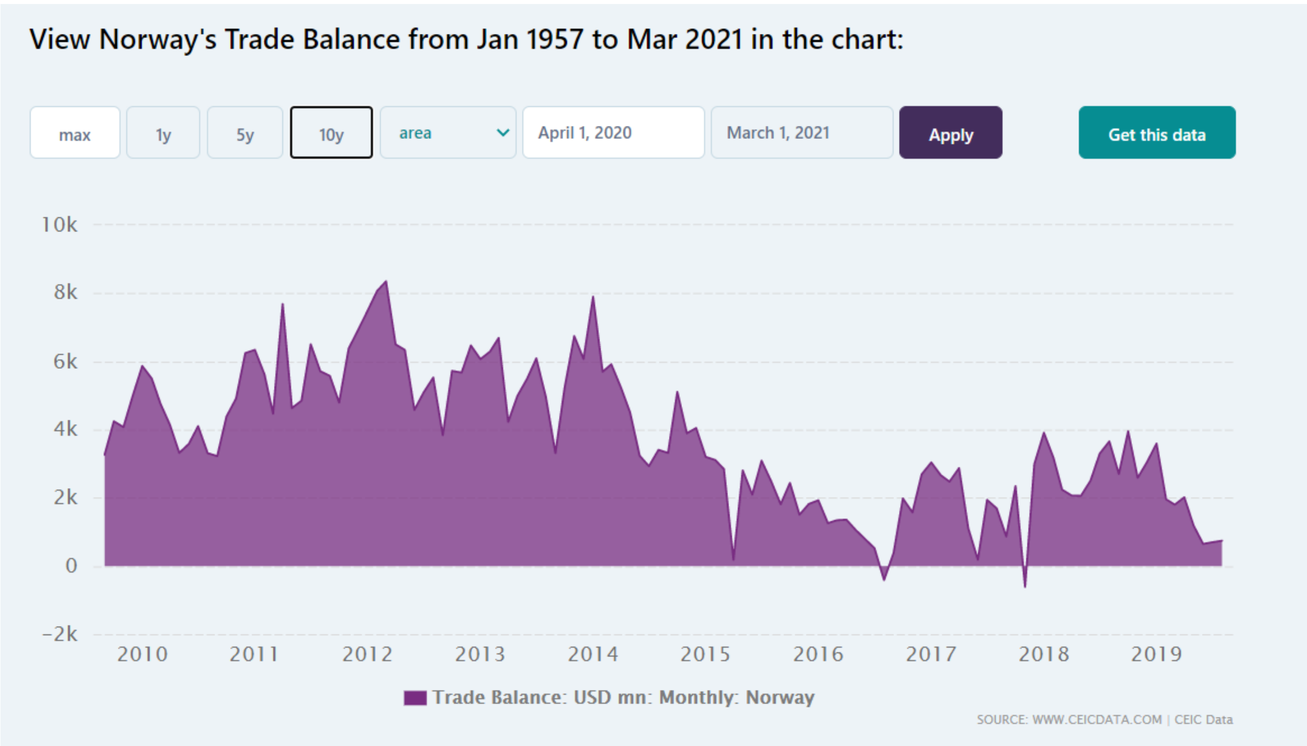
Norway

Norway offers other very interesting insights.

The country is sparsely populated, very wealthy, and has a separate, high-yielding fund in which the huge oil and gas revenues are hoarded. It therefore has no net national debt at all and is unrivaled as a debtor. You would expect a very strong coin.

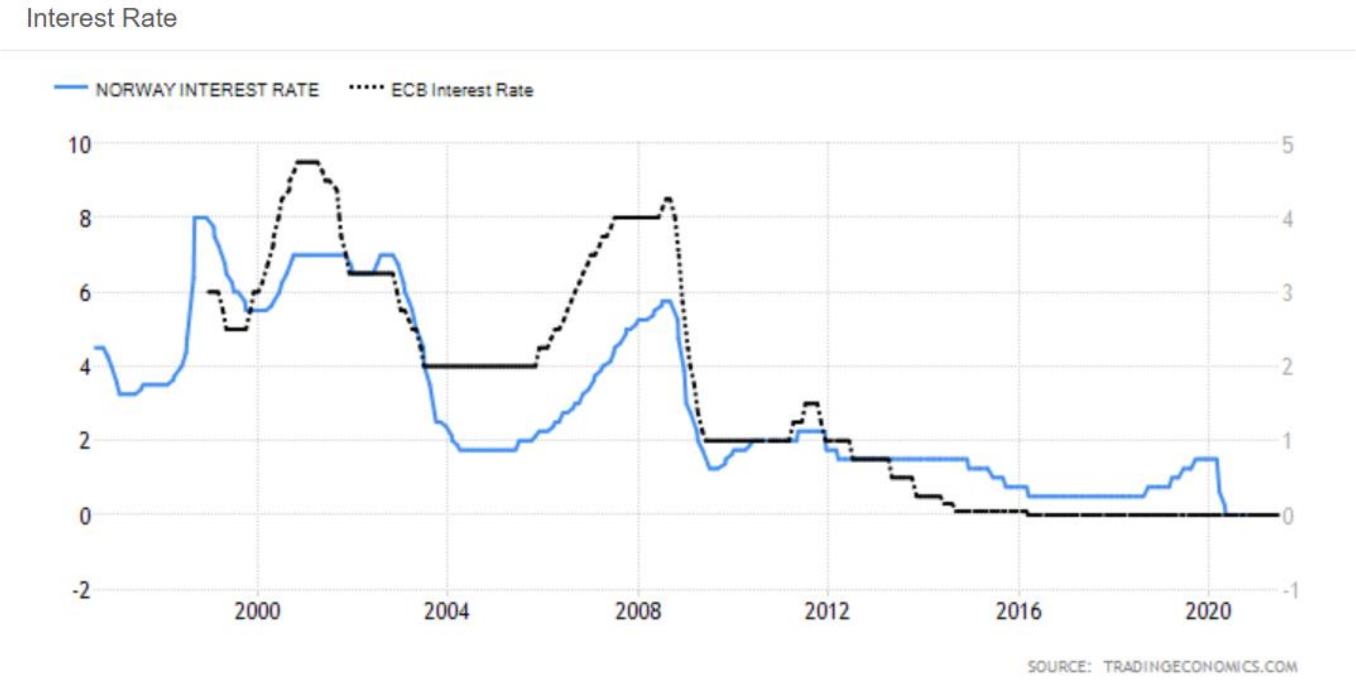
But what do we actually see: the Norwegian Krone has lost no less than 35% in value against the euro since 2012:

We see this coincide with a decline in the trade surplus since 2012:



This confirms the premise of this article that the value of a small independent currency is primarily determined by the trade balance.

This effect was apparently stronger than the influence of the interest rate: in the period 2012 – 2020, it was even significantly higher for the Krone than for the euro:



The value of the Norwegian Krone fell by 35% after 2012, while Norwegian creditworthiness is very strong and even higher interest was paid for the Krone than for the euro (Source [36])

Is a functioning monetary union good for the member states?

The euro monetary union does not meet the optimum currency area criteria, and can therefore not continue in its current form. The question now is whether currency unions that do meet the criteria are therefore also good for the participating member states. In other words, and regardless of whether this is possible at all: would the European countries benefit if they managed to meet the criteria with the euro currency union?

Things are going well in other currencies, right?

What about the economies that have a single currency but consist of widely different economic regions, such as the US, and (before the introduction of the euro) Italy, Belgium and Germany? Did everything go well there?

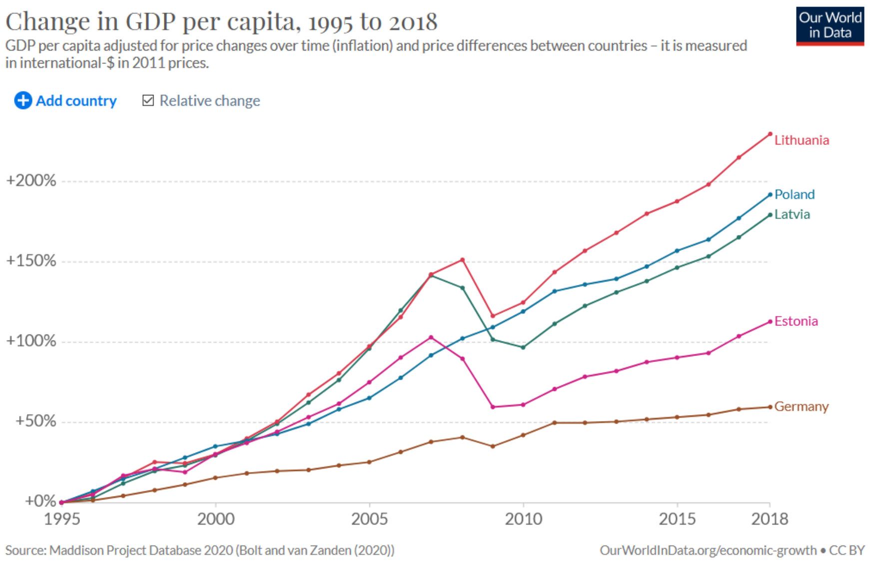
First of all, those countries met the aforementioned conditions for a viable currency union reasonably well: the optimal currency area criteria. So if you function as one nation-state, a national currency can function indefinitely, despite regional economic differences. Then the differences are bridged by an extensive transfer policy: permanent significant transfers from the rich to the poorer part. In the US, Germany, Belgium and Italy, these are very significant transfers.

But what is also clear: permanent transfers maintain economic inequality. Poor states in the US, and the former East Germany, Wallonia and southern Italy have been economically far behind for many decades. They are unable to grow economically on their own, which could be done with their own currency. And this happens despite the ever-increasing amounts that they receive, so that their purchasing power is unjustifiably high, but economic development fails to materialise.

In Germany, which has invested unprecedented amounts of money in the former East Germany, that area still lags far behind the western part economically, and " Ossie " is a term of abuse, comparable to our "pauper".
By contrast, the Baltic states and Poland, which started from a position similar to East Germany (but with their own currency) after the collapse of the Soviet Union, showed rapid economic growth almost immediately.

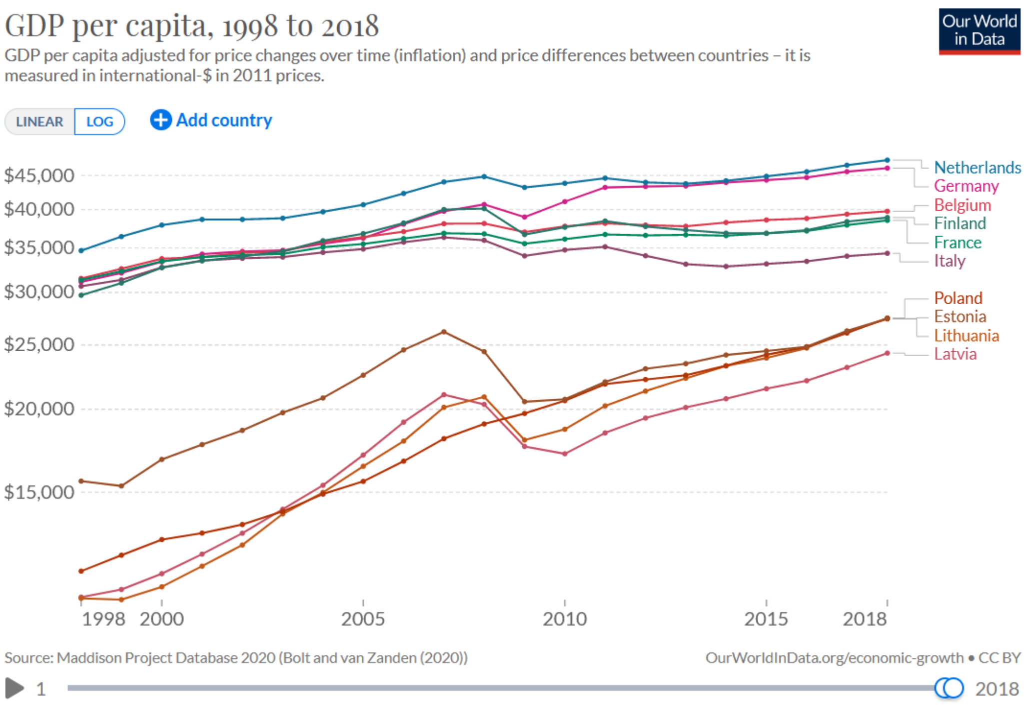
[36] https://tradingeconomics.com/denmark/interest-rate

Former East Germany has therefore actually been economically "destroyed" by the German reunification, just as the southern European countries were brought into great difficulties by the introduction of the euro.



The independent northern ex-USSR states did very well economically. But East Germany has lagged behind them in terms of economic growth for 30 years, and is also doing very badly within Germany. (Source Our World in Data [37])

In absolute terms, purchasing power in the former East Germany was of course much higher than in the Baltic States, certainly in the beginning, but the well-being of a population benefits much more from positive growth, good employment and the prospect of a brighter future than from a higher purchasing power, but at the same time a feeling of loss, backwardness and stagnation, as experienced in lagging regions.



In absolute terms, the GDP in the independent northern ex-USSR states also grew strongly in the period before they introduced the euro (around 2015), and is approaching that of the economically and socially lagging former East Germany. But with the increase in well-being that comes with a growing economy. (Source Our World in Data [38])

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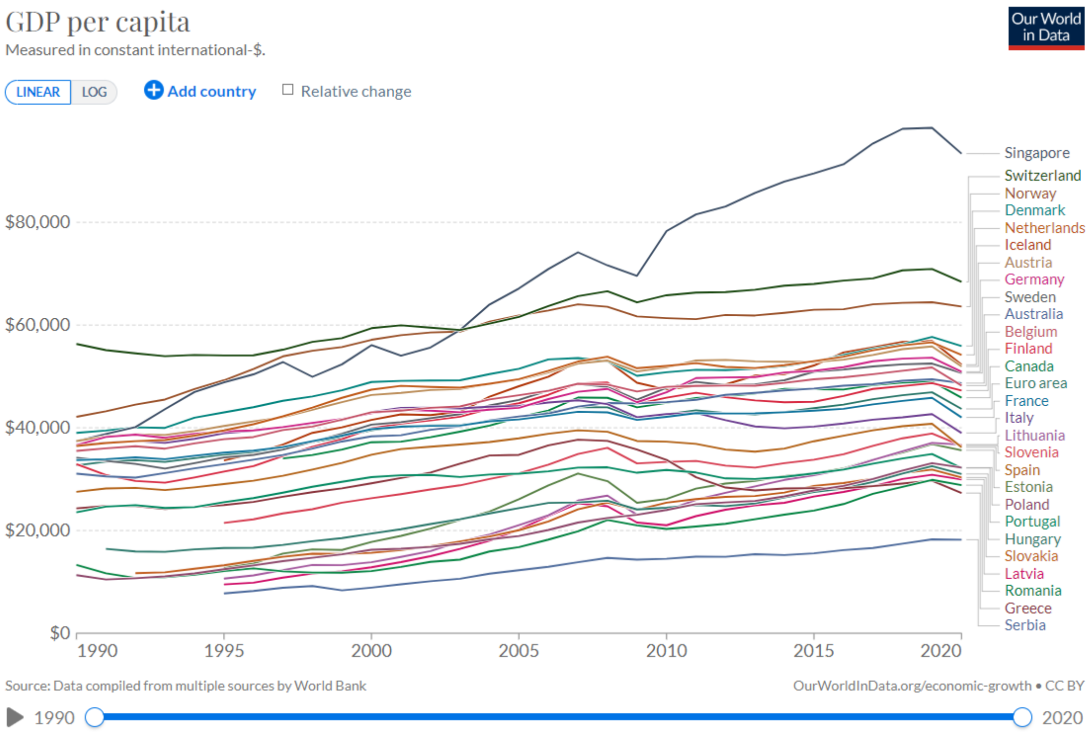
[37] https://ourworldindata.org/economic-growth
[38] https://ourworldindata.org/economic-growth

Adverse effects of an optimal currency area An important reason why the differences between regions persist so stubbornly, even in a currency union that functions in itself within a nation-state , is precisely the high labor mobility required for this: young people with a good education soon move to the region where the wages are much higher, as a result of which the vitality of the poor region continues to deteriorate. This exodus is insufficiently compensated by the assumed increase in industrial employment in the weak areas due to low wages there, because modern industry is increasingly dependent on well-educated people. There is therefore too little benefit for modern industry by settling in the poorer regions, if a brain drain has taken place there.

A transfer currency union therefore usually does not lead to the intended convergence of the underlying economies. Even in countries that do meet the " optimal currency area criteria", a currency union is therefore possible and even sustainable indefinitely, but this does not eliminate the economic differences within the union, but rather anchors them. A successful monetary union also leads to a lasting transfer union and lasting differences in prosperity in mutually differing economies. For example, the differences become structural due to the transfer union, and parts of the population are relegated to second-class citizens. Hillary Clinton even called them the " deplorables ".

An important conclusion must be drawn from this: even if Europe is transformed into a large federal state, with a central fiscal policy from Brussels, and associated large transfer amounts from North to South, this transfer union will have a permanent character, and the disadvantages of the currency union will thus continuing to have their negative effect on welfare growth. In particular, the absence of monetary welfare optimization will continue to lead to structurally lower welfare in all countries in the eurozone.

It is therefore not surprising that many small independent, homogeneous countries with their own currency are doing very well: Switzerland, Australia, Canada [39], Norway, Sweden, Iceland and Singapore, to name a few.



Small countries with their own currency are doing relatively well (Source: Our World in Data [40])

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[39] Australia and Canada are of course large countries geographically, but in terms of population and GDP they are only about 1.5 and 2 times as large as the Netherlands

[40] https://ourworldindata.org/grapher/gdp-per-capita-worldbank?tab=chart&country=CAN~AUS~NLD~Euro+area~DEU~FRA~NOR~BEL~PRT~POL~ESP~LTU~EST~FIN~CHE~AUT~SWE~SGP~ISL~DNK~ITA~LVA~GRC~ROU~SRB~SVK~SVN~HUN

Of course, their own currency is not the only factor for their success, but if a country is so small that there are no widely differing economic regions, prosperity will be optimized by the independent currency and long-term optimal and stable growth is possible.
This growth does not necessarily have to be large, as it depends not only on the innovativeness of the companies, which partly arises from the monetary welfare optimization, but also on whether or not the governments make wise choices.

From a monetary-economic point of view, therefore, there is very little argument for participation in a larger monetary union such as the euro.

This is sometimes also confirmed by politicians, with the retort that the euro was not created for economic reasons, but for political reasons. That is of course true, but that does not change the very negative economic consequences. The great political importance of the euro does explain why the disadvantages of the euro are never mentioned by politicians, and why they invariably but incorrectly regard the euro as a major source of prosperity.

The advantage of a currency union
Of course there are also economic advantages to a common currency: payments are much faster and international companies do not like currency risks .
And if those risks are mitigated by pegging currencies as they did before the euro, the rare but significant devaluations of weak countries continue to be a major source of chagrin for international companies.

Partly for this reason, the large companies in The Hague always portray the euro to politicians as very good for the Netherlands. Their own interest in the euro is clear, and after all, the interest of the large multinationals is the interest of the Netherlands?
Of course, they do not say that these benefits will ultimately be paid for them via the transfer amounts from the pockets of the citizens. And in The Hague, the idea that everything that is good for the multinationals is always good for the Netherlands is starting to erode considerably.

Strong exports vs. large trade surplus
Please note: the disadvantage of the out-of-control trade surplus should not be confused with the advantage of strong export growth. Our highly successful exporting businesses are vital to our prosperity. The employment and innovation on which our economy runs are mainly in the SME sector, but these SME companies often rely largely on supplying products and services to large exporting companies: our exceptionally strong (petro) chemical , steel -, and plastics industry, and our world-leading agriculture, horticulture and off-shore industry. And strongly on the rise: the high-tech industry around chip manufacturing in which the Netherlands has become the undisputed world leader through ASMI, NXP, BESI and showpiece ASML. Our great prosperity is indeed built on this high-quality export.

But the obvious importance of strong exports should not be projected on a large trade surplus: a stronger currency will produce a much smaller trade surplus if exports are still strong, but that translates into an increase in prosperity via purchasing power, and in (even) more innovative businesses.

Naturally, a strong currency also results in a somewhat smaller export, but history proves that a strong currency has never been a problem, at least for Dutch and German export companies.
It is therefore better to have a stronger currency, and therefore a controlled growth in exports, in exchange for a much greater increase in purchasing power and therefore more spending in SMEs, which also causes the (micro) economy to grow, imports to increase and the trade surplus to decrease. Precisely as a sign of rising prosperity.

How indispensable is the Eurozone to our trade?

Undeniably, the common currency in the eurozone is in itself beneficial for international business, mutual trade, and is therefore also important for the trading country of the Netherlands: a large free trade zone with a single currency is much preferable to exporting companies over a jigsaw puzzle of volatile small currencies . So we don't want to go back to that. This aspect should be taken into account when determining the future of the euro and the position of the Netherlands in this.

Apart from the euro, the EU also offers advantages in terms of removing trade barriers and costs of trade. [41]The members of the monetary union also benefit from this.
But in other areas, as explained above, there are growing adverse economic consequences of the euro that can no longer be ignored.

The advantage of the euro for our business community and our exports is nowhere to be seen.
Furthermore, the euro currency union is certainly not a prerequisite for flourishing Dutch exports: we were already doing very well before the euro, and our trade with countries outside the EU has also grown considerably recently, [42]remarkably enough even more than with countries within the EU. This decrease in the share of exports to EU countries is structural: it fell from 79% to 72% from 2002 to 2018. And now [43]Brexit comes on top of that, with an automatic additional shift of about 6% of our exports from the EU to non-EU countries.
This is remarkable, since the main advantage of the eurozone was supposed to be the promotion of mutual trade.[44]
Outside Germany, Belgium and France, the export share to the remaining 24 EU countries is only about 30%. A possible decrease of this export by a few percent would be of rather minor importance to the Netherlands.
A good trade agreement with Germany, Belgium, France, the UK and possibly the US would cover 53% of our exports and create an excellent trading environment for the Netherlands. [45]There is no need for a euro currency union.

A more general criterion is the development of our economy before and after the euro. Well, no change in the growth of our GDP can be seen in the graphs.

Finally, if participation in the eurozone were to be so good for our economy and business, this should be reflected in the business climate. But strangely enough, the countries in our area that are not part of the euro currency union are (far) above the Netherlands in the ranking for business climate: Switzerland (2), Sweden (6), Denmark (10), Norway (11) versus the Netherlands (16).[46]

BER rankings

	Score 2009-13[a]	Global ranking 2009-13	Score 2014-18[b]	Global ranking 2014-18
Singapore	8.56	1	8.65	1
Switzerland	8.41	2	8.52	2
Hong Kong	8.34	3	8.39	3
Canada	8.15	7	8.30	4
Australia	8.18	5	8.29	5
Sweden	8.20	4	8.26	6
USA	8.02	8	8.25	7
New Zealand	7.99	11	8.18	8
Finland	8.16	6	8.18	9
Denmark	8.01	9	8.16	10
Norway	7.89	13	8.01	11
Germany	7.99	10	7.98	12
Chile	7.81	14	7.89	13
Taiwan	7.68	16	7.85	14
Ireland	7.30	20	7.79	15
Netherlands	7.94	12	7.78	16
Belgium	7.69	15	7.69	17
Austria	7.61	17	7.62	18
Malaysia	7.15	24	7.56	19
Israel	7.17	23	7.50	20
Qatar	7.29	21	7.46	21
UK	7.41	19	7.44	22
Estonia	7.19	22	7.38	23
France	7.47	18	7.38	24
Spain	7.01	26	7.36	25
South Korea	7.04	25	7.35	26
Japan	6.98	27	7.33	27
Czech Republic	6.96	28	7.31	28
Poland	6.87	31	7.29	29
UAE	6.95	29	7.22	30

a, b = Out of 10

[41] See CPB report in next chapter
[42] All EU countries are expected to introduce the euro at some point, which is why this is based on the EU and not the euro countries
[43] https://longreads.cbs.nl/im2018-1/hundred-year-goods-trade-in-image/
[44] https://www.cbs.nl/nl-nl/nieuws/2019/37/belang-eu-in-nederlandse-export-iets-kleiner
[45] https://www.cbs.nl/nl-nl/nieuws/2019/37/belang-eu-in-nederlandse-export-iets-kleiner
[46] https://www.iberglobal.com/files/business_climate_eiu.pdf page 1

None of these parameters show that the euro has been important or beneficial to our economy. It has been established that it has a strong negative effect on our purchasing power.

It is therefore very questionable whether the Netherlands really benefits from the hundreds of billions of euros to which it is (for the time being largely unnoticed) exposed through EU regulations, which are only intended to maintain the eurozone. Comparable countries such as Norway and the UK do not have to contribute a penny to this.[47]

The euro purchasing power disadvantage is exacerbated by the EU
Due to the stagnating purchasing power, the lower incomes in our country in particular are having a hard time. They mainly work for companies that do not benefit from exports and between which there is strong competition, and are therefore under extra pressure on wages, also due to the recent increases in the burden on businesses.

In addition, it is precisely for the low-paid jobs in, for example, construction, horticulture, cleaning companies and transport & distribution that there is an abundant competitive labor supply of low-skilled but hard-working people from the Eastern European countries. They are allowed to move freely through Europe and thus put extra pressure on wages here.
Low wages are of course good for companies, but again unfavorable for Dutch citizens. The average lorry driver, cleaner or construction worker is therefore disadvantaged in terms of purchasing power by both the euro and the EU.

It is puzzling that some political parties, which claim to stand up for the lower incomes, are so extremely pro-EU and pro-Euro. Their supporters experience the serious adverse consequences for their purchasing power of both on a daily basis.

CPB report on trade benefits claims advantage of EU membership

"The Netherlands benefits from a stronger EU" This was the headline of ***the FD article*** [48]by CPB director Pieter Hasekamp following the release of ***the CPB report "Trade benefits of the EU and the internal market"*** [49]on 28 January 2022. However, this conclusion cannot be drawn. be taken from the CPB report.

Because the claims in the article and the conclusions of the CPB report are in main conflict with the conclusions of our [50]report, it is necessary to address it here, and to explain the differences.

The limited benefit of lower trading costs is offset by much greater disadvantages
The main reason for the contradictory conclusions of both reports is that the CPB report used an extensive and complex calculation method to calculate only one aspect of the many complex changes that resulted from the accession of the Netherlands to the EU, compared to a situation without EU. Namely the trade benefits from the abolition of restrictions such as import quotas, and cost benefits from the elimination of exchange costs and import duties.

That happened " ceteris paribus ": so with the hypothetical assumption that all other variables remain constant. But as our report shows, there are other, mainly monetary, variables that have a major impact on trade flows, such as the euro, which is much too expensive for Southern Europe and much too cheap for us.[51]

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[47] This will be explained and substantiated numerically in a subsequent report. See https://mwenb.nl/download/ in due course
[48] https://fd.nl/opinie/1428158/nederland-heeft-baat-bij-een-sterkere-eu-cdb2cae7nwJ4#:~:text=This%20week%20verscheen%20een%20studie,in%20de%20EU%20zijn %20calculate
[49] https://www.cpb.nl/sites/default/files/omnidownload/CPB-Notitie-Handelsbaten-van-de-EU-en-de-interne-markt.pdf
[50] "our" report, which means the MW&B report you are reading now, as distinguished from the CPB report
[51] The EU and the euro currency union cannot be viewed separately here: membership of the EU obliges participation in the currency union as soon as a country meets the conditions (although not every country adheres to this). The stronger EU that would benefit the Netherlands in Hasekamp 's view is an EU with the euro as its currency, so the monetary effects of the euro must be included in the substantiation of the claim in the title.

It is striking that the monetary aspects are also not mentioned in chapter 5.2, which describes and estimates the effects of the euro, which are not included in the report. That's a strange omission.

In addition, there are other important variables associated with membership of the EU, and certainly with "a stronger EU" that, according to the article, would benefit us, for example the debt that the ECB incurs on our account through the purchase of hundreds of billions of bonds, and the low interest rate policy.
When reference is made to a "stronger EU", this probably refers to the "ever closer union ", the Brussels desire to take on more and more joint debts (the Eurobonds) and joint guarantees (e.g. for failing banks, for savings and for unemployment benefits).), culminating in a centrally administered federal state.
All aspects of EU membership where the Netherlands will be on the paying side, and will therefore be directly disadvantaged.

The conclusion that the Netherlands benefits from the *current* EU can therefore only be substantiated if the trade advantage calculated in the CPB report is demonstrably greater than all the monetary and other disadvantages mentioned above and in the rest of our report. But this calculation is not made. In fact, the monetary and other disadvantages are not even mentioned in the CPB report.
The fact that the Netherlands would benefit from a *stronger* EU cannot be deduced at all from the CPB report: the trade benefits calculated in the report do not increase by taking on more debts or more joint responsibilities.

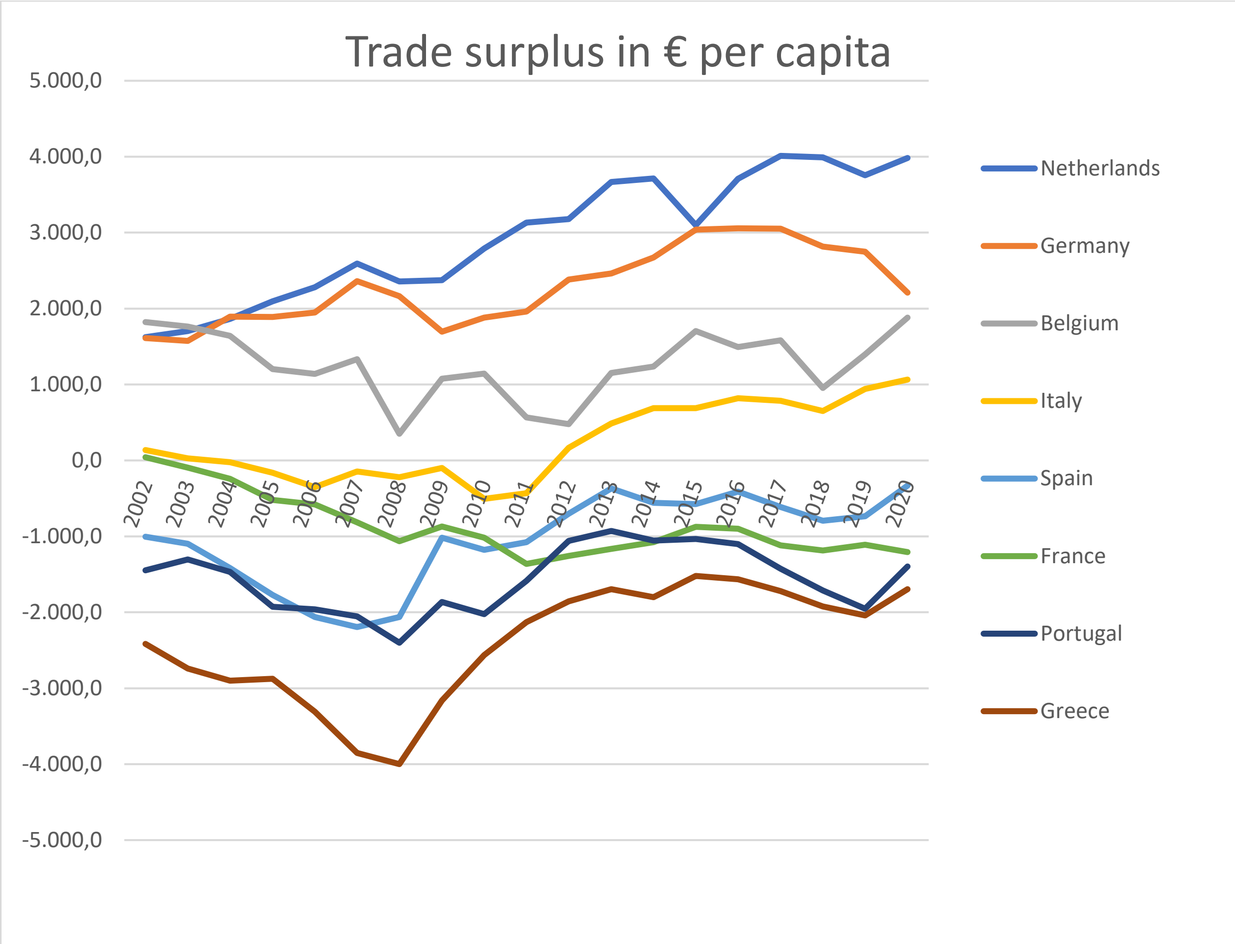
A closer look at the benefit of the larger trade flow
That there are advantages in itself to the disappearance of trade restrictions is also confirmed in our report. It is also plausible that these - again in themselves - result in more mutual trade.
It is not impossible that they have resulted in 25% more exports for the Netherlands. Only our exports have grown by 110% in 20 years, so the importance of that 25% should not be exaggerated. In addition, our exports to non-EU countries are growing faster than those within the EU, which casts doubt on the strong trade-promoting effect of the lower trade costs within the EU.

And what actually caused the other 85% increase in exports?
Apparently the variable examined by CPB is not very important.

Disadvantages of the EU are not taken into account
The trade advantages of the EU are offset by major disadvantages: the unimpeded access of Dutch products that are too cheap (due to the euro being too weak for us) to the southern European countries is not good for Spanish farmers, for example news.
And the ever-increasing price of export products from Southern Europe due to the relatively increasingly expensive euro for them is certainly not conducive to their exports.

Due to the EU rules, they can no longer even protect their home market with import tariffs against our products that are too cheap, which is bad for their local economy.
And because of the euro, they can no longer recover their weakening competitive position through a devaluation of their own currency, which is bad for their exports.
Both aspects are adverse consequences of their membership of the EU, and outweigh the limited trade benefits from the CPB report.
We therefore see a negative trade balance for the countries for which the euro is too strong [52]:

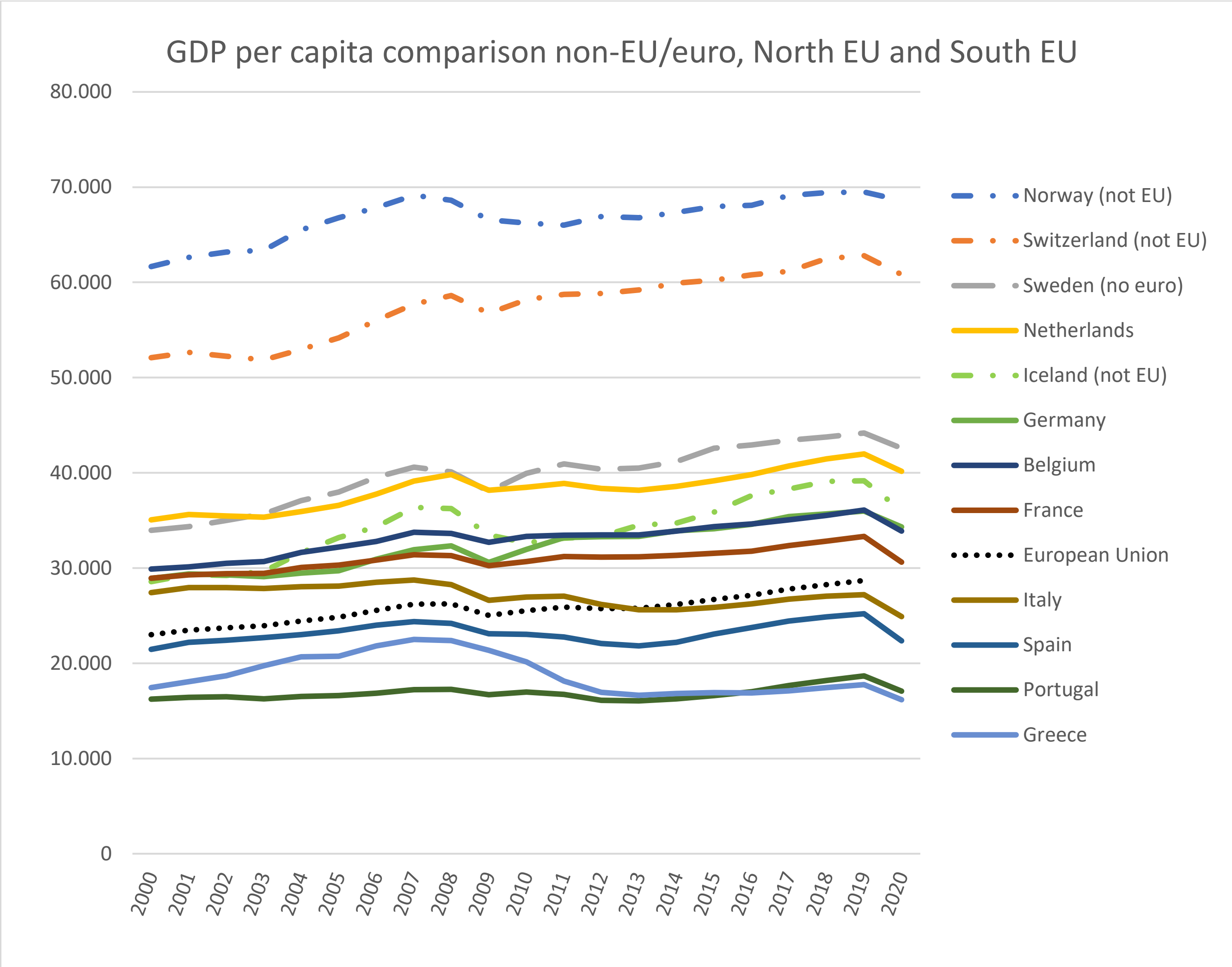
[52] Italy is a special case: Northern Italy is a strong industrial economy, for which the euro is too weak, and whose exports are therefore also increasing. The rest of the country is lagging far behind and suffers from an overly strong euro, but also from mismanagement and corruption. Despite the trade surplus, the Italian economy as a whole therefore lags far behind the rest of Europe



Trade balance in € per inhabitant from 2002 – 2020 (source Eurostat [53])

Economically, the Southern European countries lag far behind the rest of Europe.
There is also no greater growth in the EU countries than in the non-EU/euro countries.

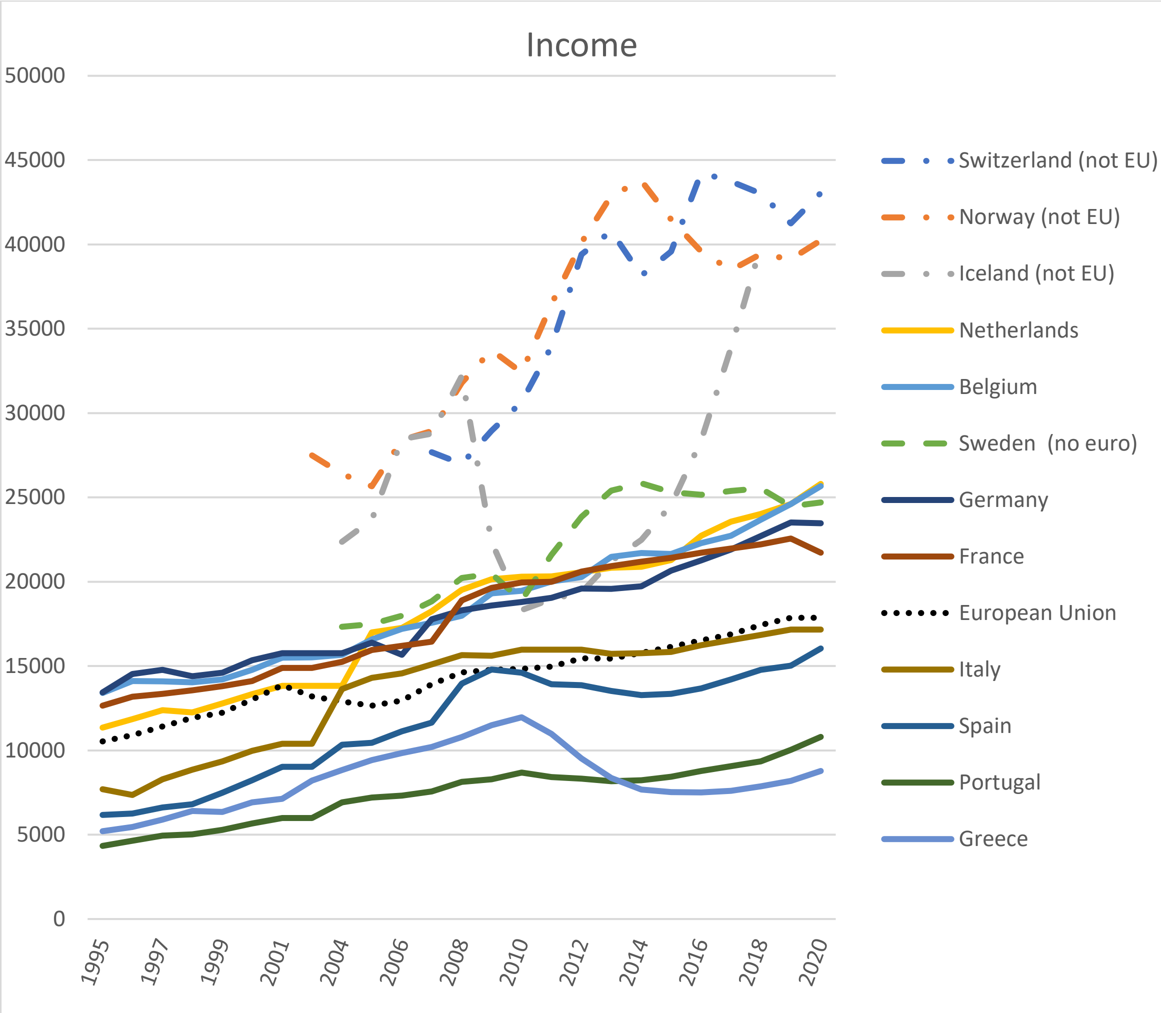
[53] https://ec.europa.eu/eurostat/web/main/search/-/search/estatsearchportlet_WAR_estatsearchportlet_INSTANCE_bHVzuvn1SZ8J?p_auth=Qe6oCGbf&text=Intra+and+Extra-EU+trade+by+Member+State+and+by+product+ group



Development of GDP per person for non-EU and northern and southern EU/euro countries (source Eurostat [54])

If we look at GDP, the Netherlands is doing fine, but the income of its citizens once again shows that they are not benefiting from economic growth: that hardly differs from our neighboring countries, which have a much smaller trade surplus and a lower GDP per capita. such as Belgium, France and Germany.

[54] https://data.europa.eu/data/datasets/praxgsgayvtmqwfufzwdzq?locale=en



Income development for non-EU and northern and southern EU/euro countries (source Eurostat [55])

According to our report, this can be traced back to the lack of monetary welfare optimization for the Netherlands since we joined the euro currency union.

CPB claims not tenable

The claim of the CPB report that the EU has benefited almost all countries may therefore apply to the falling trade costs, as studied, but certainly not to the trade situation in general, and certainly not to the South -European countries. After all, a currency that is tens of percent too expensive or cheap, and therefore export products that are tens of percent more expensive or cheaper, are much more important for export than a few percent reduction in trade costs, as the graphs above clearly show. The CPB report itself states that there is only a significant positive effect on exports when high costs are eliminated, and that this effect decreases sharply when costs are lower. This suggests that it is not a strong influencing factor in itself.

Certainly for the Netherlands, the importance of more exports should not be confused with the importance of the Netherlands: if the ever-increasing export growth no longer leads to an increase in purchasing power, but to an overheated labor market, we as a country have little benefit from it.

The conclusion of the CPB report *"We show that the EU has increased trade between Member States and has thereby increased the economy of the Netherlands and that of virtually all other EU Member States"* so not correct. The trade advantages have theoretically led to more trade and an increase in GDP, but according to our report that effect is

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55 https://ec.europa.eu/eurostat/web/main/data/database?p_p_id=NavTreeportletprod_WAR_NavTreeportletprod_INSTANCE_nPqeVbPXRmWQ&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view

completely overshadowed by other EU disadvantages, in particular the monetary disadvantages of the euro currency union.

The claim of the FD article " *The Netherlands benefits from a stronger EU* " and its concretization in the subtitle " *Cabinet-Rutte IV must move towards more EU integration* " is certainly not supported by the CPB report, and it also appears to be unfounded. hold.

In our report we therefore maintain the conclusions about the disadvantages of the euro currency union for the Netherlands and for the other EU Member States.

Conclusions

It is well known that the euro disrupts the mutual competitive position of the various euro countries. This is advantageous for the Dutch trade balance.
But the second effect of the euro, the disappearance of the monetary welfare optimization that comes with an own currency, was not known to our administrators until now. And that will have a very bad effect on purchasing power development in the Netherlands.

In view of the expected higher inflation and the rising costs of energy due to the rising costs of climate policy and recent market developments, a significant drop in purchasing power is even likely in the coming years. Without the decline in purchasing power due to the euro that was already there, this recent decline would have been much less noticeable.

Our government had better stop presenting itself as a great defender of the benefits of participating in the euro, and promote it to the people as something that will only benefit them. In reality, the euro undermines the purchasing power of our population, creates an overstrained labor market and disrupts the economies of the southern euro countries.
A critical rethinking of the future of the euro is needed if we are to rebalance and future-proof our economy (and that of Europe as a whole).[56]

It would be highly preferable to develop a future scenario for the eurozone (or possibly only for the Netherlands) that maintains the advantages of the euro and the single market as much as possible, but combines it with the advantages of the monetary flexibility of independent currencies. If only as an emergency option for when the euro falls.

How this problem can possibly be tackled is the subject of a subsequent report in this series.

56 Former finance minister Hans Hoogervorst states in EW: “Leaving the eurozone should not be taboo”