

Currency and sovereignty

by André Szász

‘The currency is an attribute of sovereignty’, the then president of the Nederlandsche Bank wrote almost half a century ago, implying that sharing a currency required sharing sovereignty. We now have been sharing a currency, the euro, for almost a decade, without sharing sovereignty. True, in addition to monetary union we are supposed to have economic union, constraining our national budgetary policies which are at the core of national sovereignty. But if we ignore the relevant treaty obligations – as some member states are doing and some have done from the start – there are no effective means to force them to comply. We may continue on this basis for another couple of years, but not indefinitely. After almost a decade, it may be time to try to draw some tentative conclusions.

Forcing member states, including the larger ones, to respect treaty obligations even when that hurts, would require further political integration, which is – if at all – only conceivable on the basis of public acceptance and support. This cannot be expected for the sake of the euro, just as Monetary Union did not come about merely for the sake of Common Agricultural Policy. If development towards political integration will occur, then on its own merits.

How likely is that? Recent developments might make it appear less unlikely than was the case for many years. In particular, I have two developments in mind. This year we had to confront Russia in Georgia. This confrontation demonstrated that the only hope of exerting influence in foreign policy exists when member states agree with each other. Agreement was achieved on an ad hoc basis and thanks to chance circumstances regarding the semi-annual presidency. An improvised common stand should not be confused with common policy. And regarding Russia a common policy is what the European Union needs. For there is little doubt that Russia will continue to be assertive, continue its efforts to influence what it used to call ‘near abroad’ and what it is now

calling the 'post soviet space'. Another reason is energy. A common policy cannot by definition emerge from a series of improvised common stands.

In a field different from foreign policy, the credit crisis illustrates the need for close political cooperation and initiative. This will not be less necessary but more difficult to achieve, once the immediate pressure will have receded and the need arises to agree on arrangements to avoid recurrence of what led to the crisis. I do not only have in mind our own policies and arrangements, but also those in the US that, as we have seen, can have a major influence on Europe. Foreign policy as well as finance require a permanent transatlantic dialogue. But there is no prospect that Europe could influence US policies in either field unless member states have common and coherent objectives.

Thus, developments in different fields may make it clear to politicians as well as to the public at large that Europe's common interest requires common policies in the political sphere. In order to be effective, these policies will have to be consistent and to be predictable. Therefore they will have to go well beyond ad hoc intergovernmental action. Genuine common policies require longer term political and institutional arrangements.

These are likely to be different from the traditional decision-making process. They should, however, not be allowed to weaken it. Integration in the more traditional sphere, based on the Community method, should be preserved, as should be the principle of free trade. So should be the existing monetary arrangements, based on an autonomous European Central Bank committed to price stability. Far from seeing further political integration as making it possible to reverse existing commitments, as some might be tempted to, it should become a means to enforce existing obligations where necessary, thus ensuring the euro's durability.