NEWSLETTER NR. 36 - The Euro in the current international setting

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The current long-lasting crisis has clearly brought to light that the lack of political delegation to the EU with regard to the management of the single currency – meaning treasury powers – gives rise to significant anomalies as well as heralds serious risks for the currency itself. In other words, the granting to the ECB of the sole technical powers, originally set forth under the Maastricht Treaty, does not allow an optimo iure management of the currency, common to 17 States, in all of its material aspects. Thus, a hybrid scenario was created that goes beyond the principle of international law which links the currency to its issuing State, which is invested with the broadest powers, within the exercise of the national sovereignty.

And here lies the problem, not easy to solve. Since the UE is not a State and, despite the name which only reflects expectations (which at this time are not so widespread), is not even a confederation of States such as, for instance, the United States, Canada, Brazil and Switzerland; it exercises a restricted sovereignty – limited by international treaties – which does not exclude the national sovereignty of each Member State even with respect to the currency matter; its budget is not a State budget, accounting for a little over 1.20% of the aggregate GDP of the 27 Member States; the EU market is a market of over half a billion consumers, with an aggregate GDP exceeding in 2010 Euro 12,000 billion (the largest in the world). However, such market is a “common” market only on paper, since there are substantial inequalities among Member States in terms of taxation rules, labour rules, social security, welfare and many other matters. The effects of the exchange ratios between members states of the two monetary areas (see the dilution in the exchange ratio of the UK pound vis-à-vis the Euro in the past three years, reaching volatility peaks of over 30%) produce significant asymmetries in terms of competition within the European market.

In addition to the foregoing factual situation, none of the Euro-area Member States, in view of the giving up of the national currencies, has undertaken political control over the Euro (and how could it have done so since the Euro is a “common” currency?). This results in the absence of any political, prior to technical, body of prompt intervention which may act on the exchange ratios with the other main currencies in a rapid, flexible and authoritative manner. Instead, any decision at a European level requires the unanimous consent of the 17 Euro-area Member States. But, on which basis? The juridical basis are, moreover, unclear and controversial. Alongside the maintenance of price stability are– although rarely evoked – the objectives of a steady economic growth and the achievement of a highly-competitive economic social market, aiming to achieve full employment and social progress (Art. 3 TEU). Equally, Art. 119(3) TFEU sets forth, among the leading principles of the economic and monetary policy, in addition to stable prices, the maintenance of “public finances and sound currency conditions” and “a sustainable balance of payments”.

It is in such a confused context that the so-called sovereign debt crisis appeared, originating in the difficulties of certain countries (referred to, somewhat contemptly, as “peripheral”) of the Euro area to meet their Euro-denominated bond obligations. It was highlighted (Bini

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Smaghi) that it is the lack of any control over the bond currency (Euro) which ties the national authorities' hands with respect to their sovereign debt. Such an argument, indeed valid, confirms that the reason for the current critical situation lies with the Euro's original problem, which renders it very frail (and this results in an overvaluation in its exchange ratios with the other main currencies), even if the attack is against (so far) the weakest links in the chain, or presumed as such. Please note that I do not think that the current situation can be tout court ascribed to so-called speculation; this for the simple reason that no free exchange rate market exists and speculation may only strike downstream, in the areas characterized by lack of intervention or indications which have to come from States.

As the Commission recently highlighted, the troubles of one of the Euro-area Member States – even if it breaches its convergence criteria obligation – do not allow any other Member State to call for its expulsion. Nor a "default" of such country would directly affect the future management of the Euro.

The so-called rescue fund, however organised and managed, is not suitable to overcome a crisis (in fact, it has no impact on the cause, but only on its effects on certain countries); and, therefore, is only a temporary measure: it only postpones the problem of finding ways to govern the common currency, but does not solve such problem.

If these are the pieces of the jigsaw, its solution requires that all of the Euro-area Member States go beyond the Treaty rules with respect to monetary policy and combine their efforts for the safeguard of their own currency before than for the safeguard of the troubled positions of the so-called "peripheral" countries.

The separation between political and technical roles needs to be recomposed, through a joint effort of all of the seventeen Euro-area Member States in identifying behaviours at both national and European levels and by putting into practice common choices with no prejudice to national mechanisms. I am convinced that the main criteria of any successful defence of the common currency cannot exclude the possibility to resort to the measures, even extreme ones, traditionally available to each State for the safeguard of their national currency. Therefore I wonder why depreciating the Euro is not amongst the options on the table.

As has been pointed out (Gotti Tedeschi), a depreciation of the Euro, together with an accurate planning and management of its consequences, could make Europe competitive and foster economic growth. It is clear that the trends in European economies, all - with the sole exception of Germany – close to stagnation would justify its application with respect to countries referred to with the acronym "BRICs", characterized by a strong economic growth, amongst which China, which enjoys a highly undervalued exchange ratio. Moreover, with respect to the US Dollar, the current crunch of growth, similar to that of the majority of European countries, does not justify the current persistently undervalued exchange ratio of such currency, so far, also in the recent decrease of the gap, from the exchange rate, almost equal, that has followed the introduction of the common European currency. Nothing could be objected by the United Kingdom, whose exchange policy, in the last years, has significantly favoured (also within the European market) the large British companies engaged in the sale of banking and insurance services.

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Already a limited depreciation would convey a clear message abroad that the EU as a whole is handling the challenge and is ready to stand up for its common interests. And this cannot but overcome Germany's idiosyncrasy - maybe dating back its (far) history – towards the instrument of currency depreciation. No restriction is set forth under the Treaties as regards the depreciation of the common currency. In relation to the Euro exchange rate with respect to third countries, it is provided that the Council (of the Euro-area Member States), upon recommendation of the Commission and prior consultation with the ECB, is to set out general guidelines on exchange policy, which the ECB shall comply with at the execution stage. The decision process, today too lengthy and complicated, has to be rendered in practice more simple and ongoing, in accordance with the need of fast and flexible interventions on the currency management. Thus, the power to decide any depreciation of the Euro lies with the Council (of the Euro-area Member States). In the current situation, it would have a peculiar impact. First of all, it would send out a strong message of cohesion, as opposed to the weakness usually associated to it. Moreover, it would facilitate the restructuring of the Greek debt and even its exit from the Euro area. It would also have the microeconomic effect of improving the competitiveness of European companies outside the EU and stimulate their growth. This choice would not replace but, on the contrary, would strengthen the commitment of each Member State to curb and reduce their national debts, and implement the necessary structural reforms.

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