The euro turns out to be very expensive

and bad for the purchasing power of the Dutch

In fact, all eurozone countries would be better off without the euro

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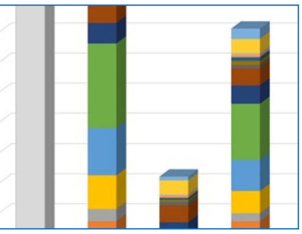

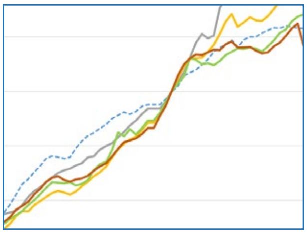

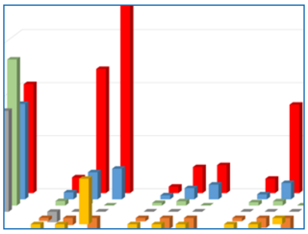

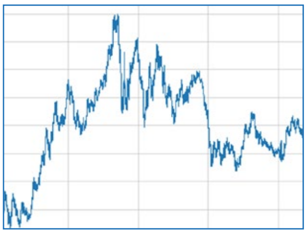

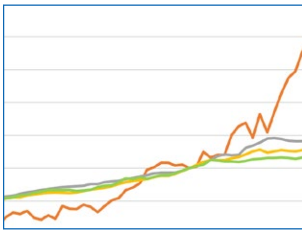

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The euro turns out to be very expensive and bad for the purchasing power of the Dutch

In fact, all countries of the eurozone would be better off without the euro

On 9 March there will be a parliamentary debate on the future of the euro. Monetary economics is quite complicated, so unfortunately very few people understand what is going on with the euro, the ECB, and the many EU financial aid packages at the moment. And nobody knows – until this article – what the EU and the euro actually cost us.

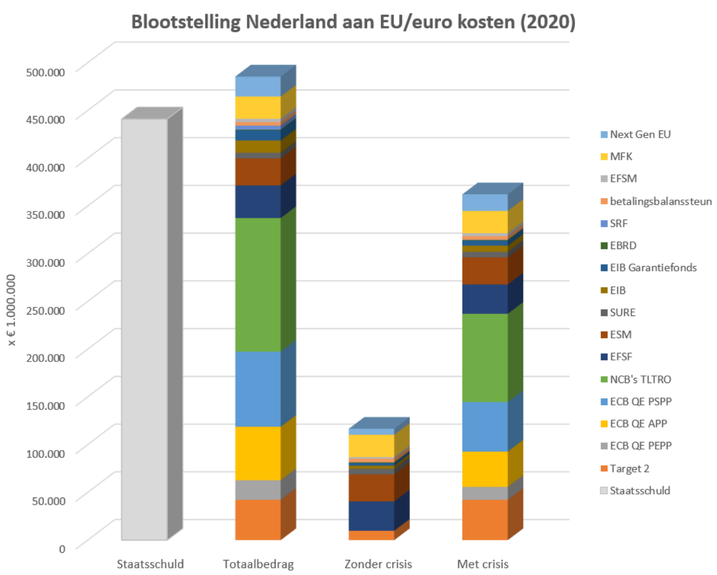
There was an interesting expert meeting in the House of Representatives on this subject on 13 February, but it is highly questionable whether the MPs present made much progress with it: the experts often contradict each other, and when push comes to shove, they do not dare to explicitly to say that the euro has no future. I will come back to this at the end of the article.

Two reports from the Environment, Science & Policy Foundation shed new light on the price of the euro and the EU for the Netherlands.
The first report[1] compares the costs of the euro and the EU for a country like the Netherlands, which is in both the EU and the euro monetary union, with countries with a different relationship to the EU and the euro.
The **second report** takes a closer look at the monetary economy and explains the unfavorable effects of the euro for the Netherlands, but also for all other countries of the euro currency union.

The core of the reports is well represented in the four charts that form the basis of this article.

Exposure of the Netherlands to costs of the EU and the euro

The costs of the EU and the euro to which the Netherlands is exposed have been determined on the basis of official documents from the EU. The reference year 2020 was initially used for this purpose.
This gives the following graph (in thousands of euros, so the highest value on the scale is €500 billion).



1 The report "Exposure of the Netherlands to costs of the EU and the euro" is not yet available in any form other than in this note. For more information about the calculation: info@mwenb.nl

The first column shows the national debt in 2020 for comparison

The adjacent column (Total amount) shows an amount of €475 billion in total "exposure" for the Netherlands, as deduced from EU documents.

The legend shows that this "exposure" consists of completely incomparable items.

For example, expenditure already incurred (such as the net contribution to the EU in the past), loans granted (to reliable and unreliable countries), guarantees, and strongly fluctuating items such as the Target 2 balance (the settlement of international payments in the euro zone). This structure makes the meaning of the total as "exposure" of the Netherlands to the EU and the euro unclear.

With and without crisis

Two situations have therefore been calculated in which the addition of items becomes more significant. The first concerns the situation without a financial crisis (third column: "Without crisis"). It shows the total amount of money that we have lost anyway, such as the EU contribution, and subsidies paid to southern European countries.
The second concerns the situation in the event of a major European financial crisis (fourth column: "With crisis"), in which the bad loans must be written off and the guarantees given must be paid out.

These values are more significant, but cannot be calculated exactly: subjective estimates are made of the risks associated with the items. For example, government bonds of the Netherlands are considered risk-free, and those of Italy are considered worthless in a financial crisis.

The outcome is that in 2020 we would have lost 100 billion euros to the EU and the euro anyway.
And in a major crisis we were exposed to an amount of €355 billion, more than 80% of our national debt.

Exposure of the Netherlands to non-EU and non-eurozone members

It becomes interesting when this exposure is compared to countries with a different relationship to the EU and the euro.
Therefore, the same calculation is also done for:

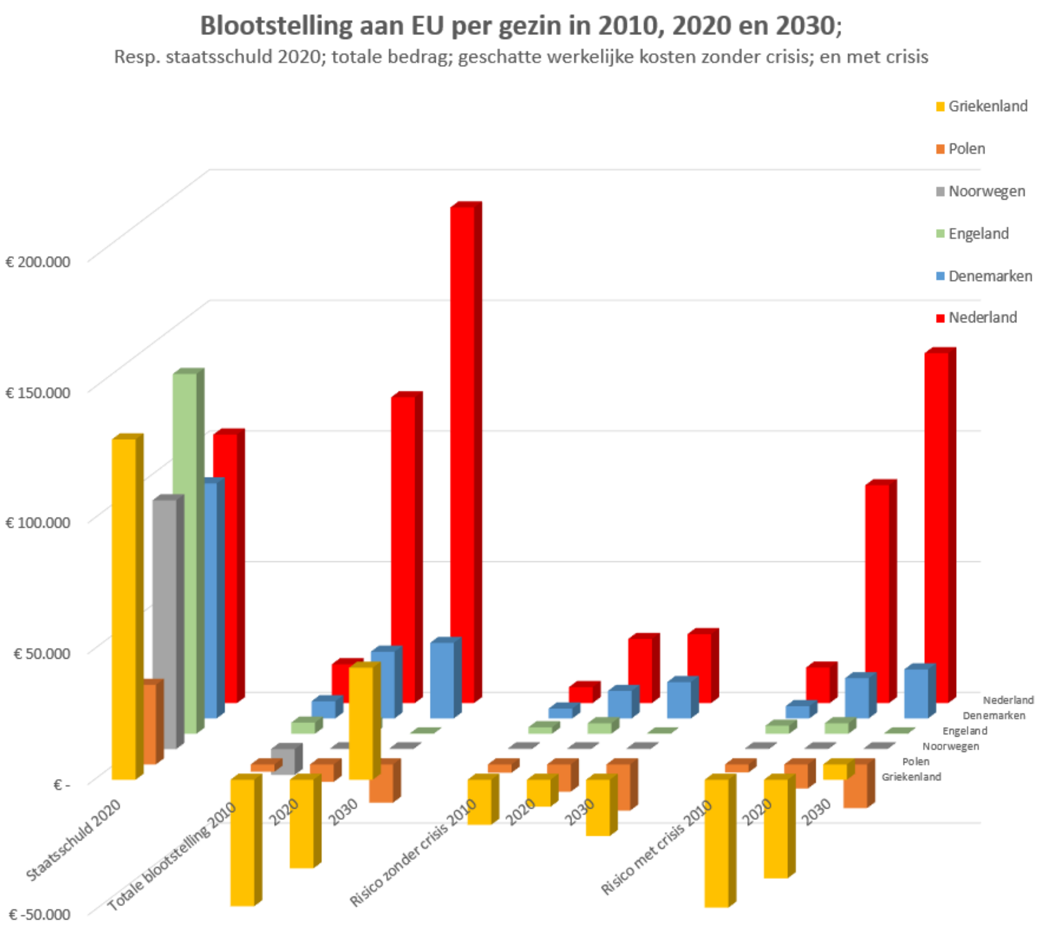
Country	EU	euro	Contribution	description
Netherlands	x	x	bet.	as a paying EU and euro country
Denmark	x	-	bet.	as paying EU but not euro country
The UK	-	-	-	as a former EU country and not a euro country
Norway	-	-	-	as a non-EU and non-Euro country
Poland	x	-	received	as Eastern European receiving EU but not euro country
Greece	x	x	received	as a Southern European receiving EU and euro country

To be able to compare the amounts with other countries, they have been converted to four-person families, using the simple formula: divide the amount by the size of the population, times four.

This looks at the situation in 2010, 2020 and 2030, where the first two consist of concrete values, and the third (2030) is the result of mostly simple extrapolation, combined with expert judgement . The numbers for 2030 are therefore no more than indicative. Incidentally, the amounts are expected to be much higher than in the chart, due to the ever-increasing costs of new arrangements to keep the euro alive.

How these amounts will have to be paid in the assumed crisis situation differs, but they will ultimately either be paid from the current budget at the expense of the prosperity and crisis resilience of the Netherlands at that time, or be added to the national debt and put pressure on the next generations.

The results are contained in this graph, in euros per four-person family, with Greece in yellow on the first row, and the Netherlands in red on the back row:



Few will have realized until now that the cumulative costs of the EU and the euro already amount to €25,000 per Dutch family anyway, and according to the graph, in the event of a crisis, could amount to more than €80,000 in welfare loss per Dutch family.

It is also striking that the Netherlands, as a net contributor to the EU and as a eurozone member, bears excessively high costs, compared to non-euro and non-EU countries, but also compared to the recipient EU countries.
Immediately afterwards, it is striking that Denmark (blue), which is economically reasonably comparable to the Netherlands, and which also contributes equally to the EU budget, but does not use the euro, pays less than a quarter of the Netherlands. Apparently, ¾ of the costs are related to participation in the Eurozone, and ¼ to participation in the EU.

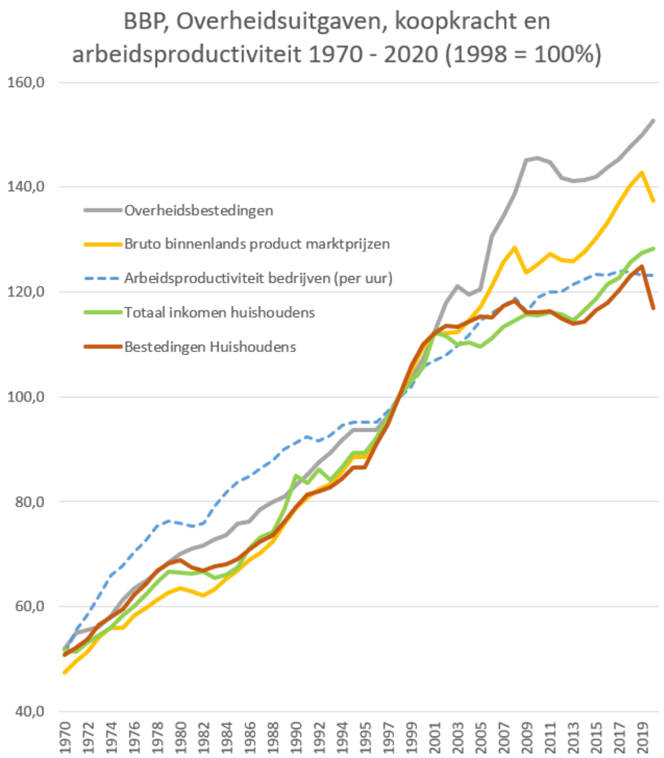
It is often said that the Danish choice not to join the euro was stupid, because they have linked their own Krone to the euro, but have nothing to say about the euro. That doesn't seem to be in their interest.
But the chart shows that their euro opt -out saves the Danes a lot of money.

The calculations do not include the fact that the euro and the EU also have advantages for the Netherlands as a trading country due to the elimination of exchange rate losses and trade barriers. These have been calculated by the CPB and are discussed in the last chapter of the second report. It shows that these trade advantages are much smaller than the monetary disadvantages of the euro.

Our lagging purchasing power and the euro

The second report was completed in February 2022, just before the Ukraine war, and analyzes the stagnating purchasing power in our country for 20 years, while the economy grew strongly. Since the report was published, inflation has been driven up by high energy prices in particular, which of course has an additional negative effect on purchasing power, but the purchasing power problem already existed before the Ukraine war. Even for 20 years, namely since the introduction of the euro in 2000.

The first picture illustrating this phenomenon shows inflation-adjusted purchasing power, GDP and government expenditure in percentage growth compared to 1998, the year before the introduction of the euro.



Government expenditure, GDP and purchasing power[2] (in percentage increase, inflation-adjusted , 1998 = 100%) coincided perfectly between 1970 and 2000, while after the introduction of the euro they diverged sharply.

Monetary Wealth Optimization

Since the war, we have known various monetary systems that tried to link the exchange rate of the guilder to that of the other European currencies. But despite this intended link, the guilder was de facto an independent currency before the introduction of the euro. So it increased in value when our economy did well and the trade surplus increased. This happened in jerks: due to the difference in growth, revaluations or devaluations had to be carried out regularly between the countries. As a result, the guilder became increasingly stronger despite the intended link. This is not about small differences: compared to the guilder, for example, the peseta devalued by no less than 80% between 1965 and 1995.

Due to the strengthening guilder, the price of energy and other imported goods fell in the Netherlands, which increased purchasing power. Our own products actually became more expensive due to the strong guilder, which limited export growth, and our industry had to innovate to remain competitive. This led to slowed but stable growth: purchasing power, GDP and government expenditure went exactly in parallel

2 Purchasing power growth is expressed here as the percentage growth of inflation-adjusted household income (1998 = 100%), ie the net increase in households' ability to buy something.

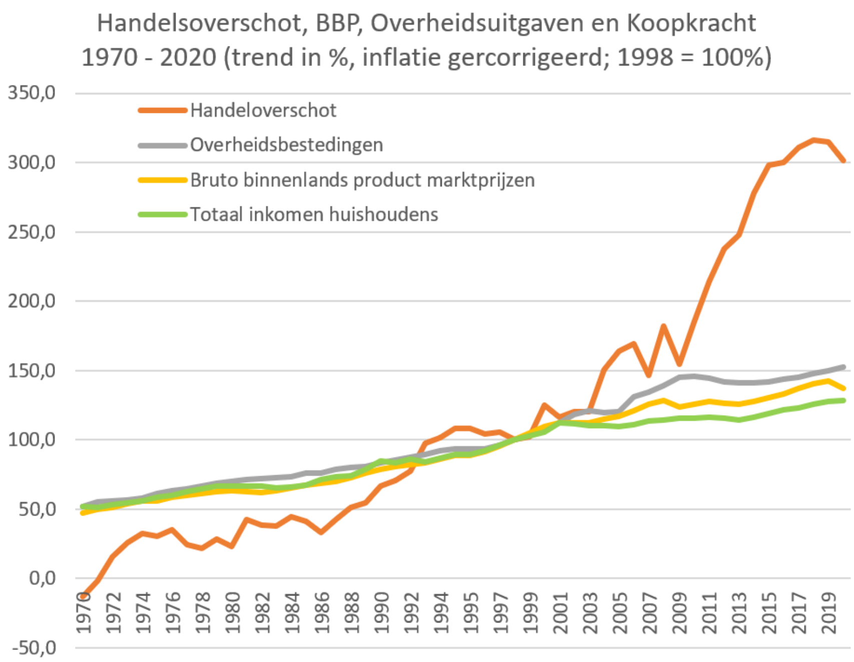
between 1970 and 2000: the economy was in balance. And our companies became the most innovative in the world.
It is striking in the graph that the various variables coincided perfectly when the euro was introduced in 1999, just as in 1970. 30 years of perfect balance, despite a major economic crisis in the 1980s.

The report states that this monetary mechanism ensures optimal growth of the economy and maximum growth of prosperity, and – above all – that this wealth is optimally distributed among the population via purchasing power. The mechanism is therefore named "Monetary wealth optimization".

After 2000, we see purchasing power stagnating (growth 25% in 20 years) and lagging sharply behind GDP (growth 40%) and government expenditure (growth 50%): the economy is out of balance.
This coincides with the introduction of the euro, which is no coincidence: after that, an increase in the trade surplus no longer led to an increase in purchasing power, because the value of the euro is not determined by our economic performance, as is the case with the guilder. was the case, but by that of the entire euro area.
The graph shows this clearly from the lagging purchasing power.

Trade surplus

The disappearance of the Monetary Welfare Optimization should also be reflected in the trade surplus: after all, there is no longer a natural brake on exports. We therefore add the trade surplus to the previous picture:



We see that the trade surplus has reached absurd proportions: an increase of 200%. Even in absolute terms (in euros), the trade surplus of the Netherlands is now the third largest in the world, after China and Germany, if you leave out the energy exporters.
And our export is the largest in the world after China, the US and Germany (in euros!), even including oil countries.

The reason for this is that the euro is worth at least 25%, but probably more than 50% less than the guilder would be worth if we had not entered the euro. So our products are sold worldwide for ramshackle prices.

Purchasing power and disrupted labor market

Great result you would say, and many thanks to the weak euro! But the problem is that we as a population have almost no use for a huge trade surplus, because it no longer increases purchasing power. It creates jobs, which is nice, but there is no shortage of them at all, on the contrary.

The euro, which is much too weak for us, has a rather disruptive effect: exporting companies are coming in and can afford to pay higher wages, but SMEs and the government (healthcare, education, benefits), together by far the largest part of the economy, cannot afford higher wages. afford wages: SMEs because purchasing power lags behind and therefore also spending, and the government because higher wages would drive up government spending.

This results in a distorted labor market. The call in politics for higher wages to increase purchasing power is therefore strange: SMEs can only pay higher wages if they raise prices, thus driving up inflation and lowering purchasing power. And the government itself can only increase wages and benefits if taxes are increased. Which also affects purchasing power.

Without the monetary welfare optimization of an independent currency, a balanced increase in purchasing power is a problem, even if the economy is growing.

In addition, the exporting companies become lazy and stop innovating and improving productivity. After all, even without innovation they already compete with everyone in the market with their far too low prices in euros. In the long run, this will cost us our enormous economic clout.

The fact that our economy has been out of balance since the introduction of the euro has therefore led to lagging purchasing power, a disrupted labor market, declining innovation in the business community and a brake on productivity growth.

The euro and competitiveness

The fact that the euro is much too weak for the Netherlands (and Germany) applies outside the eurozone, but also within it: this is how we compete with the weaker southern European countries. And they can no longer defend themselves against that with a devaluation, which makes them competitive again for a while, as they used to be.
The result is a continuous economic crisis in the weaker countries, which have to be propped up by the EU.

The conclusion is that the euro is bad for the economy of the weak countries and bad for purchasing power and innovativeness in the strong countries. In this way, the strong countries will automatically become weaker in the long run.
Instead of the weak countries pulling up on the strong in the eurozone, as promised, the strong are being sucked down by the weak, weakening the eurozone as a whole.
And so ultimately the competitiveness and prosperity of the entire eurozone declines.

Monetary flexibility or a central European government?

By letting go of our own currencies, we have lost the Monetary Welfare Optimization in all countries of the eurozone, and as said, that is bad for everyone in the euro currency union.
Unfortunately, there is a different opinion in Brussels and The Hague: they assume that the problems will be over if we transfer enough powers to Brussels.

Many politicians therefore acknowledge that the euro is currently causing major problems. But that is seen as an intermediate stage: in their view, the current problems are a good means of pressure to enforce a solution: a Federal European state governed from Brussels, comparable to the US.
There the dollar is seen as successful, and according to economic rules it can be, because the US meets the criteria for an "optimal currency area", and a dollar currency union is therefore tenable.

The report argues that it is an illusion that Europe will come close to an "optimal" within the next few generations currency area" such as the US. The conclusion must be that the euro is not sustainable, regardless of whether or not the European economy is centrally controlled. And many leading independent economists share this view.

The politicians see no other way out than to continue on the chosen path, hoping that the inevitable crises will soon lead to the European Federal state in which the problems with the euro are solved (in their dreams, at least) .

A sustainable currency union is also bad for prosperity

However, the report goes one step further than the criteria for an "optimal currency area" used by economists. It argues that even a sustainable monetary union, such as a centrally governed Europe, would also meet the "optimal currency area criteria" similar to the USA, is economically bad for the member countries.

The reason is that sustainable currency unions are also kept afloat by very high transfer amounts from the rich regions to the poor regions. The willingness to pay for these large transfers is therefore one of the most important criteria for an "optimal currency area".
However, in the US, as well as in Germany and Italy, it has been shown that these transfers from rich to poor can continue for many decades without any benefit to the poor regions.

According to the reasoning of the report, this is self-evident: by giving economically different regions the same currency, the Monetary Welfare Optimization that would have brought much more growth to the poorer regions individually is lost. And in the future European state, through the operation of the euro, the poor regions will be kept alive by the rich as well as competing with each other and with large transfer amounts.

This also applies to the US: for decades, transfers have amounted to 10% of the federal income and expenditure of poor and rich states, and the rich stay rich, and the poor stay poor.
In addition, the economic boom of the United States is based on ever-increasing debt accumulation: the budget deficit now fluctuates around USD 1,100 billion, with a trade deficit of about the same size. After all, the competitiveness of the US has been declining for decades, which has led to the departure of a large part of the manufacturing industry abroad.
That is absolutely not a healthy and sustainable economy that we should want to take as an example, but an economic time bomb. Even if it is optimal currency area.

Merging into a federal European state, governed from Brussels, is therefore not a solution to the problems caused by the euro. Not for the strong and not for the weak countries.
That is the main conclusion that can be drawn from the report.

What now?

Many independent Dutch (monetary) economists have now openly expressed strong doubts about the sustainability of the euro currency union. But they usually do not (yet) draw a concrete conclusion that we should stop. The expected economic and political consequences may put them off.

The second report concludes with the promise to come up with a solution in a third report in which the euro does not have to fall, but is made more flexible. That would solve the existing problems and prevent the dreaded chaos. Even if this solution will also have disadvantages: there is no painless way out.

It would be nice if this solution works, but even without a redeeming way out, the fundamental debate about the euro must be held, with the concrete option of stopping it, even if no good alternative is found. By far the best thing would be to unbundle the euro currency union into a centrally coordinated process, but if necessary we as a country or group of countries must step out ourselves if that central process is not progressing quickly enough.
After all, the damage to the affiliated economies increases every year, the costs of keeping the euro afloat continue to rise, and the exposure of the Netherlands in particular continues to increase.

The opinion of the experts

The expert meeting with the MPs on 13 February presented as many opinions as experts on many sub-topics . As a Member of Parliament, that is of little use to you.

But EW did manage to find a common denominator and wrote:

> *"The result was impressive: a substantive discussion of four and a half hours about the monetary union, which none of the experts invited by the left and right believe the Netherlands should leave. But then something has to be done about the euro."*

A little later:

> *"Twelve experts, twelve opinions, with the common denominator that leaving the euro is not an option"*

This was not incorrect: none of the experts advocated an immediate exit from the euro. But it was much too short sighted.
The reason for the meeting and the upcoming parliamentary debate was a controversial interview with former finance minister Hans Hoogervorst in EW in which he stated: "The euro is becoming unsustainable due to the extreme monetary policy of the European Central Bank (ECB)"[3]
He recently said in De Telegraaf, referring to the interview: "I said last year: the Netherlands should not see it as a taboo that we may have to leave the euro."[4]

Former DNB director and professor of monetary economics Lex Hoogduin also shares this view. Both do not want to leave the euro this week, but also see the unsustainability of the current euro currency union, unless it is radically reformed.

The "no-bailout clause"

The most important demand in that reform is the restoration of the "no bail -out clause", the main agreement in the Treaty of Maastricht, which established the euro monetary union. It was also the hard condition on which the Netherlands and Germany were willing to give up their strong currencies for the euro.
That clause meant that governments that made a mess of things and got into trouble (read: had to pay too high interest on their government loans) would never be bailed out by the others, so that they would be forced to clean up due to sky-high interest rates. make in their national economy.

3 https://www.ewmagazine.nl/nederland/BACKGROUND/2022/02/oud-minister-hoogervorst-vertrek-uit-eurozone-mag-geen-taboe-zijn-870566/?&utm_source=ew&utm_medium=nieuwsbrief&utm_campaign=EWD%20 -%202022%20February&utm_term=EWD%20-%2020220216&utm_content=EW%20Newsletter%20Header&bid=4828318555258365650

4 https://www.telegraaf.nl/financieel/1080794793/oud-minister-hoogervorst-euro-wordt-onhoudbaar

But the capital market never believed for a moment that we would stick to it, and ten years ago Mario Draghi even officially abolished it during the Greek euro crisis and replaced it with the opposite, a bailout guarantee: "We will do whatever it takes to save the euro, and believe me, it will be enough ".
Although this was the ECB director, it was still just a civil servant who single-handedly swept the Maastricht treaty off the table, without the signatories having anything to say about it. I found that astonishing: the most sacred agreement made in an EU context turned out to be worth nothing at all.

The result was that since then the euro can no longer survive on its own (after all, the mechanism underneath has been removed) and therefore has to be kept alive by Brussels and the ECB, through artificially low interest rates, and ever-increasing expenditures and aid packages, from now on. thousands of billions of euros.
The ECB can maintain this until the amounts have become so high that the capital market loses confidence in the creditworthiness of the ECB, and then a chaotic collapse of the eurozone follows.

Hoogervorst and Hoogduin want other fiscal rules back from Maastricht, in the same or modified form, but therefore also the no- bailout clause, otherwise they see no future for the euro, and our participation in it. Until those reforms are implemented, we must
stipulate opt -outs for the new mega aid packages , Hoogduin argued .

But how realistic is this return to the Maastricht agreements, especially the no- bailout clause? There are very few countries that are enthusiastic about them, and even if they could be implemented, a few southern countries would probably collapse immediately and the euro would fall.
And the principle of no longer participating in new schemes and Eurobonds by enforcing opt-outs as the Netherlands could also be perceived by the capital market as the beginning of the end of the euro, and could therefore herald its fall.
That is why, in my opinion, no one in Brussels will dare to take these steps.

The options that Hoogduin and Hoogervorst suggested for saving the eurozone are therefore so unfeasible that the conclusion must be that – according to their reasoning – unbundling of the euro currency union is virtually inevitable. And that we as the Netherlands will have to get out if that doesn't happen. Whatever the conclusion of this article was.

None of the experts present said so explicitly, but not the least two among the experts did say so implicitly. That should give our MPs something to think about.

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