# A new Eurotreasury could help the Eurozone's periphery to regain its economic sovereignty

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*The establishment of the euro meant that for the first time in history, the national monetary policy of many European countries became pooled at a transnational level.* **Miguel Otero-Iglesias** *writes that a consequence of this is the movement of economic sovereignty towards Berlin and Brussels, and away from the Eurozone's periphery. He argues that greater economic union combined with a new Eurotreasury, focused on growth and stability, would give more voice to debtor countries and also might help to stem the tide of Euroscepticism that is currently creeping across Europe.*

In recent months, the specter of a euro break up has receded thanks to the announcement of the Outright Monetary Transactions (OMT) programme by the European Central Bank (ECB). However, the crisis continues to deepen in the real economy, especially in southern Europe. In Spain, for instance, growth prospects have worsened, the unemployment rate is already above 26 per cent and the social fabric is tearing apart due to unfair adjustment costs, regionalist tensions and a litany of corruption scandals. In this context, some commentators – not only in Spain, but also in Italy and now in Cyprus – increasingly argue that it would be better for these countries to exit the euro. They claim that it was a mistake to give up monetary sovereignty. Were these countries to have their own currencies now, they could let them depreciate and regain competitiveness overnight instead of enduring a slow and painful process of internal devaluation.

I must disagree. The truth is that today's Eurozone periphery did not have full monetary sovereignty before the single currency. In fact, all these countries joined the euro precisely to regain some of the sovereignty they had lost. Before the single currency, Europe was a *de facto* Deutsche Mark zone. Monetary policy was decided in Frankfurt, not in Madrid or Rome, and not even in Paris. Strangled in the 70s and 80s by double-digit interest rates and inflation, at the beginning of the 90s the leaders of Spain and Italy realised that by entering Economic and Monetary Union (EMU) they could 'buy' German monetary stability and 'regain' a seat at the decision-making table. They would thereby become policy-makers instead of simply policy-takers.

Thus, for the first time in history, and thanks to EMU, rather than being relinquished, national monetary sovereignty was pooled at the transnational level. Today, however, a similar process is underway with economic sovereignty. Increasingly, the peripheral Eurozone states –not only the smaller economies of the rescued Greece, Ireland and Portugal, and now Cyprus, but also the bigger ones such as Spain and Italy– are realising that economic policy is no longer decided in their capitals but in Berlin, Frankfurt and Brussels. For public opinion in these countries the reality is even starker: economic policy is decided today in Berlin by Chancellor Merkel. Full stop.

This is a dangerous development because the citizens of the Eurozone periphery feel they have no influence whatsoever upon the decision-making process. They have once again become mere policy-takers. The widespread view is that the harsh economic policies of adjustment are imposed rather than negotiated between the national leaders and the members of the Troika and Berlin. Moreover, an asymmetric inter-governmentalism, in which creditors order and debtors do as they are told, has replaced a community method based on solidarity and confidence. To break this spiral of frustration and distrust, which fuels the rise of anti-euro parties, Europe's leaders must realise that they need to start pooling as soon as possible economic sovereignty at the transnational level.

Let's take Spain as an example. The debate for some time has been whether the Prime Minister, Mariano Rajoy, should ask for a bailout from the European Stability Mechanism (ESM) and thus trigger the ECB's OMT programme, which would substantially lower Spain's financing costs. This might be absolutely necessary to eliminate the phantom of a Spanish default. The drawback is that the rescue would be subject to certain conditionality. In other words, Spain would lose even more of its economic sovereignty. Spanish public opinion is increasingly against such a move because it is convinced the Troika (the EU, IMF and the ECB) and Berlin will impose even tougher adjustments.

Spaniards are strongly pro-European. Historically, they have always seen Europe as the solution to their domestic problems. More recently, entry to the EU and later to the Eurozone, have coincided with a period of political stability and economic prosperity. Ceding further sovereignty to Brussels is generally considered by most Spaniards as a positive development towards a more united and stronger Europe in an increasingly globalised world. Let's not forget, Spaniards overwhelmingly voted in favour of the European Constitution. Today, however, the general perception is that Spain will relinquish its sovereignty and get nothing in return other than even more painful adjustment policies. There are plenty of sticks in sight, but no carrots.

This creeping Euroscepticism could be halted if economic sovereignty is not relinquished, but pooled at the transnational level. By giving more voice to the debtor countries, the Eurozone's economic policy mix could perhaps be slightly modified to delay fiscal adjustment. People in Spain, and the same goes for the other countries at the periphery, would more willingly accept a loss of sovereignty at the national level if they feel they are regaining it at the European level. That is the only way the conditionality of the ESM and the Troika will be considered legitimate. So how can it be achieved? Certainly the answer lies in more political union, as advocated by Angela Merkel. However, it is time to flesh out the concept. As a first step, it is paramount to establish the economic union envisioned in the Delors Report that led to EMU.

This means that we need the equivalent of the ECB for economic policy. Drawing on the successful experience of the ECB, this Eurotreasury should have its own staff, its own permanent executive board, and a governing board composed by the ministers of Finance of the Eurogroup with equal voting rights. Crucially, this Eurotreasury should also have a substantial budget (potentially raised from the revenues obtained from the Eurozone's financial transaction tax) to overcome asymmetric shocks, and it should be charged with a dual stability and growth mandate by the European Parliament, which would thus increase its decision-making powers.

If the German government is really serious about the survival of the euro and about securing political stability in countries like Spain it needs to lead the way and back specific proposals on how to pool economic sovereignty and enhance democratic participation and therefore legitimacy at the European level. If this implies treaty change, so be it.

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*Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics*

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