

SUD-OUEST

DEBATE/JEAN-JACQUES ROSA

"The weakness of the euro is hardly surprising"

Jean-Jacques Rosa, a pro-market economist specialized in finance, is a Professor at the Institut d'études politiques in Paris. In his book "l'Erreur européenne" (Grasset), published last year, he reviews and argues against the single European currency, defined as an "economic contradiction in terms".

By FRANK DE BONDT, Paris editorial staff

"SUD-OUEST": In your view, was the current weakness of the euro against the dollar predictable?

JEAN-JACQUES ROSA: Some aspects were predictable and others were not. To my mind, the mistake made by euro partisans who wrongly assumed there would be a strong international demand, with everyone rushing to buy up euros, was very predictable. To issue bonds for example, or as currency reserves in some countries.

Now all this seemed very unlikely, as international operators' habits and confidence in currencies do not change overnight. Personally, I never thought the euro would prove to be an instant attraction. So its relatively modest value is no surprise since there is no massive demand for it.

However the realism of the euro's initial value was the least predictable part of it all. Given the parity of its component currencies (DM, French franc, Italian lira etc.) against the dollar and the yen, the value opted for seemed quite high. Indeed, if you take estimates of purchasing power parity as a reference and you reason in terms of the value of the DM against the US currency, then one euro should be worth around one dollar.

But, if you take the French franc as the reference currency, the euro should be even weaker to achieve purchasing parity with the dollar.

S-O: Does that mean even the weakened euro is still over-valued?

J-J R: That depends who you are talking about. For France, probably. For Germany, the euro is now fairly close to its fair value.

S-O: So the current relative weakness of the single currency is not abnormal?

J-J R: It's not terribly surprising. In my view we are witnessing a return to the purchasing power parity of the two currencies, to an equilibrium exchange rate between the euro and the dollar.

S-O: So isn't this situation good for the European and notably, the French economy?

J-J R: Absolutely. But what's funny is that the euro partisans, who have been proclaiming the virtues of a strong currency for years, are now rejoicing like everyone else to see a weaker euro, since it's clear this situation stimulates economic activity.

S-O: Should we still nevertheless reduce interest rates as the European Central Bank did

recently?

J-J R: This reduction was mainly dictated by the economic situation. The European economy was being strangled by over-restrictive monetary policy and exchange rates. But I would add that the European Central Bank's decision to reduce interest rates constituted a sleight of hand, because at the same time, in France and Germany deflation had already offset the reduction by half a point. The real interest rates did not move. So I don't therefore think that we can accuse the European monetary authorities of being overly lax.

S-O: One of the criticisms you made of the euro before its creation was that it didn't represent an optimum monetary zone. Do you still think so?

J-J R: I certainly do. In fact, we are looking at a text book example. There is an obvious disparity in the economic climates of euroland countries. Ireland is experiencing exceptionally high growth rates with inflationary pressure, Portugal also to a lesser degree, whereas Italy is entering recession, Germany is moving towards a recession and in France, growth is slackening. This means that the same "one size fits all" monetary policy is not adapted to the needs of the all various countries to which it applies.

S-O: Would you say that the very existence of the euro is under threat?

J-J R: I can only give you an answer based on my intuition. In the immediate future it is not threatened, although the euro-optimists have suffered major setbacks. On the other hand, the euro would be under threat if the economic outlook were to worsen in several of the major European countries. Surveys indicate that a majority of Germans are already becoming very dissatisfied with the euro and its broken promises. Frankly, it's quite impossible to satisfy France, Germany and Italy all at the same time for long.

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