Editorial

Euro in its 13th year

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Will the 13th year be one of the most important? The answer is yes, if your glass is half-full, as it is in my opinion, because we will see a new course set with stronger, more efficient and more sustainable integration. If your glass is half empty, then 2011, the 13th year, could see the foundations being laid for the end of the eurozone. How could it come to this? Why are doubts being entertained, mainly outside the eurozone, about the long-term success of the euro, and why is the euro repeatedly, and justifiably, misunderstood. The answer is simple if we consult the website of the CIA and look up the political structure of the European Union: “A hybrid intergovernmental and supranational organization”. And the eurozone is not even that. For the USA on the other hand it says: “A federal republic with strong democratic traditions”. While this may well be an attempt by the USA to weaken Europe, it unfortunately also reflects reality.

Hybrid is what the eurozone has definitely been in recent months. In this stressful period the differences clearly had the upper-hand over the similarities. Instead of adopting a creative approach to the difficulties being experienced by some countries, the weaknesses were presented and solutions suggested, but unfortunately these very quickly proved to be counterproductive at the very least, if not completely unfeasible. This hybrid structure also means that the number of commentators is significantly higher than in the USA for example, without them being aware of their responsibility. Statements from members of now 17 governments, their supposed advisers and the EU itself in the end created such confusion that for many observers, and regrettably investors too, the only possible solution seemed to be the dismantling of the eurozone.

Even experts who should be aware of the economic consequences of breaking the eurozone up, such as former ECB Director Otmar Issing, publicly stated that continuing with the currency union could well be politically too expensive (in Germany). In other words, so the reasoning goes, it is not worth maintaining the single currency to see tax revenues possibly flowing out from one country to provide financing in another. This rule set forth in the well-known Article 125 (no bailout clause) may not be breached. As understandable and popular this demand may be, it ignores reality.

Attempts to formally observe this rule have rather generated a great deal of uncertainty, cost time and perhaps also significantly raised the price of helping struggling Member States, since the initial hesitation had to be paid with a correspondingly higher level of commitment. To some degree it appears absurd that the purchase of government bonds by the ESCB for example totalling roughly EUR 60 billion to date (the ESCN currently holds approximately EUR 470 billion) is considered a danger for the stability of the euro, while the Fed at the same time finances the state to the tune of USD 1,150 billion and has a further USD 1,100 billion in real estate loans.

However, this comparison with the USA should not prompt us to think that we are currently being treated unfairly by “speculators”; we should realise that the problems should be solved collectively, not in competition with one another, taking a proactive and not defensive approach. This is how the USA sorted its problems out (like with real estate for example), albeit with some help from the Fed. In the eurozone too the central bank helps by providing refinancing to banks amounting to EUR 1,500 billion, but this does not solve the problem, it only glosses over it. However, contrary to what is often maintained, the problem with the European banking sector has nothing to do with supposedly massive volumes of government financing in troubled states via foreign banks (foreign banks from the eurozone have receivables of merely EUR 100 billion from Ireland, Greece and Portugal, just 0.4% of total outstanding); it is related much more to the national banking systems of these countries and above all to the uncertainty regarding the future of the eurozone.

So where to from here? The eurozone must and will take a more creative approach to solving the crisis and stop making superficial arguments. The safety net (EFSF) already has the required funding (guarantees), it just has to be deployed more flexibly. However, this also means that no country must be forced into leaving the eurozone because of bankruptcy. This will not be achieved by discussion on haircuts which ultimately would only hurt those who had put faith in the policies practised to date. The countries bearing a greater burden, primarily the stable AAA countries, should in return implement rational rules that correspond to their notions of a joint (efficient) economic policy. However, this cannot just simply be a case of fulfilling quotas; a larger part of economic policy must be raised to European level. Not to the EU Council with its horse-trading, but to a stronger Commission (or another institution because the Commission is responsible for the entire EU after all) which then implements the policy that is in the interests of the majority of the eurozone’s population. We should not always assume that the majority of the EU’s population wants policies like those pursued by Greece. The EU patently always needs a stressful situation before it is able to overcome petty nationalism and take another step forward. I hope that this time again it is not just for the sake of our prosperity.