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Focus Group: Eurozone: Resilient, Attractive and Beneficial for All?

INTRODUCTION:

- We are discussing here a very serious topic today. The Eurozone will collapse one day; we can only hope the end of it is far away.
- Whole empires or countries have imploded or dissolved in the past because of currencies. Think of Yugoslavia. It collapsed because the Parliament of Serbia supported unauthorized printing of dinars. In 1990 there had been one currency for one country comprising six republics and two autonomous provinces. Now 21 years later there are seven countries - and some fascinating new monetary phenomena. Slovenia has moved fast to join the Eurozone. Croatia, Serbia and Macedonia each have their own currency. Montenegro and Kosovo are not in the Eurozone but simply use the Euro. Bosnia and Herzegovina even has the 'Convertible Mark', pegged to the Euro.
- Similarly, Czechoslovakia collapsed not because of identity politics, ethnic strife between Czechs and Slovaks but because of lack of alignment of fiscal and monetary policies. So many marriages end because of money!

MAIN POINTS:

- Eurozone's birth was an accident. It had seemed like a logical and necessary step in the process of integration that began in 1950s and when it actually happened in the late 1990s there was no clear understanding what the consequences are – for Europe, for the EU, for specific countries. The intellectuals behind the project were internationalists hell-bent on preventing another World War II-like conflict. It emerged as a sexy, prestigious, modern project that will lead to the political union, miraculously transforming societies into a European demos, eliminating disparities in the national economies. It was very naïve. Even today nobody exactly knows where we are heading.
- The crisis of 2008 and its aftermath was a harsh reality check. The eurozone turned out to be something very distant from the Kantian "kingdom of ends", harmonious community where each member acts in solidarity with the other. It appeared that the eurozone has "free riders" who wanted to have propitious monetary conditions, with no appetite for fiscal responsibility. There were others who felt they owe nothing to the countries whose banks and public finances have been hit badly. Subsequent bail-outs were implemented, and catastrophe was averted but nobody had warm feelings about the euro when the firefighting phase ended.



Where are we today?

- Imagine a patient who suffers from some ailment of the heart – each part of his life and his organism will be affected, work or leisure, breathing or walking. Similarly, whatever the problems of the EU in general the eurozone will not be free of them. Eurozone is the heart of the European integration.
- Eurozone, like many other human creations, cannot exist without trust, faith and common values. Faith that behind that piece of paper there is a wealthy powerful actor who guarantees the value as stated on this paper. Trust that this money emitting institution is representing the interests of all countries and societies involved.
- There needs to be common identity behind common currency. Pictures and portraits on banknotes and coins supposedly reflect common heritage and wealth, be it material or cultural. That is why euro currency would never outlive the European Union as such. The rise of nationalisms and populism is thus dangerous not only to the EU institutions but also the euro. It is not a coincidence that most Eurosceptics are vehemently against the common currency. The most common narratives in populist discourse are:
 - Loss of sovereignty; diktat of Brussels and Frankfurt over peripheries; inability to conduct a monetary policy that is more suited to the needs of a country in question;
 - Domination of Germany and other power centres of the North and platform of quiet “colonization” of the South; stranglehold on economies other than that of Germany and its close partners;
 - Instrument for undeserved transfers from the hard-working northerners to the lazy southerners;
- The times are not good for reforms to the architecture of the eurozone as every even minor change somehow relates to national economic doctrines and these are not aligned. How necessary or justified are current account deficits? How useful or needed is the austerity policy? How much of the solidarity is there between Member States? Is bail-out an exception or the norm? These questions are not answered in the framework of EU Treaties or through the remit of the EU institutions but in national capitals – Berlin and Paris and others.
- Issues like completion of the banking union or EU budget are risky to open as they might undermine the delicate consensus between the countries of the North and these of the South. Given the different structure of eurozone economies, the consensus is hard to reach even in the most clement economic weather. And the weather is not so good; some economies are in poor shape. Greece can be compared to a person convalescing from a long debilitating disease, vulnerable to any new bacteria or virus. Italy is a sick man of Europe – with huge public debt accumulated over decades, serious





competitiveness problem, inefficient public sector. France's reforms have barely started and there is a huge popular backlash against them.

- The EU is in dramatic position – “damned if you do, damned if you don’t” as no-reform scenario is not an option either. Without finishing the eurozone reform the EU is vulnerable to a new crisis when it come. And come it will, sooner or later. The overhaul can only be achieved only through further Europeanisation of policies and measures – something that national politicians and societies are hardly in the mood to do.
- The main rationale behind euro currency is a very simple one. Better policies for better lives. Have the societies of eurozone countries done better than the non-euro ones? The verdict is still out. Some of the benefits of euro have happened (like elimination of transaction costs) while some of the promises have failed to materialize – for example convergence of eurozone economies has been patchy at past.

CONCLUSION:

- To me the eurozone is not an economic project; it is a geopolitical one.
- The project is extremely fragile and requires constant incremental reform.
- Slovakia, because of its unique V4 position, should be at the forefront of this reform.

