



THEY SAID IT...

How the EU elite got it wrong on the euro

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INTRODUCTION

"We are clearly confronted with a tension within the system, the ill-famous dilemma of being a monetary union and not a full-fledged economic and political union. This tension has been there since the single currency was created. However, the general public was not really made aware of it."

- European Council President, Herman Van Rompuy, 25 May 2010¹.

The sovereign debt crisis that started with Greece now casts a long shadow over the entire Eurozone, and indeed Europe as a whole. The markets, unconvinced by a €110 billion rescue package for Greece, have demanded yet more reassurance from EU leaders - a pledge to underwrite other Eurozone governments, such as Spain, Portugal, Ireland and Italy with a "shock and awe" package of €500 billion and a further €250bn from the IMF. But even these huge sums of money will be insufficient in the long-term without major changes to the rules, or possibly even the membership, of the Eurozone.

It is in everyone's interest for the Eurozone to return to stability. But moving forward, we must also ask: where did it go so wrong? Politicians, after all, assured us this was never going to happen.

Ultimately, the Eurozone crisis is not simply about economic failure but also a breakdown in trust between the political class and European citizens. When the idea of a single EU currency was floated, a number of promises were made to voters around Europe. Politicians, central bankers and opinion formers told us that without the euro our countries would suffer economically, unemployment would rise and growth would stagnate. We were told that differences in economic structure and competitiveness weren't a problem as members states' economies would "converge" once inside the currency union and that strict rules would ensure budgetary discipline.

Neither was losing control over interest rates and monetary policy an issue since the 'stability' offered by being inside the Eurozone far outweighed any such drawbacks. Meanwhile, they said, the EU Treaties guaranteed that taxpayers in one Eurozone country would never be forced to 'bail out' a foreign government. In countries such as the UK, politicians in the pro-euro camp maintained that a monetary union could function perfectly well without further political and economic integration. Those opposing the single currency on such grounds were labelled 'anti-European'.

In short, we were told that the single currency didn't really pose an economic risk and that it would not require further EU powers.

More than ten years since the euro was launched, and with the single currency facing its greatest ever crisis, the parameters have radically changed. Amid all the uncertainty, one thing has become painfully clear: the EU elite simply got it wrong on the euro.

This note highlights that the politicians who sold their citizens the euro failed to either grasp or tell the whole truth about the single currency. While it is a reminder that the experts and our elected representatives can get it wrong, more importantly, it is a call for greater honesty about the future of European cooperation and a reminder of the urgent need to find a new model that is both politically and economically sustainable; one that is more in tune with the interests and preferences of European citizens.

¹ Telegraph, 'Ordinary people were misled over impact of euro, says Herman Van Rompuy', 27 May 2010; <http://www.telegraph.co.uk/finance/currency/7767898/Ordinary-people-were-misled-over-impact-of-the-euro-says-Herman-Van-Rompuy.html>

THE WORST BROKEN PROMISES AND RECKLESS PREDICTIONS

"The Community shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project".

- Article 104b, Maastricht Treaty, 1992.

"We have a Treaty under which there is no possibility of paying to bailout states in difficulty".

- German Chancellor, Angela Merkel, 1 March 2010².

"[Greek Prime Minister] Papandreou has said that he didn't want one cent. The German government will not give one cent, anyway".

- German Economy Minister, Rainer Brüderle, 5 March 2010³.

"The single currency, far from being an agent of continental style corporatism, is probably the greatest export vehicle of Anglo-Saxon economics. The euro has done more to enforce budgetary discipline, to promote privatisation and force through labour and product market liberalisation in the rest of Europe than any number of exhortations from the IMF, the OECD, or the editors of The Economist".

- Lib Dem leader, Nick Clegg, 2002⁴.

"The reality of the euro has exposed the absurdity of many anti-European scares while increasing the public thirst for information. Public opinion is already changing [...] as people can see the success of the new currency on the mainland and the alarming fall in inward investment into Britain as international companies show an increasing reluctance to locate here".

- Kenneth Clarke MP, 2002⁵.

"The euro has been a rock of stability, as illustrated by the contrasting fortunes of Iceland and Ireland. Joining the single currency would be a major step".

- Former Labour MEP Richard Corbett, 2009⁶.

"We must enter the euro with a clean sheet on all the criteria".

- Then Greek Finance Minister, Yannis Papantoniou, 1999⁷.

² Deutsche Welle, 'Angela Merkel rules out German bailout for Greece', 1 March 2010,

<http://www.dw-world.de/dw/article/0,,5299788,00.html>

³ AFP, 'La Grèce vient de chercher du soutien à Berlin, pas de l'argent', 5 March 2010 ;

<http://www.rtbf.be/info/economie/ue/la-grece-vient-chercher-du-soutien-a-berlin-pas-de-largent-194136>

⁴ <http://www.prospectmagazine.co.uk/2002/01/nick-clegg-joining-euro-risk-gideon-rachman/>

⁵ Writing in the Times, 15 May 2002

⁶ Bradford Telegraph and Argus, 'Corbett wants debate on euro', 16 January 2009

⁷ World News, 'Greek euro-zone ambitions tempered by inflation fears', 23 August 1999

"The thrust of the spirit and of the letter of the Treaty is that everything is done to construct the euro area as an optimum currency area. First by ensuring that it incorporates economies that have already proved being convergent in the fiscal field as well as in the monetary and financial fields".

- Then Governor of the Bank of France, Jean-Claude Trichet, 1997⁸.

"It is sometimes said that while the single monetary policy may be 'right' for the euro area as a whole, it is 'wrong' for many individual countries within the area. I disagree with this view. First, it overlooks the fact that within a single currency area adjustment can occur via prices and wages".

- Then President of the European Central Bank, Wim Duisenberg, 1999⁹.

"Solidarity is possible, [and] will exist. A bailout is not possible and will not exist".

- Then EU Commissioner for Economic and Monetary Affairs, Joaquín Almunia, 29 January 2010¹⁰.

"I will defend the European Central Bank's independence under any circumstance and with all my strength".

- ECB President, Jean-Claude Trichet, 2007¹¹.

"The euro area now represents a pole of stability for those countries participating in it by protecting them from speculation and financial turmoil. It is strengthening the internal market and contributing to the maintenance of healthy fundamental figures, fostering sustainable growth".

- European Council conclusions, 2001¹².

"The euro is a protection shield against the crisis".

- European Commission President, José Manuel Barroso, 5 February 2010¹³.

"There is not the slightest danger of a break-up of the Eurozone...On the contrary, I expect the Eurozone to be exceptionally stable in the long run...Make no mistake, the Eurozone is here to stay".

- FT columnist Wolfgang Munchau, 2006¹⁴.

⁸ Speech by the Governor of the Bank of France, M. Jean-Claude Trichet, on the occasion of the fiftieth anniversary of the Land central bank of Rheinland-Palatinate and the Saarland in Mainz on 2/6/97; http://www.bis.org/list/cbspeeches/from_01041997/index.htm

⁹ Speech delivered by Dr. Willem F. Duisenberg, President of the European Central Bank, at 'Nieuwspoor' in The Hague, Netherlands, on 5 November 1999; <http://www.bis.org/ireview/r991109b.pdf>

¹⁰ Reuters, 'Greece: EU says no bailout', 29 January 2010, <http://uk.reuters.com/article/idUKTRE60R3BX20100129>

¹¹ Corriere della Sera, 'Trichet: difenderò l'indipendenza della BCE', 11 July 2007;

http://www.corriere.it/Primo_Piano/Economia/2007/07_Luglio/11/Trichet_bce.shtml

¹² Conclusions of the European Council Meeting in Laeken, 14-15 December 2001

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/68827.pdf

¹³ Le Matin, 5 February 2009

¹⁴ FT, 'Why the euro is here to stay', 24 September 2006

“REMAINING OUTSIDE THE EUROZONE WILL HURT THE BRITISH ECONOMY”

What they said then

“Opponents of the euro have been disheartened as their predictions of chaos and disaster have failed to materialise. The reality of the euro has exposed the absurdity of many anti-European scares while increasing the public thirst for information. Public opinion is already changing [...] as people can see the success of the new currency on the mainland and the alarming fall in inward investment into Britain as international companies show an increasing reluctance to locate here”.

- Kenneth Clarke MP, 2002¹⁵.

“If we remain outside the euro, we will simply continue to subside into a position of relative poverty and inefficiency compared to our more prosperous European neighbours. Remember, we are already only the tenth richest nation in the EU in terms of national wealth per head. Yet you seem to think that such relative decline is a price worth paying for the sentimental satisfaction of retaining increasingly meaningless ‘control’ over our own interest rates”.

- Lib Dem leader, Nick Clegg, 2001¹⁶.

“Staying out of the euro will mean progressive economic isolation for Britain. It will mean fewer foreign businesses investing here, fewer good jobs being created and less trade being done with our European partners. At the moment, more than half Britain’s trade is with Europe’s giant single market. But while we are using a different currency from the rest of Europe we are trading in this market with one arm tied behind our back”.

- Former EU Commissioner for Trade, Lord Peter Mandelson, 2003¹⁷.

“The euro may well come to be regarded in the coming years as part of the answer to saving the City from permanent decline. It was easy to dismiss the fledgling euro as a ‘toilet currency’ before we realised our own economic growth was built on sand”.

- Lib Dem leader, Nick Clegg, 2009¹⁸.

“As millions of Britons begin to feel the pinch of the growing credit crunch, the success of the Eurozone - and its management by the European Central Bank, could increasingly see our status outside the single currency as a political and economic liability”.

- Former Labour MEP Richard Corbett, 2009¹⁹.

¹⁵ Writing in the Times, 15 May 2002

¹⁶ From a letter to Gideon Rachman published in Prospect, ‘Debate: is joining the euro still too a big risk for Britain?’, 20 December 2001

¹⁷ Writing in the Sunday Mirror, ‘We’ll be wrong to continue stalling the vote on Europe’, 18 May 2003

¹⁸ Writing in the Independent, ‘Nick Clegg: We should consider joining the euro’, 26 January 2009;

<http://www.independent.co.uk/opinion/commentators/nick-clegg-we-should-consider-joining-the-euro-1515755.html>

¹⁹ European Movement, Richard Corbett, ‘Reopening the debate: could staying out mean losing out?’, January 2009;

http://www.euromove.org.uk/fileadmin/files_euromove/downloads/090114corbett.pdf

"As time goes on, people will increasingly see that there is a price to be paid for remaining outside the euro".

- Former leader of the Labour Party and EU Commissioner, Neil Kinnock, 2002²⁰.

"People have almost a fundamentalist faith in our currency - the pound - and a fundamentalist, almost religious hostility to the euro [...] The key question is what is in the material best interests of the British people. I think that the British people look, over time, at what is in their best material interests. Obviously joining a currency that everybody in Europe - including soon all the new European Union members - are using, a currency that American and Japanese and overseas businesses understand, has to make sense".

- Then UK Europe Minister, Denis MacShane, 2003²¹.

"The world's two large reserve currencies, the dollar and the euro, offer more protection from speculative attack than a free-floating offshore currency unit. The UK will at some point have to make a choice whether it wants to be in the Eurozone or whether it wants to seek an alternative use for those rather tall buildings in the heart of London".

- Wolfgang Munchau, FT columnist, 2008²².

"The euro has been a rock of stability, as illustrated by the contrasting fortunes of Iceland and Ireland. Joining the single currency would be a major step".

- Former Labour MEP Richard Corbett, 2009²³.

"Britain should join the euro within the next few years in order to enhance British power and influence. The case for joining is partly economic and partly political. Economically, British companies will not enjoy the full benefits of the European single market as long as they are separated from the main part of that market by a variable exchange rate [...] Eurozone companies will have less interest in doing business in Britain. Ultimately, British companies risk missing out on the economies of scale and profit offered by euro zone membership. This will damage the long-term competitiveness of the British economy".

- Centre for European Reform Director, Charles Grant, 2001²⁴.

"The euro, despite gloomy predictions from anti-Europeans, has proved to be a success. We cannot afford to be isolated from our biggest and closest trading partner any longer".

- Former Liberal Democrat leader, Charles Kennedy, 2002²⁵.

20 BBC, 'Europe view: Neil Kinnock', 11 March 2002; http://news.bbc.co.uk/1/hi/uk_politics/1717542.stm

21 Press Association, 'Euro opponents branded "fundamentalists"', 14 May 2003

22 FT, 'The case for UK membership of the euro', 18 November 2008;

<http://www.eurointelligence.com/article.581-M571497jbd0.0.html>

23 Bradford Telegraph and Argus, 'Corbett wants debate on euro', 16 January 2009

24 http://www.cer.org.uk/articles/euro_views.html

25 Daily Telegraph, '"Yes" lobby urges euro referendum', 14 May 2002

"It is essential for this country's future prosperity that we play a leading role in the European Union and this means membership of a successful single currency".

- European Movement, 2001²⁶.

"In reality the economic integration between Britain and the Continent is so close, and we have confirmed this because we all belong to the common market, that it can't be good in the long run to stay out of such a cardinal element as the currency union".

- Then German Finance Minister, Hans Eichel, 2002²⁷.

"Unless we seize the opportunity to join the euro, the risk of an inflationary plunge or a choking rebound will always be with us".

- Britain in Europe Chairman, Lord Marshall of Knightsbridge, 2003²⁸.

"We fear the consequences of staying out [of the euro]. Britain would be excluded from lots of things that we are in the centre of at the moment, our influence would wane, we would be at least semi-detached, and regarded as such by others. We would be bouncing around between these two huge currency zones, and could end up in a very weak position [...] Leading from within rather than carping from without is the best policy [...] the more we put in, the more we get out".

- Then TUC Secretary-General, John Monks, 2003²⁹.

"There are no real benefits and some real costs to the UK of monetary independence. The notion that a small open economy like the UK, with unrestricted international mobility of financial capital, could use national monetary policy actively to stabilise the real economy, is a prime example of the 'fine tuning fallacy'. In addition, the manifest incompetence of the Bank of England in its liquidity management [...] and the far superior, albeit still imperfect, liquidity management policies and practices of the ECB, suggest that it makes sense also from a financial stability perspective for the UK to contract out monetary policy to the ECB".

- Willem Buiter, Professor of European Political Economy at LSE, 2007³⁰.

What they say now

"I don't think the euro is for now. I go even further and say I don't think interest rates under the Eurozone over the last few years wouldn't have been right for the British economy [...] I accept that Eurozone interest rates over the last few years would have been wrong for Britain".

- Nick Clegg, Lib Dem leader, 7 April 2010³¹.

²⁶ European Movement weekly briefing, 16 February 2001

²⁷ Telegraph, 'Germans play royal card to make Britain love the euro', 17 January 2002;

<http://www.telegraph.co.uk/news/worldnews/europe/germany/1381800/Germans-play-royal-card-to-make-Britain-love-the-euro.html>

²⁸ The Herald, 'Euro entry a must, says BA chief', 2 April 2003

²⁹ Press Association, 'Monks warns against "semi-detached Britain"', 23 January 2003

³⁰ Willem Buiter's blog on the FT, 'Isn't it time for Britain to join the euro?', 26 November 2007

<http://blogs.ft.com/maverecon/2007/11/isnt-it-time-fohtml/>

³¹ Speaking on BBC Today Programme, 7 April 2010; <http://news.bbc.co.uk/1/hi/today/8606000/8606630.stm>

"The competitive value of the pound is helping exports and increasing the sourcing of manufactured goods in the UK".

- Lord Mandelson, Former Business Secretary, January 2010³².

"We have used our model to carry out a simulation of what might have happened if Tony Blair had succeeded in taking the UK [into the euro] early 1998 [...] Most European economies have found keeping up with a German inspired exchange rate a problem [...] This simulation shows that [UK's] GDP last year might have fallen by 7% instead of 5% and unemployment now would be around 15% [if we were in the euro]".

- Centre for Economics and Business Research, 15 February 2010³³.

"There is no evidence that being outside the Eurozone has imposed a performance penalty upon the UK economy. Between the first quarter of 1999 and the first quarter of 2008, its economy expanded by 28%, against 21% in the Eurozone as a whole and 16% in Germany [...] There is no evidence that EMU has improved the economic dynamism of its members. If anything, membership seems to have reduced the pressures for reform. The proposition then is fundamentally an economic one: remaining outside the euro preserves the safety valve of currency flexibility, while losing nothing in aggregate economic performance".

- FT columnist, Martin Wolf, 2008³⁴.

³² Sunday Times, 'U-turn if you want to - they certainly do', 7 February, 2010;

http://www.timesonline.co.uk/tol/comment/columnists/martin_ivens/article7017957.ece

³³ <http://www.cebr.com/Resources/CEBR/gordon%20brown%20will%20be%20remembered%20for%20keeping%20us%20out%20of%20the%20euro.pdf>

³⁴ Financial Times, 'Britain is better off outside the euro', 29 May 2008;

<http://www.ft.com/cms/s/0/5b04e654-2da9-11dd-b92a-000077b07658.html>

“THE EURO WILL REMAIN STABLE AND EUROZONE COUNTRIES WILL BE PROTECTED FROM CRISES”

What they said then

“The euro is like a breastplate that will become more and more resistant. The stability of the currencies within its area is without question”.

- Then Commissioner for Monetary Affairs, Yves Thibault de Silguy, 1998³⁵.

“The decision to launch the single currency is the first step and marks the turning point for Europe, marks stability and growth and is crucial to high levels of growth and employment”.

- Then UK Prime Minister, Tony Blair, 1998³⁶.

“The euro is a protection shield against the crisis”.

- European Commission President, José Manuel Barroso, 5 February 2010³⁷.

“The people should note that the Euro will not only be just as stable as the D-Mark, but also a lot more capable”.

- Then German Economy Minister Wilhelm Werner Müller, 1999³⁸.

“I am certain the success story of the Deutschmark will continue with the success of the euro”.

- Then German Chancellor Helmut Kohl, 1998³⁹.

“The euro area now represents a pole of stability for those countries participating in it by protecting them from speculation and financial turmoil. It is strengthening the internal market and contributing to the maintenance of healthy fundamental figures, fostering sustainable growth”.

- European Council conclusions, 2001⁴⁰.

“The Maastricht treaty obliges the European Central Bank to pursue price stability and the ECB is more likely to overfulfil its treaty target than to ignore it. As long as this is the case, there is not the slightest danger of a break-up of the Eurozone... On the contrary, I expect the Eurozone to be exceptionally stable in the long run...Make no mistake, the Eurozone is here to stay”.

- FT columnist Wolfgang Munchau, 2006⁴¹.

35 La Repubblica, 'A Mosca Prodi non ci ha aiutato', 30 August 1998

<http://ricerca.repubblica.it/repubblica/archivio/repubblica/1998/08/30/mosca-prodi-non-ci-ha-aiutato.html>

36 BBC News, 'Euro is a turning point - Blair', 16 June 1998;

http://news.bbc.co.uk/1/hi/special_report/1998/06/98/cardiff_summit/112529.stm

37 Le Matin, 5 February 2009

38 <http://www.tagesspiegel.de/politik/neue-waehrung-fuer-290-millionen-europaeer/68462.html>

39 AAP Newsfeed, 'German Parliament says "Ja" to euro', 24 April 1998

40 Conclusions of the European Council Meeting in Laeken, 14-15 December 2001

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/68827.pdf

41 FT, 'Why the euro is here to stay', 24 September 2006

"The euro area: How big will it be? My own prediction is that by the year 2002 the European monetary Union will include its current 11 members plus Greece (which is already committed to join), Sweden, Denmark, and Britain. By 2005, Slovenia, the Czech Republic, Poland, Hungary, and Estonia will also be in. And by 2010, assuming all goes well and the monetary union is prosperous, no country in Europe will want to, or be able to, afford to stay out. Thus, Slovakia, Croatia, Lithuania, Latvia, Romania, and Bulgaria will all join the monetary union".

- Nobel Prize winning economist Robert Mundell, sometimes described as 'the father of the Euro', 1999⁴².

What they say now

"The euro is in danger - if we do not avert this danger, then the consequences for Europe are incalculable, and then the consequences beyond Europe are incalculable."

- German Chancellor, Angela Merkel, 19 May 2010⁴³.

"Euroland, burned down. A continent on the way to bankruptcy".

- Front page of Der Spiegel, 5 May 2010⁴⁴.

"We cannot allow the bankruptcy of a euro member state like Greece to turn into a second Lehman Brothers [...] The consequences of a national bankruptcy would be incalculable. Greece is just as systemically important as a major bank".

- German Finance Minister, Wolfgang Schäuble, 18 April 2010⁴⁵.

"There is a grave threat of contagion effects for other member states in the monetary union and increasing negative feedback loop effects".

- Bundesbank Chief, Axel Weber, 5 May 2010⁴⁶.

"Whichever scenario you choose, the euro is going to be weak. Even if the Eurozone were to allow more serious slippage in budgetary consolidation than I have suggested, that would probably not help the euro either, as markets would start to doubt the longevity of the currency union for political reasons".

- FT columnist, Wolfgang Munchau, 7 March 2010⁴⁷.

"We should not knock this [bailout] deal from Athens. The Eurozone might not have survived otherwise [...] On my estimate, the total size of a liquidity backstop for Greece, Portugal, Spain, Ireland and possibly Italy could add up to somewhere between €500bn (\$665bn, £435bn) and €1,000bn. All those countries are facing increases in interest rates at a time when they are either in recession or just limping out of one. The private sector in some of those countries is simply not viable at those higher rates".

- FT columnist, Wolfgang Munchau, 2 May 2010⁴⁸.

42 'The Euro: how important?' Cato Journal. Winter 1999, 18: 441-444

<http://www.cato.org/pubs/journal/cj18n3/cj18n3-13.pdf>

43 Scotsman, 'Euro on the brink with whole continent "in jeopardy"', 20 May 2010;

<http://news.scotsman.com/world/Euro-on-the-brink-with-6306724.jp>

44 <http://www.spiegel.de/spiegel/0,1518,ausg-4698,00.html>

45 Der Spiegel, 'We cannot allow Greece to turn into a second Lehman Brothers', 19 April 2010;

<http://www.spiegel.de/international/europe/0,1518,689766,00.html>

46 Daily Telegraph, 'Euro tumbles, stock falls as European debt fears grip investors', 5 May 2010;

<http://www.telegraph.co.uk/finance/financetopics/financialcrisis/7682396/Greece-debt-contagion-fears-batter-euro.html>

47 FT, March 7 2010; <http://cache.ft.com/cms/s/0/b0260ac6-2a1b-11df-b940-00144feabdc0,s01=1.html>

48 <http://www.ft.com/cms/s/0/461663a0-5613-11df-b835-00144feab49a.html>

“THERE WILL BE NO BAIL-OUTS”

What they said then

“The Community shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project”.

- Article 104b, Maastricht Treaty, 1992.

“We have a Treaty under which there is no possibility of paying to bailout states in difficulty”.

- German Chancellor, Angela Merkel, 1 March 2010⁴⁹.

“The ‘no bailout’ principle is anchored in the EU treaty and has to be taken absolutely seriously. It is not possible to defuse the problem here through direct financing”.

- ECB Executive Board Member, Ewald Nowotny, 2009⁵⁰.

“Aid for Greece would be the wrong signal. We must not create a precedent that other Eurozone countries can refer to in the future [...] It cannot be possible that German taxpayers have to pick up the bill for mismanagement in Greece and elsewhere”.

- German Economy Minister, Rainer Brüderle, 24 March 2010⁵¹.

“Solidarity is possible, [and] will exist. A bailout is not possible and will not exist”.

- Then EU Commissioner for Economic and Monetary Affairs, Joaquín Almunia, 29 January 2010⁵².

“In monetary union, all the participating countries must be in a position to stay the course unaided. They must be able to secure economic competitiveness and efficiency, above all, by virtue of their own internal efforts. If they are not in a position to do that, not only will they encounter difficulties themselves but other countries of the EMU area will, too”.

- Then President of the German Bundesbank, Prof. Hans Tietmeyer, 1998⁵³.

49 Deutsche Welle, ‘Angela Merkel rules out German bailout for Greece’, 1 March 2010, <http://www.dw-world.de/dw/article/0,,5299788,00.html>

50 AFP, ‘Greece will not tear Eurozone apart: ECB’s Nowotny’, 12 October 2009

51 Bloomberg, ‘EU economy chief concerned over Eurozone stability’, 24 March 2010

52 Reuters, ‘Greece: EU says no bailout’, 29 January 2010, <http://uk.reuters.com/article/idUKTRE60R3BX20100129>

53 Special address by the President of the Deutsche Bundesbank, Prof. Hans Tietmeyer, at the conference on “The Challenge of the Euro for Emerging Markets”, convened jointly by the National Bank of Poland and the European Economics and Financial Centre in Warsaw on 12/2/98; <http://www.bis.org/review/r980219c.pdf>

"The Treaties set out a 'no bail-out' clause, and the rules will be respected. This is crucial for guaranteeing the future of a monetary union among sovereign states with national budgets. Markets are deluding themselves if they think that the other member states will at a certain point dip their hands into their wallets to save Greece".

- ECB Chief Economist, Jürgen Stark, 6 January 2010⁵⁴.

"There is no legal basis [for a bailout]. The European Treaty even explicitly forbids EU member States from transferring their debts to others, and we should stick to that".

- Swedish Finance Minister, Anders Borg, 2009⁵⁵.

"We'll be happy to give the Greeks anything, just not money".

- German MEP Markus Ferber, 3 April 2010⁵⁶.

"[Greek Prime Minister] Papandreou has said that he didn't want one cent. The German government will not give one cent, anyway".

- German Economy Minister, Rainer Brüderle, 5 March 2010⁵⁷.

What they say now

"It is true that no member state can be required to make payments to others. But if countries want to offer voluntary assistance, as in the Greek case, this is not only allowed, but it's also in Germany's interest. We all benefit by ensuring the stability of the Eurozone".

- German Finance Minister, Wolfgang Schäuble, 19 April 2010⁵⁸.

"The German Chancellor can make as many admonitions as she pleases. She could even threaten to turn down the request for aid. But this is no more than politically motivated banter. In the end, Germany will transfer its billions over to Greece - the pressure from European partner states and the financial markets is too strong".

- Editorial, Die Welt, 26 April 2010⁵⁹.

"It was necessary to intervene right away to help Greece. To avoid damage we initially talked about €50 billion, but decided on €110 billion only 10 days later".

- Italian Foreign Minister, Franco Frattini, 3 May 2010⁶⁰.

54 Il Sore 24 Ore, 'La Bce: tassi fermi e nessun aiuto ai conti della Grecia', 6 January 2010; <http://www.ilsole24ore.com/art/SoleOnLine4/Finanza%20e%20Mercati/2010/01/bce-tassi-fermi-nessun-aiuto-grecia.shtml?uid=eb4ada30-fa9d-11de-81dc-6b0fd287bccb&DocRulesView=Libero>

55 http://www.straitstimes.com/BreakingNews/Money/Story/STIStory_464492.html

56 Der Spiegel Online, 'We're happy to give the Greeks anything, just not money', 3 April 2010

<http://www.spiegel.de/international/germany/0,1518,681639,00.html>

57 AFP, 'La Grèce vient de chercher du soutien à Berlin, pas de l'argent', 5 March 2010 ;

<http://www.rtf.be/info/economie/ue/la-grece-vient-chercher-du-soutien-a-berlin-pas-de-largent-194136>

58 Der Spiegel, 'We cannot allow Greece to turn into a second Lehman Brothers', 19 April 2010;

<http://www.spiegel.de/international/europe/0,1518,689766,00.html>

59 Die Welt, 26 April 2010

60 BBC, 'Greece crisis: German cabinet backs bail-out package', 3 May 2010; <http://news.bbc.co.uk/1/hi/10095083.stm>

"This must be done to avoid a chain-reaction to the European and international financial system, and contagion to other Eurozone states. There is no alternative".

- German Chancellor, Angela Merkel, 5 May 2010⁶¹.

"So it's very, very important that we now make progress, both when it comes to consolidation - not only long-term but short-term consolidation - but also when it comes to a common facility to deal with the urgent problems".

- Swedish Finance Minister, Anders Borg, 10 May 2010⁶².

"We said time and again, if the stability of our currency was in danger, we would act quickly and decisively. And this is the point that we've reached".

- German Chancellor, Angela Merkel, 3 May 2010⁶³.

"Supposedly we have no money for tax cuts, no money for school upgrades, no money to maintain parks, no money to fix our streets [...] but suddenly our politicians have billions of euros for the Greeks who have deceived Europe".

- Bild, 28 April 2010⁶⁴.

"The foundation of the euro has fundamentally changed as a result of the decision by Eurozone governments to transform themselves into a transfer union. This is a violation of every rule. In the Treaties governing the functioning of the European Union, it's explicitly stated that no country is liable for the debts of any other. But what we are doing right now is exactly that".

- Former Bundesbank President, Karl Otto Pöhl, 18 May 2010⁶⁵.

"The €440bn mechanism is nothing less than the importation of Nato's Article 5 mutual defence clause applied to the eurozone. When one member is under attack the others are obliged to come to its defence. It is an enormous change. It explains some of the reticence. It is expressly forbidden in the treaties by the famous no bail-out clause. De facto, we have changed the treaty."

- French Europe Minister, Pierre Lellouche, 28 May 2010⁶⁶.

61 Telegraph, 'Merkel plea to save Iberia as contagion spreads', 5 May 2010;

<http://www.telegraph.co.uk/finance/financetopics/financialcrisis/7683271/Merkel-plea-to-save-Europe-as-contagion-hits-Iberia.html>

62 Irish Independent, 'Wolves circle as speculators scent blood in the Eurozone', 10 May 2010;

<http://www.independent.ie/business/irish/wolves-circle-as-speculators-scent-blood-in-the-Eurozone-2173943.html>

63 BBC, 'Greece crisis: German cabinet backs bail-out package', 3 May 2010; <http://news.bbc.co.uk/1/hi/10095083.stm>

64 Quoted in Deutsche Welle, 'Germany divided over Greek bailout', 28 April 2010;

<http://www.dw-world.de/dw/article/0,,5516992,00.html>

65 Der Spiegel Online, 'Bailout plan is all about rescuing banks and rich Greeks', 18 May 2010

<http://www.spiegel.de/international/germany/0,1518,695245,00.html>

66 FT, 'French minister says bailout alters EU treaty', 28 May 2010;

<http://www.ft.com/cms/s/d6299cae-69b5-11df-8432-00144feab49a.html>

“ONLY COUNTRIES THAT FULFIL STRICT ECONOMIC CONDITIONS SHOULD BE ALLOWED TO JOIN”

What they said then

“It will be extremely important for the euro area to restrict entry to those countries which are ready in terms of their economic and anti-inflation policies”.

- Then President of the German Bundesbank, Prof. Hans Tietmeyer, 1997⁶⁷.

“The thrust of the spirit and of the letter of the Treaty is that everything is done to construct the euro area as an optimum currency area. First by ensuring that it incorporates economies that have already proved being convergent in the fiscal field as well as in the monetary and financial fields”.

- Then Governor of the Bank of France, Jean-Claude Trichet, 1997⁶⁸.

“Whoever fulfills the criteria has the right to join the monetary union”.

- Then German Finance Minister, Theo Waigel, 1996⁶⁹.

“We must enter the euro with a clean sheet on all the criteria”.

- Then Greek Finance Minister, Yannis Papantoniou, 1999⁷⁰.

What they say now

“In 2000 we had a situation when we were confronted with the question of whether Greece should be able to join the Eurozone [...] It turned out that the decision [in favour] may not have been scrutinised closely enough”.

- German Chancellor, Angela Merkel, 28 April 2010⁷¹.

“The Commission has been provided with incorrect figures for six years. Indeed, part of the responsibility was on Greece, but the Eurozone also lacked the tools to notice that”.

- Greek Prime Minister, George Papandreou, 23 May 2010⁷².

“We knew that Greece was cheating, it was clear as soon as they joined that there was something wrong [with their figures]”.

- EU Commissioner for Trade, Karel De Gucht, 5 May 2010⁷³.

67 Speech by the President of the German Bundesbank, Prof. Hans Tietmeyer, delivered to the Boersen Executive Club in Copenhagen on 14/3/97; <http://www.bis.org/review/r970321e.pdf>

68 Speech by the Governor of the Bank of France, M. Jean-Claude Trichet, on the occasion of the fiftieth anniversary of the Land central bank of Rheinland-Palatinate and the Saarland in Mainz on 2/6/97; http://www.bis.org/list/cbspeeches/from_01041997/index.htm

69 Handelsblatt, ‘Versprochen, gebrochen’, 12 May 2010

70 World News, ‘Greek euro-zone ambitions tempered by inflation fears’, 23 August 1999

71 Guardian, ‘Greek debt crisis: Europe feels shockwaves as bailout falters’, 28 April 2010;

<http://www.guardian.co.uk/business/2010/apr/28/greek-debt-crisis-europe-bailout>

72 El País, ‘“Que nos den tiempo para realizar los cambios que tenemos que hacer”’, 23 May 2010;

http://www.elpais.com/articulo/internacional/nos/den/tiempo/realizar/cambios/tenemos/hacer/elpepuint/20100523elpepuint_1/Tes

73 El País, ‘El Comisario de Comercio dice que se conocían los engaños helenos’, 6 May 2010

http://www.elpais.com/articulo/economia/comisario/Comercio/dice/conocian/enganos/helenos/elpepieco/20100506elpepieco_7/Tes

"Euro entry of Greece was a mistake, because the financial data probably wasn't correct. But now it doesn't matter any more to talk about the past".

- Hans Eichel, the German Finance Minister when Greece joined the euro, 17 February 2010⁷⁴.

"The Greek Government deficit for 2008 was revised from 5% of GDP (the ratio reported by Greece, and published and validated by Eurostat in April 2009) to 7.7% of GDP. At the same time, the Greek authorities also revised the planned deficit ratio for 2009 from 3.7% of GDP (the figure reported in spring) to 12.5% of GDP [...] Revisions of this magnitude in the estimated past government deficit ratios have been extremely rare in other EU member States, but have taken place for Greece on several occasions".

- European Commission report, 'Greek Government deficit and debt statistics', 8 January 2010⁷⁵.

⁷⁴http://www.focus.de/finanzen/news/euro/ex-finanzminister-eichel-der-euro-fuer-griechenland-war-ein-fehler_aid_480840.html
⁷⁵http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/COM_2010_REPORT_GREEK/EN/COM_2010_REPORT_GREEK-EN.PDF

“GREECE JOINING THE EURO WILL BE GOOD FOR BOTH THE EU AND GREECE”

What they said then

“An enlarged EMU area will be positive both for the Eurozone area and for the countries joining”.

- Then Commission President Romano Prodi and then Commissioner for Economic and Monetary Affairs Pedro Solbes, 2000⁷⁶.

“If Greece will join the EMU, if we continue to improve the economy, then we will win the elections. I understand that a lot of people are struggling but they will soon see that their sacrifices were worth it”.

- Then Greek Prime Minister, Costas Simitis, 1999⁷⁷.

“Today is a landmark moment in the national aim of the Greek people on their way to increase our standard of living to that of the other European people; to achieve real economic and social convergence”.

- Then Prime Minister of Greece, Costas Simitis, 2002, when his country joined the Eurozone⁷⁸.

“The arrival of Greece will not disrupt the monetary union”.

- Le Monde journalist, Philippe Ricard, 2001⁷⁹.

What they say now

“We are in a terrible mess”.

- Greek Finance Minister, George Papaconstantinou, 16 February 2010⁸⁰.

“Greece, Portugal, Spain, these economies and others in the euro area share some features. In those countries we can observe a permanent loss of competitiveness since they are members of the Economic and Monetary Union”.

- Then Commissioner for Economic and Monetary Affairs, Joaquín Almunia, 3 February 2010⁸¹.

“Greece is highly indebted and lost about 25% of its competitiveness since euro adoption. At the end of 2009, the general public deficit reached 13.6% of GDP and public debt had increased to 115% of GDP. Even with the lower deficits envisaged under the program, the debt as share of GDP will continue to peak at almost 150% of GDP in 2013 before declining thereafter”.

- International Monetary Fund, May 2010⁸².

⁷⁶ BBC News, 'Greece asks to join the euro', 9 March 2000

<http://news.bbc.co.uk/1/hi/business/672150.stm>

⁷⁷ Associated Press, 'Tough last year for EMU battle, says Greece', 27 January 1999

⁷⁸ Athens News Agency, 'Greece inaugurates EU use of new currency, PM withdraws first 10-euro bill', 2 January 2002;

<http://www.hri.org/news/greek/ana/2002/02-01-02.ana.html#01>

⁷⁹ http://www.amb-grece.fr/j/articles_presse/2001/le_monde_05_01_2001.htm

⁸⁰ Times, 'Greece use of derivatives puts more pressure on euro', 16 February 2010;

<http://business.timesonline.co.uk/tol/business/economics/article7028312.ece>

⁸¹ Bloomberg, 'Almunia says Southern Europe has permanent competitiveness loss', 3 February 2010;

<http://www.businessweek.com/news/2010-02-03/almunia-says-south-europe-has-permanent-competitiveness-loss.html>

⁸² IMF, 'Greece - Frequently asked questions', last updated 10 May 2010

<http://www.imf.org/external/np/exr/faq/greecefaqs.htm>

“A ONE-SIZE-FITS-ALL MONETARY POLICY WILL NOT CAUSE PROBLEMS”

What they said then

“It is sometimes said that while the single monetary policy may be ‘right’ for the euro area as a whole, it is ‘wrong’ for many individual countries within the area. I disagree with this view. First, it overlooks the fact that within a single currency area adjustment can occur via prices and wages”.

- Then President of the European Central Bank, Wim Duisenberg, 1999⁸³.

“Although there are worries about one exchange rate and one interest rate for a whole continent, the advantages more than outweigh the disadvantages”.

- Guardian columnist, Will Hutton, 2003⁸⁴.

“To the question whether a single one-size monetary policy could fit all parties involved - be they national entities, social partners or economic actors - my answer was: ‘One size must fit all’. The political decision on the creation of EMU had resolved all discussions on whether monetary union should precede or follow political unity and the fulfilment of the criteria for an optimum currency area. Today, in light of the evidence gathered so far in the euro area, I am more confident in saying: ‘One size does fit all!’”

- Otmar Issing, Member of the Executive Board of the ECB, 2005⁸⁵.

“There are plenty of ways economies adjust without needing separate interest rates and exchange rates [...] And the idea that interest rates and exchange rates are useful levers for delivering happy outcomes is belied by our experience of sterling crises”.

- Former Lib Dem MEP and now Minister for Energy and Climate Change Chris Huhne, 2004⁸⁶.

What they say now

“The benefits of monetary union, in particular lower interest rates and the elimination of exchange rate risk, have not always been used wisely and have tempted some countries to live beyond their means [...] In addition, fiscal policy often failed to use higher growth and lower interest rates to reduce deficits sufficiently. In economies with rigid or only partly flexible labour markets, all these large expansionary stimuli resulted in accelerated wage increases that were well in excess of productivity growth, reducing price competitiveness and exports of domestic firms”.

- Bundesbank President, Axel Weber, 22 March 2010⁸⁷.

83 Speech delivered by Dr. Willem F. Duisenberg, President of the European Central Bank, at 'Nieuwspoor' in The Hague, Netherlands, on 5 November 1999; <http://www.bis.org/review/r991109b.pdf>

84 <http://www.guardian.co.uk/politics/2003/apr/27/labour.tonyblair>

85 Speech at the International Research Forum, Frankfurt am Main, 20 May 2005; <http://www.ecb.int/press/key/date/2005/html/sp050520.en.html>

86 http://www.ideg.org/articles/000003/12_reasons_for_joining_the_euro.html

87 'Challenges and opportunities for the competitiveness of EMU member States', speech delivered by Axel Weber in Copenhagen, 22 March 2010, <http://www.bundesbank.de/download/presse/reden/2010/20100322.weber.en.php>

"Persistent competitiveness divergences and macroeconomic imbalances within the euro area cause a risk to the functioning of Economic and Monetary Union. In the years preceding the crisis, low financing costs fuelled the misallocation of resources to often low productive uses, feeding unsustainable levels of consumption, housing bubbles and the accumulation of external and internal debt in some member states. The competitiveness gap reached an all-time high just before crisis".

- European Commission communication, 12 May 2010⁸⁸.

⁸⁸ European Commission's Communication, 'Reinforcing economic policy coordination', 12 May 2010; [http://ec.europa.eu/economy_finance/articles/euro/documents/2010-05-12-com\(2010\)250_final.pdf](http://ec.europa.eu/economy_finance/articles/euro/documents/2010-05-12-com(2010)250_final.pdf)

“THE SINGLE CURRENCY WILL FORCE GOVERNMENTS TO BE MORE DISCIPLINED AND ECONOMIES WILL CONVERGE”

What they said then

“The single currency, far from being an agent of continental style corporatism, is probably the greatest export vehicle of Anglo-Saxon economics. The euro has done more to enforce budgetary discipline, to promote privatisation and force through labour and product market liberalisation in the rest of Europe than any number of exhortations from the IMF, the OECD, or the editors of The Economist”.

- Lib Dem leader, Nick Clegg, 2002⁸⁹.

“The strict rules attached to the euro could emerge as one of the best ways to persuade the markets that we will put Humpty Dumpty back together again, put the public finances in order”.

- Lib Dem leader, Nick Clegg, 2009⁹⁰.

“When you can’t run your own monetary policy you must be as rigorous as possible. When you know that you cannot just switch on the printing press and produce more banknotes, then you must behave like a responsible father and avoid spending more than you have at your disposal. You are forced to be serious”.

- Luxembourg Prime Minister, Jean-Claude Juncker, 1996⁹¹.

“The euro is not Heaven, but it has a very special virtue [...] It will become the same unit of measure for several different states, which in turn will no longer be able to sweep their sins and their weaknesses under the carpet of their national currencies”.

- Italian Prime Minister, Silvio Berlusconi, 2001⁹².

What they say now

“All European countries are currently living beyond their means”.

- ECB Executive Board Member, Lorenzo Bini-Smaghi, 13 May 2010⁹³.

“Greece’s deficit is at 12.7%, more than four times higher than Eurozone rules allow. For years Greek spending has ballooned while tax revenue has diminished”.

- BBC, 11 February 2010⁹⁴.

“The exceptional combination in Greece of lax fiscal policy, inadequate reaction to mounting imbalances, structural weaknesses and statistical misreporting led to an unprecedented sovereign debt crisis”.

- European Commission communication, 12 May 2010⁹⁵.

⁸⁹ <http://www.prospectmagazine.co.uk/2002/01/nick-clegg-joining-euro-risk-gideon-rachman/>

⁹⁰ http://news.bbc.co.uk/1/hi/uk_politics/7841897.stm

⁹¹ Les Echos, ‘Jean-Claude Juncker: Ne pas avoir le contrôle de la politique monétaire, cela oblige à la rigueur’, 8 November 1996.

<http://search.lesechos.fr/archives/1996/LesEchos/17269-140-ECH.htm?xtor=AL-4001>

⁹² La Repubblica, ‘L’Italia accoglie l’euro. Ci porterà fuori dalla crisi’, 25 November 2001

<http://www.repubblica.it/online/economia/eurocco/eurocco/eurocco.html>

⁹³ Reuters Italia, ‘UE, serve meccanismo difesa automatico, ritardi costosi’, 13 May 2010

<http://it.reuters.com/article/italianNews/idITLDE64C0GJ20100513>

⁹⁴ BBC, ‘EU ready to help Greece over debts’, 11 February 2010; <http://news.bbc.co.uk/1/hi/8508688.stm>

⁹⁵ European Commission’s Communication, ‘Reinforcing economic policy coordination’, 12 May 2010

[http://ec.europa.eu/economy_finance/articles/euro/documents/2010-05-12-com\(2010\)250_final.pdf](http://ec.europa.eu/economy_finance/articles/euro/documents/2010-05-12-com(2010)250_final.pdf)

"Greece faces a dual challenge. It has a severe fiscal problem with deficits and public debt that are too high; and it has a competitiveness problem".

- IMF survey, May 2010⁹⁶.

"It was thought that the euro would trigger [...] a wave of modernisation in the weaker countries. That hasn't happened [...] Now the monetary union is becoming an inflation union".

- Joachim Starbatty, Tuebingen University Professor, 22 May 2010⁹⁷.

⁹⁶ IMF Survey online, 2 May 2010; <http://www.imf.org/external/pubs/ft/survey/so/2010/car050210a.htm>
⁹⁷ FAZ, 22 April 2010,
<http://www.faz.net/s/Rub3ADB8A210E754E748F42960CC7349BDF/Doc-ED7252FF91C064AC2A8F75ADFF5D72FF7-ATpl-Ecommon-Scontent.html>

“MONETARY UNION CAN EXIST WITHOUT POLITICAL AND ECONOMIC UNION”

What they said then

“The question of entering the euro is worth a lot more to Britain than the wild anti-federalist fantasies peddled by those who think Britain should have nothing to do with Europe. Nobody of any consequence in Europe wants to create a federal super-state”.

- Former EU Commissioner for Trade, Lord Peter Mandelson, 2003⁹⁸.

“Any split in real economic trends would, naturally, exert pressure in the direction of a transfer and social union, or even of a European ‘super-state’, which you in Denmark - if I understand it correctly - do not want, and which we in Germany - I can assure you - do not want either”.

- Then President of the German Bundesbank, Prof. Hans Tietmeyer, 1997⁹⁹.

“I have no doubt that monetary union can function very well without far-reaching political union. On the contrary, there could even be a risk that excessive centralisation or harmonisation of economic policies might stifle healthy competition and weaken economic efficiency”.

- Then ECB Chief Economist, Otmar Issing, 2001¹⁰⁰.

“I think it’s possible to go to monetary union without going to political union”.

- Then UK Prime Minister, John Major, 1995¹⁰¹.

What they say now

“We are clearly confronted with a tension within the system, the ill-famous dilemma of being a monetary union and not a full-fledged economic and political union. This tension has been there since the single currency was created. However, the general public was not really made aware of it.”

- European Council President, Herman Van Rompuy, 25 May 2010¹⁰².

“Member states should have the courage to say if they want an economic union or not. Because without it monetary union is not possible”.

- European Commission President, José Manuel Barroso, 13 May 2010¹⁰³.

98 Writing in the Sunday Mirror, ‘We’ll be wrong to continue stalling the vote on Europe’, 18 May 2003

99 Speech by the President of the German Bundesbank, Prof. Hans Tietmeyer, delivered to the Boersen Executive Club in Copenhagen on 14/3/97 <http://www.bis.org/review/r970321e.pdf>

100 Daily Telegraph, ‘Political Union “could hit economic growth”’, 15 February 2001.

101 Agence France Presse, 1 March 1995

102 Telegraph, ‘Ordinary people were misled over impact of euro, says Herman Van Rompuy’, 27 May 2010;

<http://www.telegraph.co.uk/finance/currency/7767898/Ordinary-people-were-misled-over-impact-of-the-euro-says-Herman-Van-Rompuy.html>

103 EUobserver, ‘EU budgetary proposals draw immediate rebuke’, 13 May 2010; <http://euobserver.com/9/30071>

"It is an absolute general mobilisation: we have decided to give the Eurozone a veritable economic government".

- French President Nicolas Sarkozy, following the agreement to commit an additional €500 billion in loans to struggling Eurozone countries, 9 May 2010¹⁰⁴.

"The experiment of a monetary union without political union has failed. The EU is thus about to confront a historic choice between integration and disintegration".

- Wolfgang Munchau, Financial Times, 2 May 2010¹⁰⁵.

"Monetary union is not a political union. You cannot sustain monetary union just by having a Central Bank, without mechanisms for failing States [...] It will be a great struggle in the months and years ahead as to what extent the Eurozone can evolve into a fully-fledged economic and political unit. If it does, it will survive. If it does not, it will face the danger of dissolution or breakup".

- Greek Finance Minister when Greece joined the euro, Yannis Papantoniou, 12 May 2010¹⁰⁶.

"[The Greek crisis will force France] into deep reflections with all of our Eurozone partners - notably with our German friends - over the economic government, economic convergence, and the reduction of economic gaps. Either we are serious and try to build something together, or all this will end as a flash in the pan".

- French Finance Minister, Christine Lagarde, 3 May 2010¹⁰⁷.

"We commit to promote a strong coordination of economic policies in Europe. We consider that the European Council must improve the economic governance of the European Union and we propose to increase its role in economic coordination and the definition of the European Union growth strategy".

- Statement by the Heads of State and Government of the euro area, 25 March 2010¹⁰⁸.

104 <http://www.telegraph.co.uk/finance/financetopics/financialcrisis/7702335/Europe-prepares-nuclear-response-to-save-monetary-union.html>

105 Financial Times, 'Europe's choice is to integrate or disintegrate', 2 May 2010

<http://www.ft.com/cms/s/0/461663a0-5613-11df-b835-00144feab49a.html>

106 Marketwire, 'Former Greek Finance Minister Dr. Yannis Papantoniou, chief architect of Greece's entry into the euro, and Dr. Alexander Mirtchev of Krull Corp. discuss the debt crisis and the role of the euro', 12 May 2010

<http://www.marketwire.com/press-release/Former-Greek-Finance-Minister-Dr-Yannis-Papantoniou-Chief-Architect-Greeces-Entry-Into1257640.htm>

107 Le Monde, 'Christine Lagarde: Il faut modifier le fonctionnement du pacte de stabilité', 3 May 2010

http://www.lemonde.fr/europe/article/2010/05/03/crise-grecque-un-tremplin-pour-l-europe-selon-christine-lagarde_1345784_3214_1.html

108 http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/113563.pdf

“THE EUROPEAN CENTRAL BANK WILL BE POLITICALLY INDEPENDENT”

What they said then

“There is no bank in the world as independent from politics as the European Central Bank”.

- Wim Duisenberg, the first President of the European Central Bank, 1998¹⁰⁹.

“When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and this Statute, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a member state or from any other body”.

- Article 7, Statute of the European System of Central Banks (ESCB) and of the European Central Bank (ECB).

“I will defend the European Central Bank’s independence under any circumstance and with all my strength”.

- ECB President Jean-Claude Trichet, 2007¹¹⁰.

“Germany has always benefited from ECB independence [...] Protecting people from inflation: that’s what really matters. And that’s why ECB independence is a crucial aspect we will not accept to put into question again”.

- German Chancellor, Angela Merkel, 2007¹¹¹.

“No government or country will be able to expect special treatment. The Central bank will not change its principles just because the sovereign bonds of a member state no longer fulfill the appropriate criteria”.

- Jean-Claude Trichet, ECB President, January 2010¹¹².

What they say now

“The European Central Bank’s stunning decision to purchase government debt of some euro-zone governments, just days after appearing to reject the idea, has pushed the bank further into the realm of politics, raising doubts about its independence”.

- Wall Street Journal, 11 May 2010¹¹³.

¹⁰⁹ Handelsblatt, 'Versprochen, gebrochen', 12 May 2010

¹¹⁰ Corriere della Sera, 'Trichet: difenderò l'indipendenza della BCE', 11 July 2007

http://www.corriere.it/Primo_Piano/Economia/2007/07_Luglio/11/Trichet_bce.shtml

¹¹¹ La Stampa, 'Merkel: Germania contraria a misure per svalutare l'euro', 11 July 2007

<http://www.lastampa.it/redazione/cmsSezioni/economia/200707articoli/23575girata.asp>

¹¹² Handelsblatt, 'Versprochen, gebrochen', 12 May 2010

¹¹³ WSJ, 'ECB debt-buying sets a precedent', 11 May 2010;

http://online.wsj.com/article/SB40001424052748704879704575236561676599450.html#mod=todays_europe_page_one

"The purchase of sovereign bonds poses severe risks to political stability, and I therefore view this part of the decision of the ECB - board, even in this unusual situation, critically".

- Axel Weber, Bundesbank President, 12 May 2010¹¹⁴.

"There can be no more pretence that monetary union respects the premise on which it was sold to European citizens, Germans in particular. There is a real chance that a euro member's failure to pay its debts will land neighbours or the ECB with losses that can only amount to fiscal transfers or money-printing. Strict surveillance and ECB independence was meant to make it impossible to end up in this situation; both have been undermined."

- FT, 11 May 2010¹¹⁵.

"Against all its vows, and against an explicit ban within its own constitution, the ECB has become involved in financing states. Obviously, all of that will have an impact".

- Former Bundesbank President, Karl Otto Pöhl, 18 May 2010¹¹⁶.

"In the future, such bailout operations must not be carried out flouting the ECB's independence".

- German MP Wolfgang Gerhardt, Free Democratic Party, 12 May 2010¹¹⁷.

"The negative impact this decision will have on [ECB's] credibility as an independent monetary authority seems to be irreversible".

- IE Business School Professor, Daniel Fernández Kranz, 10 May 2010¹¹⁸.

"What was carved in stone the day before no longer has any validity. And nothing symbolises this more than the [ECB's] loss of independence. The separation of powers between monetary and fiscal policy in Europe now belongs to the past".

- Die Welt, 11 May 2010¹¹⁹.

"It's obvious that if the ECB is acting this way, it's because the European governments want it".

- Thorsten Polleit, Chief Economist, Barclays Capital Germany, 11 May 2010¹²⁰.

114 *Seuddeutsche Zeitung*, 'The euro-crisis: Many join the discussion, speculators aren't frightened off', 12 May 2010

115 FT, 'EU's bold step into treacherous waters', 11 May 2010;

<http://www.ft.com/cms/s/3feba20e-5c69-11df-93f6-00144feab49a.html>

116 *Der Spiegel Online*, 'Bailout plan is all about rescuing banks and rich Greeks', 18 May 2010

<http://www.spiegel.de/international/germany/0,1518,695245,00.html>

117 *Le Figaro*, 'L'Allemagne déplore la perte d'indépendance de la BCE', 12 May 2010

<http://www.lefigaro.fr/conjoncture/2010/05/11/04016-20100511ARTF1G00724-l-allemaigne-deploire-la-perde-d-independance-de-la-bce.php>

118 *Expansion*, 'Pros y contras de las medidas del BCE para salvar el euro', 10 May 2010.

<http://www.expansion.com/2010/05/10/opinion/llave-online/1273519777.html>

119 *Die Welt*, 'Das Ende unserer Stabilitätskultur', 11 May 2010

<http://www.welt.de/die-welt/politik/article7574091/Das-Ende-unserer-Stabilitaetskultur.html>

120 *Le Monde*, 'On ne peut pas résoudre une crise de dette par plus d'endettement', 11 May 2010

http://www.lemonde.fr/economie/article/2010/05/11/on-ne-peut-pas-resoudre-une-crise-de-dette-par-plus-d-endettement_1349521_3234.html

BUT THERE WERE THOSE WHO GOT IT RIGHT...

Despite the gung-ho atmosphere surrounding the creation and adoption of the euro, it was possible to foresee both the economic and political pitfalls of the project:

"The euro will aggravate the political tensions to the extent that economic shocks, which beat countries in different degrees but which could until now be facilitated through exchange rate adjustments, will change into political controversies".

- Nobel Prize Winner Milton Friedman, 1997¹²¹.

"The euro was adopted really for political purposes, not economic purposes, as a step toward the myth of the United States of Europe. In fact I believe its effect will be exactly the opposite".

- Nobel Prize Winner Milton Friedman, 2001¹²².

"Monetary union remains a risk [...] The belief is that national differences can be overcome, and that fast growth among those on the EU periphery are an example of catch-up which will, in the end, bring about broad convergence across the union. This is a big assumption, for it is clear the monetary policy needed for the Franco-German core is inappropriate for the Republic of Ireland".

- Guardian columnist, Larry Elliott, 1998¹²³.

"There is a very real risk that if we are to join then the one-size -fits-all monetary policy, the single interest rate would not necessarily be appropriate for all the major member countries at the same time. And if that would happen then you don't have the redistributive mechanism, the mobility of labour within the Eurozone that you have at the national level when the same problems arise [...] I think the weakness in some parts of the Eurozone compared with the strength in other parts of the Eurozone is a complication. And in our own case we would have not had the flexibility that we needed over the past three or four years to actually stabilise and keep our economy growing in a reasonably stable way".

- Then Governor of the Bank of England, Sir Edward George, 2001¹²⁴.

"Whereas the Bank of England runs our monetary policy according to the UK's needs, the European Central Bank would decide rates for the whole of the EMU area, of which the UK would merely be a region [...] If the UK's economy mirrored that of the EMU area we would be less concerned. But it does not. The widespread use of variable rate mortgages makes Britons uniquely sensitive to interest rate policy".

- Campaign group Business for Sterling, 1998¹²⁵.

121 Agence France Presse, 10 September 1997

122 <http://www.mail-archive.com/ctrl@listserv.aol.com/msg75740.html>

123 The Guardian, 'Birth of the euro: risky trip to dollar rivalry', 14 December 1998

124 The Scotsman, 'BoE Chief says euro would have hit UK stability', 21 December 2001

125 Times, 'EMU rebuffed by business leaders', 11 June 1998

"Joining the euro is like having a joint bank account. It might not be our fault if politicians in other countries spend more than they can afford. But if we have the same currency then it would become our problem".

- Chairman of Dixons, Sir Stanley Kalms, 2002¹²⁶.

"A call to join the weak euro is, in effect, a call for devaluation, with heightened risk of inflation and raised interest rates. Sustainable convergence is as far away as ever [...] We have low inflation and high employment. Why waste the Government's time, which would be better spent on reforming public services, on a fruitless effort to persuade the electorate that our economy would be run more effectively by Brussels and Frankfurt?"

- Chairman of Business for Sterling, Lord Rodney Leach, 2001¹²⁷.

"If a single currency is introduced but the UK opts out, would financial activity move away from the City of London to Frankfurt or Paris? The financial institutions of the City have a tremendous first-mover advantage and an established reputation as an efficient centre of global finance; that is not something that disappears overnight. I would therefore think it very unlikely that a major shift of financial institutions to Frankfurt or Paris will occur, at least in the near future, if the UK decides to stay out".

- Professor of Economics at LSE, Charles Bean, 1996¹²⁸.

"I am worried because the convergence terms will be fudged so the new currency will be weak. This will cause economic instability, and increase the risk of much higher unemployment".

- Chairman of TI, Sir Christopher Lewinton, 1997¹²⁹.

"A single currency will only work in a single economy. European Monetary Union is either a step towards political union or it will fail".

- Former Chancellor of the Exchequer, Lord Healey, 1998¹³⁰.

"Yes, membership of the Eurozone offers the elimination of exchange rate uncertainty with the UK's most important set of trading partners. That is a benefit. But it cannot eliminate exchange-rate uncertainty overall. Moreover, the arguments that the UK must enter to enjoy lower interest rates and avoid serious threats to inward FDI, the City or treatment within the single market are feeble. The UK has the fifth- (or sixth-) largest economy in the world and the fourth-largest currency area. It is hardly surprising that the potential economic gains from the euro are modest".

- FT columnist, Martin Wolf, 1999¹³¹.

126 Sunday Express, 'Is the euro really good for us?', 6 January 2002

127 Times, 'Anti-euro lobby welcomes debate', 19 June 2001

128 Writing in the UK Venture Capital Journal, 'Perspectives on EMU', 1 October 1996

129 Birmingham Post, 'TI Chairman warns of euro danger', 13 March 1997

130 Press Association, 'Healey warns of euro risks', 23 April 1998

131 Financial Times, 'EMU: small reward', 26 May 1999

<http://www.international.se/emuwolf.html>

"Joining the Euro risks a repeat of our experience in the ERM when, despite the fact that we had exchange rate stability, we had to accept an interest rate that was wrong for Britain. The results were devastating - we lost 100,000 businesses and unemployment doubled. In the East Midlands alone we lost over 70,000 jobs. We are doing well outside the Eurozone."

- Council Member of Business for Sterling, Philip Bland, 2002¹³².

"Since we have not succeeded in maximising the economic advantages of the euro, one can understand the British [...] saying, 'Things are just fine as they are. Staying out of the euro hasn't stopped us prospering'".

- Former Commission President, Jacques Delors, 2004¹³³.

"Some people claim that interest rates will cease to be a political issue because the euro will usher in a new era of permanently low rates. Others say that the Stability and Growth pact will be scrapped, or will be so effective that the fines will never be required. If those scenarios prove accurate over the course of the next decade, that would indeed make joining the euro more attractive. But, given our recent history, it is a huge leap of faith".

- FT columnist, Gideon Rachman, 2002¹³⁴.

"Portugal had to slash interest rates to join the euro, setting off a consumer boom and explosion in property prices. The country has been living far beyond its means for several years. Now it has an incipient debt crisis."

- Telegraph columnist, Ambrose Evans-Pritchard, 2002¹³⁵.

¹³² Leicester Mercury, 'Doing well outside euro', 8 February 2002

¹³³ Times, 'UK was right not to join flawed euro, admits Jacques Delors', 17 January 2004;
<http://www.timesonline.co.uk/tol/news/uk/article997285.ece>

¹³⁴ Prospect, 'Is joining the euro still too big a risk for Britain?', 20 January 2002.

<http://www.prospectmagazine.co.uk/2002/01/nick-clegg-joining-euro-risk-gideon-rachman/>

¹³⁵ Telegraph, 'Portuguese crisis is first test of single currency', 26 January 2002;

<http://www.telegraph.co.uk/news/worldnews/europe/1382767/Eurofile-Portuguese-crisis-is-first-test-of-single-currency.html>