

## **Between Common Currency and Common Values**

**Article by Edouard Gaudot**

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Almost two decades since euros first began circulating, the EU is preparing for the May 2021 launch of the Conference on the Future of Europe. For too long, conversations on the future of European democracy and the future of the eurozone have been held separately. This is a vital opportunity to bridge the two, argues Edouard Gaudot. The euro has survived thanks to short-term fixes such as the EU's pandemic recovery fund, but unless the eurozone is made sustainable and reconciled with national constitutions and democracies, the most critical link in the EU's chain will remain weak.

*This article is the third in a series on the future of Europe. Read parts [1](#) and [2](#).*

Despite its delay, lacklustre reception, unrealistic ambitions, and impossible governance, the Conference on the Future of Europe is finally on track. As [argued previously](#), its official launch on 9 May, 2021 offers a not-to-be-wasted opportunity to rekindle Europe's constitutional process, stalled since 2005 when voters from the EU founding countries France and the Netherlands rejected the treaty to establish a European constitution.

But the Conference on the Future of Europe is only one side of the coin. The other side is – literally – a coin: the euro. Or, more precisely, the Economic and Monetary Union. More than just monetary policy, the euro has been the driving force of Europe's constitutional process since its inception. As such, it cannot – and must not – be separated from the conversation on democracy and the future of Europe.

### **A flawed blueprint**

The Economic and Monetary Union stems from the assumption that economic convergence through a common currency would drive political integration. When Euro coins and notes replaced national versions in citizens' pockets in 2002, three years after the official launch of Europe's currency, a feeling of achievement seized those political forces committed to an "ever closer union".

The work was far from finished though. Sharing a currency involves more than sharing coins, a central bank, and its monetary policy. The euro had been built under the illusion that it would naturally lead its members to pool resources and govern together. Governments, however, were reluctant to follow that path, preferring to salvage the appearances of their independence. The 2008 financial crisis made this discrepancy unbearable. For the euro to function, it needs instruments capable of managing shocks.

In the 2010s, the global financial crisis morphed into a specifically European financial, economic, social and, eventually, political crisis. The very idea of an integrated Europe governed by transparent and sovereign democratic institutions was questioned well beyond

the stability of the single currency. Since then, the Eurozone's flawed design has been increasingly exposed, fuelling discontent across the political spectrum and in the streets.

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Fundamentally risk-averse and captive to a morally driven demand for monetary orthodoxy, European leaders and EU institutions refused to acknowledge that the rules governing the euro had not delivered on their promise of stability and convergence. The Eurozone crisis was a perfect storm, but throughout, the instruction was to brace and hold the ranks. Emergencies were managed with a "kick-the-can-down-the-road" attitude, and half-baked solutions often aggravated the already dire consequences in the worst affected societies.

The Eurozone prevailed. While the panic-driven temptation for some member states to return to the illusory protection of former national currencies was resisted, there was no leap forward towards federal solutions: mutualised debts and Eurobonds, harmonised taxation and a fiscal union, and a federal budget (at least for the Eurozone), among others. Instead, a series of political and legislative initiatives, supported by national political power games, sought to preserve the original blueprint while marginally correcting its most apparent flaws.

## **Weathering the Eurozone crisis**

At the core of the issue was the dispute over the causes of the economic crisis. These varied according to the political leaning of the various member state governments, but the account of the strongest prevailed: the Eurozone crisis was down to chronic mismanagement on the part of governments made up of either profligate leftists or unreliable southerners, sometimes both. This narrative created a dangerous moral opposition which pitted, according to one side, the "virtuous" member states against the "PIIGS" (a derogatory acronym for Portugal, Italy, Ireland, Greece, and Spain) and, according to the other, the cruel and unfair scrooges against their victims. The debt crisis eventually passed, but the tensions never receded entirely.

Nevertheless, some degree of federalisation did take place. As early as the first bailouts in 2010, the European Commission proposed a legislative pack to amend the common rules on economic governance. Negotiated at length before finally entering into force in December 2011, the "six-pack" legislation reinforced the until-then inefficient and rather uncooperative policy coordination between member states with extra surveillance of fiscal policies and an earlier, more systematic application of compliance measures. In addition, the European Council introduced the European semester in 2010 as a mechanism for the to enhance monitoring and exercise democratic control over member states' budgetary policies.

In 2012, the European Stability Mechanism was established, replacing two earlier EU programmes to provide financial assistance to the Eurozone members: the European Financial Stability Facility and the European Financial Stabilisation Mechanism. From 2013

onwards, steps were taken towards a banking union with the Europeanisation of the surveillance of the Eurozone's financial institutions.

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Gradually, the various dimensions of the sovereign debt crisis were addressed with European legislation. New control structures were devised through specific international treaties, the most infamous being the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, also known as the Fiscal Compact. Signed in March 2012, this obliged all EU member states (with the exception of the Czech Republic and the United Kingdom) to keep structural budget deficits to an even stricter level than the Stability and Growth Pact it replaced. Although the Fiscal Compact was not formally part of EU law, it assigned roles to the European Commission and the European Court of Justice, but not the European Parliament. In the wake of the financial crisis, the European institutional order thus became tighter and more complicated, but less democratically accountable.

The stiffening of the rules-based economic and monetary governance echoed moves made by the European Council in other areas. Throughout the past decade, the European Council has been the EU institution that deals with "events politics", responding to unforeseen circumstances with improvised solutions. Even the governments most attached to their national prerogatives accepted that, within a common currency zone, some of these are better exercised at the European level. Yet political control remained a thorny issue. Adding to the paradox, the European Council only had time to find answers thanks to an independent entity: the European Central Bank (ECB). In July 2012, it was ECB President Mario Draghi's "whatever it takes" approach that bought the Eurozone members time by convincing the markets that, the ECB would step in should a political solution fail.

Once the peak of the crisis passed, the conversation on Eurozone reform was unfortunately relegated to expert circles. New proposals were met with resistance, especially those put forward by French President Emmanuel Macron, whose 2017 election campaign was partly fought on his commitment to reforming the EU, and the Eurozone in particular. While he spent time and energy wooing German Chancellor Angela Merkel to break the German lock on the Eurozone architecture, the Netherlands joined seven other member states to organise a fiscally conservative counterweight, the New Hanseatic League. In the end, most of Macron's proposals were scrapped.

## **The minefield of reform**

The Covid-19 crisis has been a game-changer. Costly national lockdowns and the slowdown of the global economy have forced every member state – "virtuous" or not – out of the Stability and Growth Pact framework. As the European institutions gave their blessing and the ECB opened the tap, governments started to commit so much money to crisis

management and recovery that the precious Maastricht criteria (which member states are required to meet in order to adopt the euro as their currency) became irrelevant to the point where their continued existence is now being questioned.

The rules were suspended and, despite a last-ditch attempt by the “frugal four” (remnants of the New Hanseatic League), the European Council agreed to a recovery plan so ambitious in figures, targets, and methods that some hailed it, hastily and mistakenly, “Europe’s Hamiltonian moment” (in reference to the 1790 agreement between Alexander Hamilton and Thomas Jefferson, which contributed to the US becoming a genuine political federation). This reference and the very name of the recovery plan, Next Generation EU, are proof enough that the Eurozone architecture and the future of Europe remain tightly connected.

However, the conversation on Economic and Monetary Union reform is a minefield. Economist Shahin Vallée emphasises the problem: the rules are difficult to amend because they are rooted in quasi-constitutional national and European frameworks. In some member states, the legislative frenzy of the Eurozone crisis amounted to a literal “constitutionalisation” of the EU’s economic and monetary policy at the national and European level. Yet the successive rulings of the German Constitutional Court from 1993 to, which have sought to assert the authority of the German constitution over the European order, recall the dual nature of the Economic and Monetary Union: policy and constitution.

Unfortunately, this constitutional order lacks two fundamentally defining features. First, its democratic accountability is at best limited, at worst deceitful. Indeed, parliaments both national and European are involved to various extents in the procedures, and EU leaders and ministers usually owe their seats to free and democratic elections. But major decisions go unquestioned and unchallenged – even by the media – since debates are not conducted publicly.

These democratic shortcomings were evident in the EU’s response to the Eurozone crisis. Creditor governments – in particular Germany, the most prominent and wealthy contributor – felt emboldened to impose their political preference onto fellow member states receiving their aid. This meant cutting pensions in Greece, raising taxes in Ireland, and reducing public employment everywhere. When the Greek government tried to circumvent the impositions with a national referendum, it was either pressured into capitulating (George Papandreou’s government) or scolded (Alexis Tsipras’s government). Greece’s theatrical former finance minister Yannis Varoufakis hit a nerve when he publicly ranted against the Eurogroup’s undemocratic practices of peer-pressure and the coup threatening his country.

Secondly, the constitutional order lacks legitimacy. As a consequence of its superficial accountability, the Economic and Monetary Union order took the form of authoritarian federalism, a “*fédéralisme d’exception*” as former ECB President Jean-Claude Trichet dubs it. A constitutional order should enjoy enough democratic consent to withstand its discontents. The Eurozone only manages to resist its critics because the only alternative its rules allow them is the drastic route of secession (formal exit from the Union).

If the Eurozone’s principles were given some democratic consent at the beginning, the experience of federal direct intervention during the crisis broke it down. Constitutionalisation remained a process of purely inter-governmental compromises to

pursue one policy, common to all, without much capacity to argue, amend, or reverse it. That is effectively a federation without federalism.

## **The euro as the pivot of integration**

As Draghi has underlined, non-euro area member states or leaders often “underestimate the amount of political capital that is invested in the euro.” Changing the Economic and Monetary Union might not be so difficult if it were not for the euro having become the pivot of the European integration project. Perhaps no one put it better than David Cameron in a speech on Britain and the EU delivered in January 2013: the problems in the Eurozone are driving fundamental change in Europe.” While the pace of Europe’s integration process may have seemed too slow to a Brussels-based federalist, to the British Prime Minister it was too hasty and ever-accelerating.

Since its inception, the single currency drove a wedge in the already shaky relationship between the UK and the European integration process. It triggered the birth of the UK Independence Party in 1993, sporting the symbol of the British pound on its standard, a political destiny fulfilled on the morning of 24 June 2016. The euro made the political side of the European project too explicit for a membership sold since 1975 on the sole promise of common market economic benefits. It led Gordon Brown, UK Prime Minister (2007-2010), to dig his heels in even deeper against the initiatives of his European counterparts. In a way, it made Brexit almost self-explanatory.

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The Economic and Monetary Union is not just any policy; it is deeply connected to the core of a state’s raison d’être: the historically entrenched sovereign privilege to mint money – with no less than the face of the ruler guaranteeing the coin’s value – combined with the accepted prerogative to levy taxes. It is a policy with “constitutional” impact, and as such, it has been the engine of Europe’s political integration.

Europe’s constitutional process really began with the 1986 Single European Act (SEA). This founding moment removed the anchor of unanimity rule, imposed by Gaullist France since the 1966 Luxembourg Compromise, which had kept the European ship at shore for nearly twenty years. Although the SEA disappointed many federalists, especially in Parliament, it opened the door to further political integration, as majority voting became a practical possibility again and the foundations for the monetary union was laid.

Thirty-five years and five treaty changes later, the world we live in is completely different, as is the European Union. The Covid-19 crisis blew most of the prevailing certainties and beliefs out of the water. The pandemic and its management have exposed, and sometimes aggravated, inequalities, economic unsustainability, environmental degradation, inadequate solidarity systems, global rivalries, and so on. In addition, it has dealt a powerful blow to the European dogma of austerity and monetary orthodoxy.

## **Europe: a democratic or economic project?**

As the post-Brexit EU resumes its constitutional process and tries to draw lessons from recent events, this time is ripe to reflect on the Economic and Monetary Union, both in architecture and substance. Calls for a complete reframing are already gaining traction and blueprints and proposals are being brought forward, from additional indicators, renewed objectives and enhanced parliamentary control, to replacing the complex and dogmatic rules with new stable standards to be implemented flexibly. The political obstacles remain formidable, and the conservative views on the Stability and Growth Pact are already trying to return to the previous pattern of small adjustments under governmental cooperation supervision. The European conversation is underway, gathering national governments, experts, pundits, MEPs, and central bankers. But it must include citizens.

As argued here before, the renewal of the EU's political legitimacy is at stake. An unwanted but logical consequence of the constitutionalisation of the Economic and Monetary Union is that continental economic integration has moved from a means to an end, dangerously weakening the EU's legitimacy at a moment of economic hardship. A similar scenario played out in member countries where the promises of eternal growth and prosperity did not survive the 2008 financial crash and the subsequent skyrocketing unemployment.

For too long, the question of "which kind of economic model" has been pending. Evidently, the EU's institutions and many governments have sensed the shift in the air: buzzwords like "resilience", "greening", and "digitalisation" insinuate that a paradigm shift is underway. But the danger of opportunities lost to a conservative approach remains. As Daniela Gabor has warned, the EU's green deal might in fact be "politics as usual, a third-way approach that seeks to nudge the market towards decarbonisation".

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The assumption that the Economic and Monetary Union could only be a European version of Germany's *Ordnungspolitik* combined with the Nordic export-driven models is nowadays challenged by the rise of alternative economic priorities and preferences – not least in Germany, where the Green party's surge might change the political deal come the federal election of autumn 2021. The dominant economic principles which support Europe's policies heavily bear the marks of the former century. Over the past decades, the pace of GDP growth has been at best modest, and ever slowing. Extensively growth-oriented and productivist at the cost of ecological and social balances, the "social market economy" and its monetary orthodox avatar no longer correspond to the challenges of the 21st century.

Europe needs an Economic and Monetary Union fit for the times. This should include its institutions, indicators, criteria, and goals. As commentator Wolfgang Munchau has observed, today the mentality of the Eurozone (let alone the EU) is not that of an integrated, large, and closed economy of few hundred million people. Rather, it is that of 19 (or 27) small, open, export-driven economies competing with one another. Its development is plagued by the "small-economy politicians" leading its member states. The Economic and Monetary Union may have become a constitutional policy, but it has failed to deliver the

expected European “constitutional patriotism” coined by German philosopher Jürgen Habermas. Instead, it has produced a kind of “single currency patriotism” which has at times led to the defence of the euro at the cost of Europe.

The purpose of Europe’s economic integration, the kind of economic, social and environmental framework it adopts, and the principles governing the single currency must become issues discussed by European citizens. The conversations on European democracy and on the architecture and purpose of the EU’s economy should no longer be held separately. They must converge, and the Conference on the Future of Europe presents an opportunity to address them conjointly. Currency does not equate to values. The question of whether the EU is a democratic or an economic project will undoubtedly determine Europe’s future. For that reason, it must be at the heart of the discussion with and between European citizens.

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An historian and political scientist, Edouard was first a history professor in Sydney, then Grenoble before working at the College of Europe in Warsaw. He was later political advisor to the Greens-EFA group in the European Parliament for 9 years. He published “*Dessine-moi un avenir*” (Actes Sud 2020), as well as *Pour la Planète* (Daloz, 2009), *L’Europe c’est nous* (Les Petits Matins, 2014).

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