THE EURO: A BAD ROLE MODEL FOR THE AMERO

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During the 1960s, Béla Balassa outlined the stages by which countries may become integrated, from the most basic forms of integration (the preferential trading area) to more fully integrated blocs. While there are a number of trading blocs in the world, the European Union is the most advanced and includes a quasi-federal arrangement between sovereign states. The theory of integration outlined by Balassa is still referred to frequently and many still champion the ideal of full economic union between states. Others argue that this sort of economic union between states is not desirable.

At this stage, it seems as if the common currency of Europe, the euro, has major weaknesses and this problem must be worked out in order to finalize the full economic integration of many countries in Europe. The weakness of the euro may be remedied but at costs that many of the currency union's members may find unacceptable. Certainly, greater control of the member states and their fiscal policies would enable the euro to be better managed, reigning in the deficit spending of many of the most troubled economies in the eurozone. There are remedies for this that give greater control to the central political and financial institutions of Europe, while limiting the fiscal sovereignty of many of the states within the eurozone. The current field invention to manage the problem is imposed austerity forced by non-elected entities from outside the country in which the austerity measures will be imposed. Fiscal austerity in an economic downturn seems to counter the logic of Keynesian thinking—that during downturns public spending should be more generous. However, standard Keynesian thinking seems to work best when states are credit-worthy. Austerity paired with non-democratic imposition of austerity creates a massive public relations problem for a pooled currency.

The other approaches that are being mentioned to deal with the fiscal problems of many southern members of the eurozone are the return to traditional national currencies (such as the revival of the Cypriot Pound or the Greek Drachma). Such a return to a conventional nation-state based currency could be either a permanent/long-term response for countries or it could be a short-term necessity, allowing countries to get their economies back in order and enabling them to re-enter the eurozone when conditions improve. Another alternative exists which would be the creation of two different euros, one for those that are not in crisis and one for the more troubled southern countries. The benefit of this sort of arrangement would be that the similarities between Portugal, Greece, Cyprus, and a few others would enable them to have a shared currency that could be manipulated in ways to alleviate the economic crises in the south.

While the euro has this shortcoming and the formation of the currency union in Europe brings to the fore the very real difficulty in terms of achieving economic union between states, the population in North America should beware, as many of the same issues that Europeans have had to deal with and have not yet settled will be critical in terms of the formation of the North American Union. At present, the North American Free Trade Area (NAFTA) remains at the level of integration of a free trade area. Of course, there are elements that debate the democratic issues posed by NAFTA and there are a number of episodes that illustrate that such arrangements may lead to clashes with common understandings of democracy and good governance. A commonly referred to example in North America is the Ethyl Corporation's MMT. The Ethyl Corporation's additive to gasoline, MMT, had been banned by Canadian authorities. While democratic institutions in Canada banned this suspected neurotoxin, NAFTA permitted a legal complaint against Canada, since the ban on the chemical created a trade barrier. The Ethyl Corporation filed suit in 1997 and Canada had to pay millions to settle the issue and permit MMT to be added to gasoline sold in Canada. This sort of case illustrates a major political issue that economic integration may bring up, the issue of the loss of democracy and sovereignty for the political units entering into the arrangement.

Currency union in North America will face similar challenges and obstacles as in Europe. While the amero remains a theoretical currency unit invented by Herbert Grubel in 1999, it parallels the euro. The intention of the amero is to replace the currencies of Mexico, the USA, and Canada, with all transactions in these three countries using ameros as a unit of value. At present, the euro is a bad role model and could foreshadow issues that North Americans may have to deal with in the future, if the very real issue of dealing with currency unions can be dealt with in a satisfactory and nearly universally-accepted way.

While there are forces in favour of greater economic integration of countries, there are many voices that are concerned about the costs of integration. The current crisis shows us that the euro is a bad example for the amero. If the issue of managing the euro is not soon fixed, the amero will likely remain just an interesting idea. For the voices in favour of integration in North America, the Europeans will have to come up with a viable, democratic, and pragmatic solution to end the crisis of the euro, in order to make the amero attractive. An unintended lesson that the Europeans may be teaching North Americans is that there may be wisdom to old-fashioned nation-state based currencies, despite the many arguments in favour of currency unions.