“Funerals” for Lithuania’s National Currency: Lithuania Joins the Euro

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Global Research, January 06, 2015
Region: Europe
Theme: Global Economy

“There’s simply no more skilled people left here [in Lithuania].” – Arvydas Avulis, CEO of Hanner, Dec 31, 2014

There was something touching in the symbolic funeral in Vilnius held for the Lithuanian currency, the litas, which received its resting notice as the country formally adopted the euro on January 1. The litas had been in use between 1993 and 2014. If you had asked Nigel Farage of Britain’s UK Independence Party about the service, he would probably have suggested they were burying the wrong one. (The colourful populist insisted on a mock burial of the euro in 2011.)

Moving over to the euro was always a thorny issue. A November poll suggested that 39 percent of the population was against it. Their grounds of suspicion were well founded. While supporters of the euro’s adoption believe – and in this, it is very much a belief – that the adoption of the currency will lead to easier foreign loans and investments – the converse may actually be true.

The Prime Minister Algirdas Butkevičius, adopted the standard line. “The euro will be a guarantee of our economic and political stability. It will allow us to more rapidly develop the economy, create jobs, increase incomes. I firmly believe that we will strengthen the European family.” In theory, at least, the more the merrier. Government borrowing rates are predicted to drop by 1 percent, while a single currency bloc does have advantages in terms of minimising investment risks.

For all that, it is a classic error to link the embrace of a widely used currency with the assumption of economic performance, either current or future. It should go without saying that various countries in the euro zone, irrespective of their use of the currency, are ailing and stuttering. Dealing in euros does not make loans any less troublesome if other parts of the economy are dragging. A collective in a currency union is only as good as its members.

Another fundamental error lies in mistaking the refusal to adopt the euro as being somehow a vote against integration. The Scandinavian countries evidence a long tradition of European institutional involvement while resisting the adoption of the common currency. Lithuanians will have woken up on January 1 to realise that their institutions will not be able to determine interest rates and the budget deficit – that aspect of sovereignty, at least, has been surrendered.

The sovereignty issue is not being seen in purely financial terms. The Russian question looms, and rushing into the bosom of the eurozone is also deemed to be a cover, however poor it may be in quality, for broader security concerns. Either you court Brussels, or end up being grabbed by Putin (AP, Dec 31).

Latvia's Igor Pimenov, and parliamentary member, views the euro adoption as something of a mania. Those who retain their national currencies, he argues, have a better chance to right the economic ship. Then come the usual imbalances in the various economies, with Lithuania being the euro bloc's poorest member.

Last year, Pimenov made his views against the common currency clear in his campaign against its adoption. "We are not against European integration. But we voted against the euro because we are sure that it's not the right time for Latvia to join the eurozone" (Euobserver, May 5, 2014).

Lithuania's admission to the euro club also comes at a time when the currency itself has been battered. The big league players are still incapable of resolving their differences, with Germany continuing on its unbending austerity platform, and France and Italy deflecting on promised structural reforms. *The Economist* noted in October 2014 that the entire zone was feeling the deflationary phenomenon. "A region that makes up almost a fifth of the world's output is marching towards stagnation and deflation" (*The Economist*, Oct 25, 2014).

To put it bluntly, the price of admission may not have been worth it. This very point is being debated in Greece with elections scheduled for January 25. Greek Prime Minister Antonis Samaras has issued a warning that the country may well exit the eurozone altogether (Boomberg, Jan 5). The German Chancellor, Angela Merkel, is putting on a brave face, suggesting that the zone will cope.

As for Lithuania, the sense here is that the euro is a panacea, a plug that will ease emigration levels that are starting to produce chronic labour shortages. "Retaining talent," notes a Vilnius University spokesperson Nijole Bulotaite, "is one of our most pressing problems along with demographic changes" (University World News, Feb 7, 2014).

UNESCO's Global Flow of Tertiary-level Students data from 2012 shows that 8,230 Lithuanian students were studying abroad, with over half at British and German universities.

While such overseas enrolments are dandy, Lithuania's Department of Social Statistics is unnerved by the annual leak of educated recruits who find work in Western Europe. During the 2008-2011 financial crisis, more than 80,000 people left annually. In areas such as construction, business owners note the frustration at being unable to hold down workers, despite massive wage increases of 10 to 20 percent (Associated Press, Dec 31).

Lithuania may well be the zone's nineteenth member, but its arrival, in many ways, could not have been at a worse time. To put stock in a currency's powers of salvation is never sound policy. The fractious big boys are at wit's end about how to deal with the problem, while the small members either remain submissively silent or are seeking a noisy withdrawal.

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