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The euro has trapped poor countries like Italy in a failed experiment. It must give them an exit – or collapse

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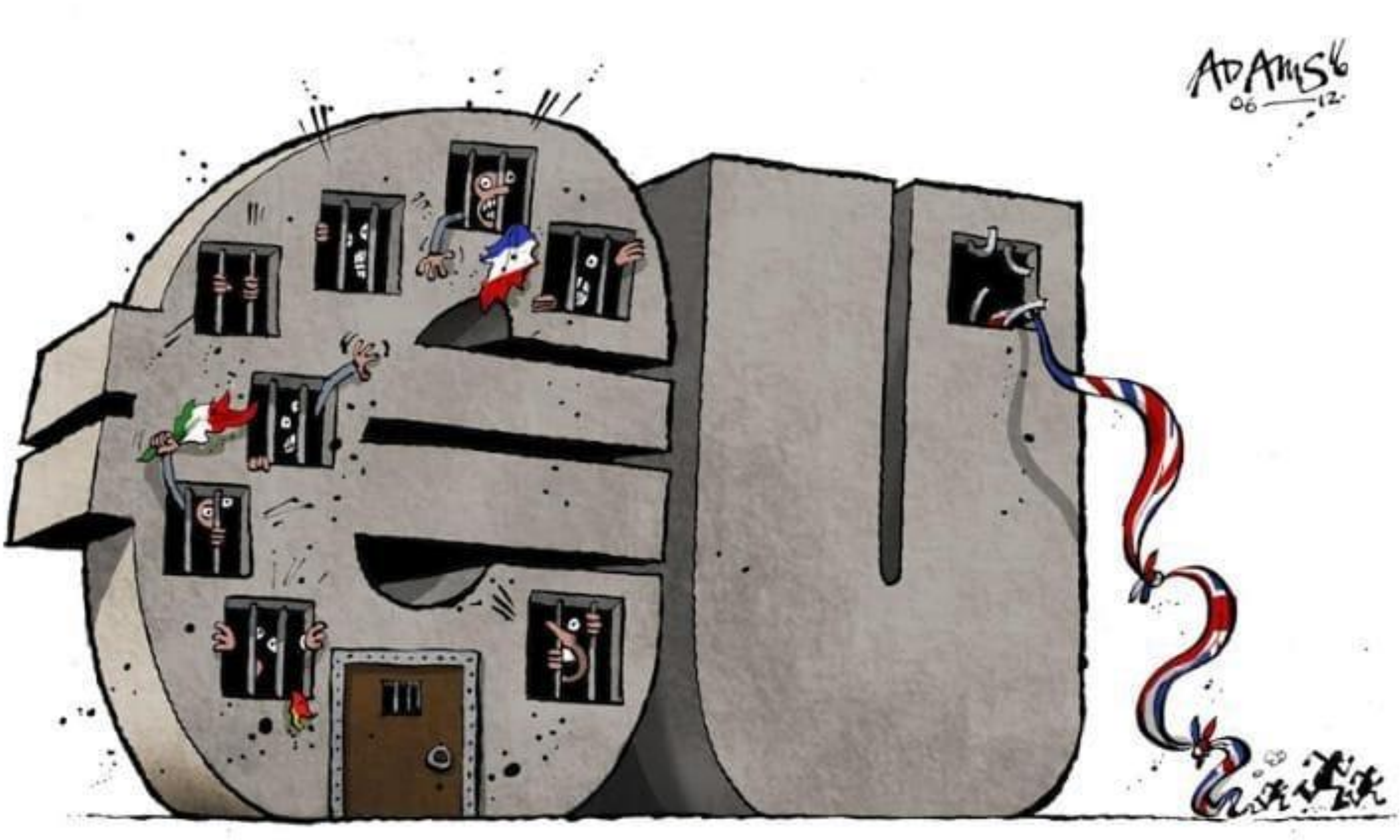

Trapped: Adams's cartoon for December 6

It is, of course, bad news for the eurozone and the Italian banking system that Matteo Renzi has been heavily defeated in his attempt to change Italy's constitution by referendum. The referendum was about creating stronger government in Italy, without the gridlock and delays produced by a powerful Senate.

It provided a test of the willingness of voters to back major political reforms, and of their patience with an economic performance that has been truly dismal ever since the euro was invented. The answer is clear: they are not willing and their patience is just about exhausted.

But the really bad news is that, even had he won, it is extremely unlikely that Renzi could have done enough to revive the Italian economy and avert the eventual break-up of the euro.

Not only is it now apparent that the euro was indeed the misconceived and terrible blunder that some of us argued it was at the time. It is also becoming clear that its effects are even worse than we, its harshest critics, believed they would be.

There was much excitement when the euro was launched in 1999, with highly intelligent people convinced that it was the start of a united Europe, and that all the countries in it would steadily converge on the same level of prosperity.

I remember economists coming to see me with charts demonstrating this, looking at me when I refused to believe it as if I was being wilfully stupid. And when I said it would become a “burning building with no exits”, political leaders in France and Germany treated me, then the leader of the opposition, as if I was a demented nationalist, unable to grasp the vision of a great future without our annoying little currency.

Matteo Renzi has resigned as Prime Minister following his referendum defeat CREDIT:FRANCO ORIGLIA/GETTY IMAGES

Helmut Kohl brushed aside all arguments against the single currency. President Chirac invited me to the Elysee Palace to hear the virtues of monetary union. Seventeen years later, the question is whether their successors will have the vision to dismantle their monumental mistake, now a prime cause of unemployment, stagnation and populist fury.

Those of us who were sceptical of the euro argued that a monetary union would inevitably require a political union, centralising decisions about tax and public spending, and that we didn’t want to be part of that.

While we were right about that, we actually underestimated the problem – the euro has become so damaging and divisive that public opinion within it will not tolerate a political union. So not only was the cart put before the horse, but the horse will not now contemplate even following the cart at a distance.

The second respect in which the euro has exceeded our worst fears is that it has made some countries, like Italy and Greece, poorer while others get richer.

We always maintained that forcing many countries to have the same interest rates and exchange rate would be a problem: some would have booms followed by big busts, as has happened in Ireland, Portugal and Spain. The enthusiasts told us that this would be temporary and "convergence" of all the members would follow.

Again we sceptics were right. But we could have gone further. Not only are eurozone economies not converging, they are conspicuously diverging. The per capita income of Italians is lower now than in 2000, which is why they are – not surprisingly – getting increasingly restive. In the meantime, the German economy has kept on growing, and the average German is about 20 per cent better off over the same period.

Why is this? Because the euro is a cheaper currency than Germany would have if it still had the deutschmark, while it is more expensive than Italy would have if it still used the lira. Germans therefore keep exporting easily and running up a surplus, while the Italians struggle and go deeper in to debt.

Furthermore, the freedom of movement of capital in Europe probably makes this worse – why would you put your euros in an Italian bank when you can invest them in Germany?

Membership of the euro has thus put the Italians on a permanent path to being poorer. Unless Mr Renzi was going to enact such extraordinarily bold reforms as to raise the productivity of Italian workers to the same level as their German counterparts, there was nothing he could do to stop this.

His defeat has not made the eventual break-up of the euro more certain, because that is coming anyway. It has simply made it more obvious.

Leaving the euro, however, is a far more difficult problem than leaving the EU. As everyone now knows, Article 50 provides for leaving the latter. It may be a vague and inadequate rule, on which our Supreme Court is now deliberating at length, but it is nevertheless a rule that provides for getting out.

The eurozone has no such rule. This is a burning building you are never meant to leave. What is more, you are barricaded in. If you contemplate leaving, you have to face not having any notes and coins of your own; the need to default on debts that will be even bigger when your new currency goes down in value; and the collapse of your banks because being in the eurozone means they were able to borrow money they should never have been lent.

Tens of millions of people in southern Europe will increasingly find that they cannot tolerate staying in the euro, but nor can they leave it without great cost.

Their anger and resentment will only intensify. The question now is whether Europe's leaders will cling to a project that has failed even more spectacularly than its critics imagined, or have the statesmanship to provide a way out for those who conclude they have to go.

The euro is going to need a financial Article 50 – a way of providing for exit, which shares the costs of leaving and gives international help to those departing a scheme they should never have joined. Of course, the mere admission that such thinking is necessary would damage confidence in the single currency.

It would mean going back on the dream of the 1990s. That is why no one in authority in the eurozone will want to admit that they need to invent an orderly exit. It is anathema to them – the collapse of their beliefs. But those who have trapped entire countries in a vast, failed experiment have a responsibility to help them get out.