



What has the euro done for us?

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THE cost to use the euro as a currency continues to rise with each additional national bailout. Greece, Ireland and now Portugal have all required help from their colleagues in the eurozone. To make matters worse, it seems extremely likely that Greece will have to restructure their debt in some manner at some point.

FINLAND'S election shows that voters are unhappy with the terms of the deal. It is easy to see how much being part of the euro has cost us, but it is more complex to see what we have gained. Even though it is difficult to quantify the currency's benefits, this is what I will try to do.

I looked at two periods: the eleven years prior to the euro and the eleven years after its appearance. The economic indicators I checked were the real GDP growth rate per person, inflation, interest rates, inward Foreign Direct Investment and unemployment. In every case Finland is better off after the euro.

OUR real economic output per person is growing faster now than when we had the markka as a national currency. Our unemployment rate is significantly lower, from an average of 10.4% prior to the euro to 8.3% after. We are attracting more foreign investment. Our current account ran a deficit in the eleven years before 1999, but averaged a 5.3% surplus from 1999 to 2010.

BUT since the euro is a currency it is most likely we will see changes in monetary phenomena. Our average inflation rate fell from 2.9% to 1.6%. Most remarkable is the change in the long-term real interest rate. It fell from 6.5% to 2.6%, making it much cheaper to raise capital for the Finnish state, business and individuals.

OF course, this drastic fall in interest rates also helped cause our present sovereign debt crisis: some countries were offered extremely cheap rates which they didn't merit. They piled on mountains of debt and ran huge deficits which were completely unsustainable.

THE benefits of the euro become even clearer when one compares Finland to Sweden, which chose to retain its national currency. Sweden's average unemployment rate is higher in the 1999-2010 period than 1988-1999. Their real long-term interest rate, though improved, is higher than Finland's. In addition, Sweden's interest rates are much less stable. The standard deviation of Finland's rates is significantly lower than Sweden's.

EURO membership can't be cited as the sole reason for all this economic improvement, but it doubtlessly had a major impact. Specifically, the euro lowered our inflation and interest rates, which helped spur growth and lower unemployment. Using a common currency lowered transaction costs for international companies and travelling Finns. Also, the euro makes Finland attractive to international investment.

THE common European currency has doubtlessly helped Finland economically. Now the big hope is that politicians take the hard steps necessary to save it. All the bailout money we are contributing will certainly be worth it if the imbalances in the union are rectified.

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