

The Euro at 20 - Shift of paradigm ?

Introduction

The political and economical agenda of autumn 2022 has four main components:

- **First : the ongoing Russian war against the Ukraine and its consequences,**
- **Second : the deep global economic change, with a downturn towards recession, not only due to this conflict and raising energy prices, but probably even more to the change of Chinese economic policy and to its conflict with the US.**

You can add the major errors of our economic and business leaders in the last years, they have been waiting and sleepwalking for a too long time, two catch-words illustrate best the situation „in time“ and „supply chain“. Our European economic design is not dead, but needs real reforms !

- **Third : The risk of an Euro-crisis due to the Italian elections and potential developments there - and the risk of the debt of Italy and France**
- **Fourth : The US midterm elections early November**

In this „Zeitenwende“, all the areas are hit, politics and politicians are not at all innocent, Europe has been sleep-walking to a large extent for a too long time – strange enough after the series of crises hitting us since 2007 with, to some extent, finally successful permanent crisis – management, but too short term orientated!

As a matter of fact we enter into a period of volatility, uncertainty, insecurity, of a new cold war, including conflicts!

These are geo-political and geo-economical unrests and imbalances, expressed in our little European world by growing inflation, risks of economic recession and risks for the Euro-zone – risks for the European Union that remains largely a geostrategic dwarf and desert!

The world around us is „in move“, changing faster since more than ten years and with less and less order...

What are under these circumstances the state of the Euro at 20 – and of the EU - and its perspectives ?

1.

A look at the last thirty – not twenty - years

We cannot evaluate this situation, this „inventory“ without having a short look backwards at the astonishing genesis of the Euro – I do it in catchwords, in a stenograph , at the same time as a reference and respect to the project of „oral history“ conducted by Mathieu Segers

1.1.

the launch :

Spring 1988 – december 1991: three and a half years of intense deliberations and negotiations in three phases after the second re-launch of this European vision:

- first : the Delors-committee : the keys - the leader Delors (in close cooperation with Kohl) and the central bankers „on a personal basis“ (suggested by Tietmeyer) in Hannover June 1988 – date of birth or conception of the Euro)**
- second : a PrepCom and then the IGC – Italian, Lux- and Dutch Presidency : Italy following German advice, the French tried to accelerate in vain.**
- Third : the negotiations towards the „German model“ or the copy of DM at European level**

1.2.

the Europeanized DM

- the European currency under German conditions, otherwise Germany would not have been able to agree - an operation of high risk for Kohl or any German leader – we would have lost the referendum if existing in the German constitution)
- DM – the symbol of the German resurrection after World War II and „of the economic miracle“, DM existing „before the flag, the constitution and the parliament“
- the three basics of the Euro: Independence of the ECB (never really accepted in France), no economic government (controlling the Central Bank - against the wish of France) and the seat Frankfurt (genious Deheane and his team)
- EMU has been developed largely in parallel to the end of the revolution in Central and Eastern Europe and to the German reunification, but as a matter of facts : the DM has not been sacrificed on the European altar in order to get the German reunification!

1.3.

the years of preparation leading to the Euro

- monetary crisis of 92 as means of confidence building : September 92 the rescue of the FF (and later of the Lira) by the German government and the Deutsche Bundesbank following a demand expressed by Chancellor Helmut Kohl

(„BuBa“ being under fire because of its interest rate policy in the aftermath of the German reunification – typical Bundesbank, but not sufficient to explain the bad shape of certain European economies)

- the „ adjustments“ : the Growth and Stability Pact“ of 1997 (Kohl under pressure in Germany by the CSU, Waigels „reassurance“ and the absence of the SPD) – real success story ?
- The problem of the criteria and of the list of founding members

* 3% - 60%: a French invention and a never ending debate

- * the eleven founders: GER, F, NL, B, Lux, ITA plus Spain, Portugal, Ireland, Finland and Austria
 - the special and most risky case : Italy – in reality never contested inside
- * the accidental cases : Greece and Cyprus
- * today 19 + 1 (Croatia 01/01/2023) + 6 tolerated/authorised free riders (Andorra, Monaco, San Marino, Vatikan plus Montenegro, Kosovo)
 - the critical moment of truth May 1st 1998: the nomination of the first ECB-Chairman - Chirac's lost poker game but damaging a weakened Kohl, left alone and under pressure by a partly illoyal coalition (in Europe only Juncker with him)

result : the Duisenberg – declaration after midnight, I had the honor to be the note taker

- the other critical move: the best and most suitable exchange rate between the national currencies and the new Euro – the Euro replaced the ECU 1:1 : appropriate step ? The poor citizens obliged to divide the price by 2 or 6,5 or even by 2000 – windfall-profits and inflationary tendencies avoidable ?

2.

Lessons of twenty years - shift of paradigm ?

2.1.

the „limping“ Union: the weakness of economic cohesion

- Referring to a reflection of a former US-Central banker, comparing the two federal systems, Euro-zone and US: ECB and FED: Aren't there comparable differences and common lessons ? Or why are the Europeans not willing to listen to the experience of „other federalists“ ?
- The banking, later financial and economical crisis 2008 – 2010:

imported, but showing up all the European weaknesses, the lessons :

–

- reinforced structures – the Eurogroup with its own Chairman,
- more control : the European semester: coordination and control by the Commission and the pairs – sufficient ?
- ESM, the European Stability Mechanism („the Regling authority“) . It should become a real, full fledged EMF – a European Monetary Fund. Why not yet?

– today in the light of the Covid- and international economic crisis

- what about the stability of our banking system ? „Banking-Union“ - the word you find in each conclusion of the EU in the last twelve and more years.

Do we dispose really about a performing, secure system that economy and the customer appreciate ? Not in my eyes at least – I can't read any more all the conclusions about the subject nor the growing number of marvelous texts reducing the responsibility of the banker

Is the world of banks only composed by „big shots“? Why didn't we try much harder to consider credit cooperatives – such as the Sparkassen and Volksbanken in Germany or the Credit Mutuel in France - as an equal, perhaps better backbone of our banking system, leaving the international scene to the „big shots“ ?

- same importance : the revision of the criteria : eternal and young debate – take out defense expenditure (yes), what's about investment ?

Isn't it to a certain extent a particular French debate in order to avoid a critical stage with spread-consequences due to its national debt development ? (see Italy)

- do we need a new approach looking at debt and inflation with other eyes ?
- The European institutions should, at least in my eyes, be authorised to engage for a limited number of purposes and with

a limited amount „european commun debt“.

best examples: the future EMF or specific investments insuring the survival of the european economy (and its model) or a European Darpa

a less necessary, but at the end acceptable – symbolic –
example: the ERF, the common answer to the Covid-crisis: In this case we could have reached a similar effect by reforming and enlarging the structural funds as we had done in February 1988 under German presidency.

- „the lack“ of a similar construct with regard to the Political Union

„Political Union“ - term invented by Kohl in 1989 in a letter to Mitterrand, at the beginning a „common title“ for real progress with regard to Internal security, Foreign affairs and defense, competences of the European Parliament

Till today the weak side of the European integration

2.2.

the future – lessons learnt ? Reforms ?

- despite the different crises the Euro is till now a real European success story, still a short one but the Europeans were able not only to survive the crises, but to strengthen to some extent and to develop the system.
- This autumn once again in front of a potential high risk : politics in Italy – and partly hidden : France, both with a policy and a debt inviting speculation to test , a risky game as Germany is actually in a relatively weak position:

Compared to Greece Italy is of another level of threat against the Euro! But Italy will be able at least to uddle through as we have seen in the past.

- I am relatively confident - We had a real chance with our ECB-Presidents: Duisenberg, Trichet, Draghi, Lagarde
Do not forget their teams – and the national central bankers !

- Not everybody likes the German-minded system , as a typical compromise it is never perfect – but it needs further improvement - a new impetus is needed
- the structures of the Euro reflect the internal difficulties, divergences and mistrust;

Is dual leadership still appropriate ? Are member states ready to hand over „the last word“ in key areas to the ECB and/or to the Commission ? I do not see this willingness in any member state.....

Are we able to overcome the stalemate to create common fiscal rules for the Eurozone ? (see the recent proposals of the ECB, of the French treasury (thast stopped franco-italian attemps) or most recently of the German government)

- **And what about Banking Union and Capital markets union ?**

In fact in all these the Euro accompanying measures the progress towards a federal system is extremely slow

The fiscal rules and all the accompanying measures such as compensation should be federal and European in order to dispose of a credible counter weight to the Dollar and soon the Renmimbi becoming at the end of this year probably the No 3 of the world currencies

In general I prefer pragmatism that works to ideological answers. I am aware people do not want the United States of Europe, but probably something more complex, where Brussels and the member states find their role and place. The double-hat system remains at least for a transition necessary in Europe, better would be a real European federal system. This includes the European Parliament and the national parliaments – the latter have still to be included in the European construction!

- **The geopolitical view of the Europeans remains underdeveloped, even in the area of geo-economics and geo-finance: the free world would be better off with two pillars – Dollar and Euro: the US should understand and built such a „system“ with the Europeans ?**

3.

**the role of member states and institutions
in particular the France and Germany**

both are fighting with their difficulties, their reflexe is more national than European.

I am a bit more optimist with regard to Germany even if the Germans have actually tremendous difficulties to find „their way“ in Europe. In my view „Zeitenwende“ is not yet sustainable !

I am worried more about France, for a too long time muddling through, not able to launch reforms in all ley areas of the state.

Both need more than ever support by friends – not by the European Commission, too „interest driven“, in the past the Benelux-countries have often taken over this role....

And why not launch a „political and economical“ audit of the Eurozone by a small group of wise-men ?

Much more important in my eyes would be – in parallel to the policy of the ECB - a convincing and solemn appeal in favour of the necessary reform-steps in order to assure the self-assertion, the survival of our continental political and economical system in the longer run !

The question I put to friends since weeks indeed is, who would be the best to launch this urgent exercise ?

4.

The necessary reforms

The most important elements, partly to be tailor-made for different countries:

- **complete – as said before – urgently the instruments the ECB needs and relaunch a clearly federal approach of all these areas, in particular the EMF as the strongest symbol !**
- **assure the „strategic autonomy“ of the European economy, in particular reduce the dependance of certain suppliers, diversify our imports,**
- **review our policy of competition, to be completed by external instruments,**
- **review our policy of research, introduce the model of DARPA for disruptive innovation in order to reduce the European backlog in key areas against the US and China – as proposed by the JEDI initiative,**
- **a energy policy if not really common, but at least compatible and coherent despite all our divergences, including the creation of a real European grid,**
- **come back to commercial agreements with third countries, partners, including Latin America and the US ! Much of our remaining protectionism is blind ! (see for example Mercosur)**
- **Review entirely our policy towards Africa, a real urgency, we are losing Africa !**
- **develop the European defense , the European pillar in NATO and an autonomous European defense – including a comprehensive „new transatlantic pact“ with the US – defense, trade, investment**
- **and last but not least overcome by a political dialogue the split, the schisma between Eastern and Western Europe – a dangerous development that could derail the European integration**

These existential challenges underline, we cannot just continue as done in the last years, we cannot just muddle through from one meeting to the next.

We have to act courageously, we need if not a vision, but a clear compass for the years ahead, concentrated on the essentials. It demands leadership, urgency and strategic thinking and acting !