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European Union Politics

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The Future of Euro Governance

As of May of 2020, the Eurozone is comprised of nineteen countries, all of whom are also member states of the European Union. The more formal name for the Eurozone, which also encompasses a broader array of economic and monetary arrangements, is the 'Economic and Monetary Union.' The Economic and Monetary Union exists as the product of decades of treaties, negotiations, and integrational progress. The common currency of the Eurozone is the Euro. This international currency was introduced in a careful and measured way at the dawn of the millennium. The Euro was adopted in 1999, but it took several years for it to fully enter circulation and to replace the extant national currencies found across the Economic and Monetary Union. At the inception of the currency in 1999, there were three hundred million people across twelve European states that adopted the new currency. These twelve member states represented the entirety of the European Union at the time with the exception of the less enthusiastically integrationist states of the United Kingdom, Sweden, and Denmark. After the European Union expanded in 2004, in 2007, and in 2013, many new member states joined the union. In terms of monetary integration, progress was uneven across the new member states. Membership in the political aspects of the European Union rose from fifteen in 1999 when the Euro was introduced to twenty-seven as of May 2020, but the number of countries that had adopted the Euro as their currency had only risen from twelve to nineteen.

Global financial and political conditions suggest that a contraction, not an expansion, of the euro zone would be more likely in theory to occur. This is due in large part to the fall out of the 2008 financial crisis and the loss of prestige the euro and the financial institutions of the European Union experienced as a result of their handling of the crisis. In the after math of the 2008 worldwide financial crisis the European Union, at the behest of wealthy, economically developed states such as Germany, imposed a brutal regime of austerity upon the poorer, mostly southern member states whose finances were in shambles due to the global economic downturn.

The imposition of austerity measures on the more economically fragile members of the euro zone has done much to dull the luster of European economic integration. By adopting the euro, a nation abdicates its monetary sovereignty to a supranational organization with little over sight and little they can do to ensure that their interests are balanced against those of the leading economies. This was a tough sell already, especially considering that many prospective members in Eastern Europe had only gained or regained their monetary sovereignty a handful of years ago. That they might also be putting their internal social safety nets, things like pension funds and unemployment assistance, up to the mercy of the circling vultures of finance was for many a bridge too far. With the brutality of austerity ravaging the social safety nets of the nations upon which it was imposed, the trade off for the major areas of sovereignty that would be given up in the adoption of the euro was looking less and less worth the cost. The adoption of the euro in less economically advanced countries could, in the eyes of those not sold on the international currency, function as a sort of Trojan Horse for increased control from Brussels of the internal political life of their country.

While not the most prominent policy position put forth regarding the future of the euro and the governance thereof, the most personally interesting proposal to me was the call for the eurozone to be split in to two separate currencies. The after math of the 2008 global financial crisis also exposed the uneven benefits of the adoption of the Euro. To speak in the broadest of term, Northern European states with highly advanced industrial economies, typified by Germany, largely benefitted from the new arrangement. At the same time, a *mélange* of other states, mostly in the southern portion of the European Union have been on the receiving end of the negative consequences of European economic integration for a wide variety of reasons. For the French, the change over from the franc to the euro decimated the once vaunted French pension system. The main reason for this was the less than favorable exchange rate from the old French franc to the new euro. The exchange rate between the old and new currencies was fixed at ~$6.5 francs to €1. According to the personal recollections of a French friend living in Angers, the purchasing power of the French worker has declined significantly. Wages have remained mostly stagnant for broad swathes of the laboring classes, while prices have steadily and unwaveringly risen. Before the introduction of the euro, a *baguette* in Angers cost around 40 *centimes*. In 2020, the cost of the product had more than doubled to a full euro with no tangible improvement in the quality of the product. This unfavorable level of valuation of the currency hurt French workers as their purchasing power decreased and, as a result, so to did the quality of their life. This pattern was replicated all across the southern part of the European Union, from Portugal to Greece. Calling it pauperization would be a bridge too far, but the economic weakening of individual workers and families in the southern part of the eurozone has done considerable damage to the prestige of the currency and brewed resentment over the unaccountable financial institutions that control it.

Similar tales of economic woe can be found across the European Union, from Spain and Portugal to Italy and Greece. The states that have largely felt the sting and not the succor of the euro largely cluster geographically to the southern portion of the European Union. Painting in broad strokes, these states tend to be poorer than the states of the north as well as having less advanced economies and weaker industrial sectors. The specifics of monetary policy were and are largely dictated by German financial interests. This uneven distribution of economic power might be ameliorated by a more equitable partnership with the bloc of southern states' governments and financial sectors, but the German banks and other moneyed interests have given no indication that they will cede even a centimeter of their nigh monopolistic influence over the monetary policy of the eurozone.

As a result of the uneven reception of benefit from the adoption of the euro, some voices have called for a more unorthodox solution: a eurozone with two euros. Hans Olaf Henkel made this call in *Geopolitics, History, and International Relations* vol. five in 2013.[1] Henkel is a university lecturer and politician with strong economically liberal views and a Whiggish perspective on historical development. Henkel was briefly associated with the far right German political party AfD but has since distanced himself from that organization. Henkel claims that the euro is too strong for the more fragile economies of the south of Europe, hindering their economic development and stunting their growth across the board. At the same time, the euro is too weak for the advanced economies of northern Europe. The euro as it stands exists as an unhappy compromise, one that fulfills the desires of neither camp and harms each in its own way. To remedy this problem, the search for one euro to rule them all would be suspended and replaced with a twinned system of a stronger and a weaker euro.

Henkel describes the current euro as being 'too strong' for the southern states of the European Union. This, in his view, truncates their potential for economic growth. In addition, the

[1] Henkel, Hans-Olaf. "Only by Dropping the 'One-Size-Fits-All' Euro Can Europe Remain Competitive." *Geopolitics, History, and International Relations* vol. 5, no. 1 (2013): 35-38. Accessed May 6, 2020. doi:10.2307/26805924.

peoples of these southern European states feel that they are viewed as being 'lesser than' compared to the states of the north by the financial institutions of the European Union. Many thousands of young people have poured into the streets of the cities in places like Portugal, Spain, and Greece to protest with indignity their treatment by the financial institutions of the European Union. They do not believe that they are being given the respect and consideration owed to an equal partner in a monetary union. Instead, they perceive euro policy as being dictated to them by the bankers of Germany on a whim and with little to no consideration for the needs and conditions of the countries of the south of Europe. Henkel's description of the southern European masses in protest could be read as understanding and almost sympathetic. However, in the context of the rest of the article and of the economic ideology to which Henkel adheres, this notion becomes hollowed out and reads more as 'concern trolling.' If the unwashed masses of the south of Europe do not like the way his fellow Germans are dictating monetary terms, then why not cut them loose!

Henkel desires for the states of Germany, the Netherlands, Austria, and Finland to form a separate economic area with a stronger euro.[2] His reasoning for this new monetary dualism rests primarily on the euro's current nature as an unhappy compromise between the northern and southern parts of the eurozone. The euro, Henkel claims, is too weak for the benefit of these states. The current weakness of the euro is hampering the competitiveness of Europe as an economic unit. 'Competitiveness' is of great importance to Henkel as an economic liberal who buys in to the maxim of 'the freer the markets, the freer the people.' Therefore, an ineffective euro would not only be detrimental to the economic health of Europe but would also be poisonous to the health of European democracy as well. Henkel decries the 'harmonization' of

[2] Henkel, "Euro" in *Geopolitics*, 35.

the economies of the European Union, which he sees as decreasing competition and, by extension, competitiveness. Holding up efficiency and competitiveness as the highest virtues of his pseudo Darwinian social analysis, this co-operative turn was most distasteful to Henkel. The positive benefits of economic harmonization and integration, such as easier access to raw materials and, positive from the perspective of capital, the easier process of labor migration within the European Union did not outweigh the decrease in the competitive nature of the continent's economic relations. The euro as it exists, Henkel claims, was kept too weak by the lesser developed economies of the south of Europe which curtailed to an unacceptable level the degree of competitiveness that currency could have abroad.

With such vastly different material conditions and desires regarding the euro, Henkel makes the unorthodox, but not unreasoned, call for the bifurcation of the eurozone into two separate monetary areas. One interpretation of this call is almost empathetic, noting that the two broad areas have very different material conditions and that diverse problems can not reasonably be solved by uniform solutions. The interpretation better supported by the text, however, is that Henkel sees the southern part of the Eurozone (including the French) as dead weight that must be jettisoned if the euro is to remain 'competitive.' Henkel does not bother to explain why he views the abstract notion of 'competitiveness' to be of a higher value in policy making over concrete, material concerns such as the value of pension funds or the purchasing power of common people. The quality of life of the peoples of Europe does not much cross Henkel's mind in the formulation of his policy positions. Only the 'health' of abstractions such as competitiveness in the market concern the author. A sympathetic voice might intone that Henkel fights for the liberal monetary policies he does out of a concern for the wellbeing of the people as ensured through economic liberalism. But, if he were genuinely concerned with the plight of the masses, why go about in an such a round about way, one that actively reduces the quality of life for those working in France and in the southern part of the European Union?

As a fringe view, the bifurcation of the eurozone into two separate monetary authorities does not seem particularly likely. But, with resentment against the faceless financial institutions of the European Union bubbling over since the 2008 financial crisis, an anti-euro turn of some sort is starting to become more assured. Whether or not it will take the form of a dualist monetary system, the secession of one or more member states from the eurozone, or some other policy solution entirely, only time will tell. What is known, however, is that the fates have not smiled upon the euro for the last decade. The prestige of the euro is rather low, and expansion seems unlikely. With a new economic crisis inspired by the Coronavirus already taking root, there is no evidence that these trends will be reversed any time soon. If anything, the anti-euro sentiment will only become more widely held and ingrained if the European Union engages in austerity policies once again to combat the new tide of economic recession.