

## Restore exchange rates and make euro 'valuta franca'

Until the introduction of the euro in 2002, floating exchange rates were a sophisticated way for Europe to adapt its economies to changes. The larger adaptation shocks of the US currency union were avoided. Europe's mild social climate and more pronounced solidarity rest precisely on this fine-tuning system of multiple adjusting exchange rates.

Under the euro however, cyclic fluctuations in European economic activity promise to become even larger than in the US, since another major adaptive mechanism (labor mobility) that compensates the US at least partially for the cost of unemployment in periods of relative stagnation or decline, is for several reasons (language) hampered in Europe. Therefore, apart from the prevailing crisis, one of our main worries should be the prospect that we are trading the 'European way of life' for or the American way.

Compared to their trade with countries outside Europe, EU-members trade roughly twice as much among themselves. Logically, since the introduction of the euro in 2002, all European economies converged in cyclic movement, growing and slowing down simultaneously. This makes for a large spread and leverage in up- and downswings. In the current stagnation, trade slows down and public debt increases in all member countries. The self-healing mechanism of real trade flows that swiftly react on appreciations and depreciations of national currencies, obeying not the wish of a few politicians but the uncoordinated actions of innumerable manufacturers, traders and consumers - automatically expanding, contracting, and changing direction where needed - is disabled. The mechanism is now only active at the outer borders of the union. The adaptive process runs entirely through the financial markets now, into interest rates and capital flows, thus providing even more leverage to an already pro-cyclic downswing.

One way to save ourselves from a long and deep depression is, I think, to make the euro 18th currency, a 'valuta franca' that is accepted throughout the EU without replacing local currencies, enabling convenient participation in international trade - just as English is the lingua franca in which we engage in international communication. It would be a relatively easy and 'European' way to quickly restore the adjustment mechanism in real trade flows that is so urgently needed, without a dangerous loss of monetary confidence. From there on we could gradually proceed to a single union - first in administration, then in currency.