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Euro Shield

By Stephen S. Cohen

It was the euro—not the Security Council veto—that enabled France to oppose U.S. policy on Iraq so boldly. Indeed, the success of the European currency has turned it into a political anti-missile shield that works, and that has changed the international balance of power.

Absent the euro, it would have been relatively easy for the U.S. to quietly bring the French back into line. A stealth U.S. attack on the French franc, and on French financial markets—more likely just the hint of it—would do the job. To be sure, it did the job more than once before, most famously in 1956 when France and England invaded Egypt to retake the Suez Canal. Eisenhower was outraged. Some stern statements by Ike, backed by discreet mutterings about currencies and financial markets, did the trick. The French and British promptly retreated from Suez.

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Contrary to popular belief, the "ever closer union" toward which Europe fitfully inches is a political—not an economic—project, though achieved largely through economic means. The first goal was to create a unified Europe and bring an end to European wars. The means were economic: a Common Market, or free trade zone (to be expanded later to include the free movements of capital and then labor). Behind the agreement was a basic bargain between France and Germany: France would open to German industry and Germany would support French agriculture.

Postwar France was no longer a great power, despite the gift of permanent membership on the Security Council. It could continue to act as a "Great Nation" only through a unified Europe. In the full Gaullist vision, in order to stay independent and powerful, France would have to enter a Europe unified behind French political leadership and backed by German economic power.

With the Cold War behind us, the key question of international politics, as seen by the French political and administrative elite, is this: Now that there is no military threat to Europe from the Soviet Union, or anyone else, how to contain the U.S.? In this logic, the euro must become an alternative, or co-reserve currency alongside the dollar. This would deprive the U.S. of its "soft power" and, to an appreciable extent, of its free ride in the world economy. After all, the special international role of the dollar permits the U.S. to run staggering trade deficits and to escape the balance of payments discipline that holds all other nations in check. This, it is believed, boosts America's ability to finance military and political power beyond its real means. A primary goal of French and European foreign policy is therefore to shift portions of the foreign-exchange reserves of the world into euros.

The value of the euro against the dollar may or may not rise as a result, and Europe is wonderfully divided about wanting the euro to appreciate or depreciate. But the euro is not fundamentally about exchange rates and exports and imports, although they are terribly important. It is about the political independence and power that the euro buys.

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