



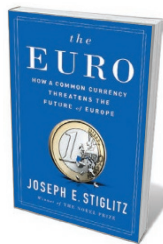
Austerity measures in Greece — part of the eurozone — have sparked unease among pensioners.

ECONOMICS

Singular currency

Jonathan Portes parses Joseph Stiglitz's analysis of the euro in the context of the global financial crisis.

Who killed the euro? With the spotlight now on Britain's relationship with the currency's crucible, the European Union, that question has an edge. Were the culprits the visionary politicians who ignored structural differences between European economies when they conceived the euro in the 1980s — most notably Jacques Delors, president of the European Commission at the time? Was it the neoliberal international economic and financial establishment, in Washington DC, New York and London as well as Frankfurt and Brussels, that thought markets (even financial ones) were rational and self-correcting? Was it Jean-Claude Trichet, governor of the European Central Bank during the 2008 financial crisis, who made the people of Ireland pay for the corruption of their bankers by forcing their government to stand behind their broken banks? Or perhaps the putative 'Swabian housewife' often invoked by German Chancellor Angela Merkel, who balances her budget and cannot see why the



The Euro: How a Common Currency Threatens the Future of Europe
JOSEPH E. STIGLITZ
W. W. Norton: 2016.

of a century. Stiglitz speculates boldly and cogently about the zone's future, but *The Euro* is on the whole too scattershot either to diagnose the illness or to prescribe a viable cure.

Stiglitz's thesis — or rather, loose assemblage of theses — explains too much. The gross domestic product of the eurozone is now barely higher than it was immediately before the crisis, and the euro is indeed

same logic does not apply to governments?

In the first chapter of economist Joseph Stiglitz's *The Euro*, we learn that they all did it. And that it is all the fault of contemporary capitalism. Most of the book is devoted to this topic, and it serves as a useful guide to the many failures of eurozone policymakers in the past quarter

central to explaining why. There is, however, a lively debate over the inevitability of this failure. Some argue that the euro was always doomed because of divergences in income and economic structures between eurozone countries, and the lack of a US-style political union to make significant fiscal transfers possible. Sooner or later, a big shock — a rapid rise in unemployment, a sharp fall in capital inflows — would hit one country or more, and without being able to devalue their currency, nations would be unable to adjust without excessive economic damage. It was bad luck that when the shock did come (in 2008) it was as big as it was, especially for countries such as Spain and Ireland. It was also both predictable and predicted.

Others, such as economics journalist Martin Sandbu in his excellent *Europe's Orphan* (Princeton Univ. Press, 2015), argue that the eurozone's dismal economic performance is a result less of the currency's design than of a set of avoidable and entirely unnecessary policy failures. These include premature and excessive austerity measures, especially in southern European countries, and slowness in restructuring debts, in particular the Greek government's. Stiglitz leans towards the view that failure was inevitable. Unlike Sandbu, he doesn't provide much in the way of evidence one way or the other.

Similarly, he fails to explain what he thinks has happened outside the eurozone. It's true, as he shows, that the eurozone's productivity performance since 2008 has been abysmal. But productivity has grown even more slowly in Britain (which held onto its own currency), although employment has held up better. A more nuanced account would distinguish between two sets of factors. That is, those that have been present in most advanced countries to some degree (including excessive austerity and the still-unexplained productivity slowdown), and those specific to the eurozone and its institutions — in particular, the inability to adjust exchange rates, and the lack of a central bank able to act as a credible lender of last resort.

Stiglitz also speculates about the near future. Unsurprisingly, given the shopping list of flaws that he sees in the euro, he thinks that radical reform is necessary for it to survive. That includes fiscal policy that is both more expansionary — with greater scope to increase public investment — and more countercyclical, so that spending can rise rather than fall in a recession. It would also include greater regulation, especially for the financial sector and a new mandate for the European Central Bank that focuses less heavily on price stability and more on growth and employment. Yet Stiglitz fails to distinguish clearly between reforms that are essential to save the euro and those that would be 'nice to have', and that, I would bet, he would recommend equally to non-eurozone countries

such as Britain or the United States.

If such reforms do not happen, Stiglitz recommends either an “amicable divorce” — dissolution of the eurozone — or a move to a more “flexible euro”. This is the most innovative and interesting part of the book. He argues for a new, and much more heavily regulated and controlled, international monetary system. States would have much more direct control of both money creation internally and their current account balances externally. He advocates market-based mechanisms for both. “Credit auctions” would demand that private banks pay for the right to expand the money supply, and “trade chits” would force importers to effectively buy tradeable licences to import. Nevertheless, this would be a radical move towards greater state control of the economy.

This is potentially very exciting. Few would defend the current organization of the international financial system, and radical ideas based in sound economics

“Radical ideas based in sound economics are exactly what we need.”

are exactly what we need. The state control that Stiglitz is advocating would be viewed with scepticism at the International Monetary Fund or the US Treasury, but would no longer be regarded as laughable or heresy. And a proposal from someone of Stiglitz’s eminence has a good claim on our attention. Unfortunately, this part of the book is underdeveloped. For example, it seems unlikely that as good an economist as Stiglitz hasn’t thought about how the spread of shadow banking — borrowing and lending outside the traditional banking system — has made it much more difficult to control credit creation. And he must be aware of the administrative problems that trade in services (particularly tourism) would pose for his chit system. But these issues are not addressed.

Will the eurozone respond to Britain’s vote to leave the EU with a rapid move towards greater integration, or will the tensions identified by Stiglitz pull it apart? Perhaps, as has mostly been the case so far, it will continue to muddle through. But it cannot avoid the questions that Stiglitz poses for ever — even if he is a long way from providing convincing answers. ■

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CHILD DEVELOPMENT

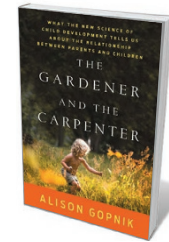
A cognitive case for un-parenting

Josie Glausiusz relishes Alison Gopnik’s study on how child-rearing demands the embrace of messy realities.

An Amazon trawl for “parenting books” last month offered up 186,262 results. Titles included Daniel Siegel and Tina Payne Bryson’s *The Whole-Brain Child: 12 Revolutionary Strategies to Nurture Your Child’s Developing Mind* (Delacorte, 2011), Elaine Glickman’s *Your Kid’s a Brat and It’s All Your Fault* (TarcherPerigee, 2016) and *Have a New Kid by Friday* by Kevin Leman (Revell, 2012). This is less genre than tsunami.

Yet, as Alison Gopnik notes in her deeply researched book *The Gardener and the Carpenter*, the word parenting became common only in the 1970s, rising in popularity as traditional sources of wisdom about child-rearing — large extended families, for example — fell away. Gopnik, a developmental psychologist (or as she describes herself, “a bubbe at Berkeley, a grandmother who runs a cognitive science laboratory”), argues that the message of this massive modern industry is misguided.

It assumes that the ‘right’ parenting techniques or expertise will sculpt your child into a successful adult. But using a scheme to shape material into a product is the modus operandi of a carpenter, whose job it is to make the chair steady or the door true. There is very little empirical evidence, Gopnik says, that “small variations” in what parents do (such as whether they sleep-train) “have reliable and predictable long-term effects on who those children become”. Raising and caring



The Gardener and the Carpenter: What the New Science of Child Development Tells Us About the Relationship Between Parents and Children
ALISON GOPNIK
Farrar, Straus & Giroux: 2016.

for children is more like tending a garden: it involves “a lot of exhausted digging and wallowing in manure” to create a safe, nurturing space in which innovation, adaptability and resilience can thrive. Her approach focuses on helping children to find their own way, even if it isn’t one you’d choose for them. The lengthy childhood of our species gives kids ample opportunity to explore, exploit and experiment before they are turned

out into an unpredictable world.

In Gopnik’s not-parenting approach, the rampant disorder of genetic variation (or, to use her technical term, “mess”) becomes a wellspring for creativity, contributing to the wide range of children’s temperaments and abilities. Some children are risk-takers; others are timid; some are highly focused (an advantage in a test-obsessed school system) or natural hunters (“constantly on the alert for even subtle changes in the environment”). Throughout history, she argues, that mix has bred resilience in societies faced with challenges, such as early nomads’ constant need to confront new environments. People with more conservative temperaments, for example, ensure some security for the risk-takers.

Gopnik reveals how the parenting model can affect how children explore. She describes a wide range of experiments showing that children learn less through “conscious and deliberate teaching” than through watching, listening and imitating. Among the K’iche’ Maya people of Guatemala, even very young children with little formal schooling can master difficult and dangerous adult skills — such as using a machete — by watching adults engaging in these tasks in slow and exaggerated fashion. In one of Gopnik’s own experiments using a “blicket detector” (a box that lights up and plays music when a certain combination of blocks is placed on it) four- and five-year-olds worked out that unusual ▶



Children learn well from undirected play.