

How Can we Make the Eurozone Stable, Prosperous and Democratic?

by Ricardo Cabral

1. Introduction

“If I had only one hour to save the world, I would spend fifty-five minutes defining the problem, and only five minutes finding the solution.”¹

The question that inspires and serves as title of this article refers to the type of mission the quote above was meant for. The challenge is not far from finding an answer to the question how to save the world, since the real question is: how to save the eurozone (and the European Union integration project). In fact, if the eurozone is not stable, prosperous, and democratic, then there is hardly a future for it. It will disintegrate in acrimony and strife, as has happened, in recent decades, to prior unions that I need not name.

Thus, the question of stability, prosperity and democracy for the eurozone can and should be equated to a question of survival. This article seeks to respond to that question and thus has a lofty ambition, but a worthy one. I will proceed more or less according to the methodology suggested in the above quote, which (actually in a somewhat different version) is attributed to an unknown Yale University professor, and spend slightly more than four fifths of this article describing the problem, and the remainder looking at possible solutions.

2. Characterising the problem

2.1. The euro as an engineering project

While one tends to consider the eurozone and the launch of the single currency as one more step in the process of the integration of a set of European countries, it is rather more than that. It is in reality a gigantic macroeconomic (re)engineering project, accompanied by an equally large political governance (re)engineering project.

It is a macroeconomic engineering project, because like a bridge (a civil engineering project), it was designed and engineered by a small group of macroeconomists, other technocrats, and politicians to change, in a major way, the macroeconomic reality of the time. The eleven founding member countries of the eurozone, on January 1st 1999, ‘substituted’ their own national currencies by the euro, and in the process implemented a major change in the way their own economies operate.

If I had to identify the most important set of actors behind the design and the implementation of the euro I would focus on two groups: first, the Delors Committee on Economic and Monetary Union but, more importantly, the now extinguished EU Monetary Committee, which prepared the draft documentation crucial for the functioning of the euro such as the Stability and Growth Pact, and contributed to the Statutes of the ECB and ESCB. The draft Stability and Growth Pact proposed by the Monetary Committee was approved by the European Council with minor changes. The working documents of the Monetary Committee were confidential, as is practice in many other important dossiers in EU policy making circles. The Monetary Committee has been replaced by the [Economic and Financial Committee](#), which advises Ecofin and the European Council.

The second key role in the design of the euro was played by the staff and decision-makers of the European Monetary Institute, of the National Central Banks of the eurozone and, in particular, by the Committee of Central Bank Governors, which was charged with drafting the Statutes of the ECB and ESCB. Following approval by the European Council, the Statutes of the ECB and ESCB were included in Protocols annexed to the Treaty on Functioning of the European Union (TFEU).

De Grauwe (2008) emphasises the role of Otmar Issing, member of the board of the Deutsche Bundesbank in the years that preceded the launch of the euro and the first Chief Economist of the ECB. De Grauwe considers that the monetary policy strategy adopted by the ECB was the 'brainchild' of Otmar Issing.

The design of the inner workings of the euro, a complex task, was executed with the broad and elegant stroke of the brush that characterises very good engineering projects.

The eurozone monetary union design was daring and revolutionary. It created a new very powerful and very independent central bank: the ECB. Member States' central banks became independent from national governments and part of the Eurosystem, together with the ECB. The ECB monetary policy, instruments and procedures that were defined were also substantially different from those of other developed economies central banks, namely by accepting private debt as collateral in its liquidity providing operations. Moreover, the Eurosystem assumed a much larger role in commercial bank funding than, for example, occurs with the Federal Reserve in the US case. Minimum reserve requirements, a key banking sector regulatory ratio, were drastically reduced in a number of countries. For example, in Portugal's case, from 17% of deposits to 2% of deposits (since 18 January 2012, minimum reserve requirements have been lowered to 1% of deposits).

In contrast, relatively little was done in terms of fiscal policy coordination and fiscal policy strategy for this new economic powerhouse. The eurozone rules partly written in the Treaty on the Functioning of the European Union (Articles 121 and 126, and Protocol on the excessive deficit procedures annexed to the Treaties) mainly sought that member countries maintained budget deficits under 3% of GDP and public debts below 60% of GDP. The eurozone fiscal rules (consolidated in an agreement, among the 28 Member States of the European Union, called the 'Stability and Growth Pact') were a rudimentary and unimaginative form of coordination of Member States' fiscal policies. Moreover, the eurozone was to operate under the premise, written into the Treaties, of no bailouts between member countries (Article 125) and, implicitly, since not explicitly foreseen in the Treaties, of no significant fiscal transfers between member countries. This fiscal framework was established even though it is well known that in any functioning economic and monetary union (e.g., a country) there are always significant fiscal transfers between regions of a country and between segments of the population.

The euro launch was a success. Nearly 300 million European citizens started using the new currency gradually and smoothly. There were no visible 'hiccups' in the process of adoption of the euro. And this alone constituted a feat of social engineering.

The euro has been used internationally since January 1st, 1999, in the present by nearly 340 million citizens, as the supra-national currency of one of the wealthiest economic areas of the world. Thus, Otmar Issing had some grounds to claim, in his 2008 book 'The birth of the euro' that the euro had been a (virtually undisputed) 'success'.²

But like most daring and revolutionary engineering projects, several problems were brewing below surface. And already by 2008 they were evident for all to see, in the form of large macroeconomic imbalances between eurozone member countries.

The euro, the Eurosystem (ECB and European System of Central Banks) monetary policy strategy, instruments and procedures, but also the fiscal policy coordination rules set out in the Stability and Growth Pact, allowed macroeconomic imbalances between eurozone member states to grow unfettered and unnoticed for far longer than in past balance of payments crises. And by 2010, when the 'euro crisis' took centre stage, the eurozone faced the largest peacetime balance of payments and external debt crises the world has ever seen.

Thus, the first argument that I would like to convey is that the eurozone is a daring and revolutionary macroeconomic, political and social engineering project. The second argument is that the 'euro crisis' that began in earnest in 2010 is a sign that something went wrong with this engineering project. The third and probably more controversial argument that I would like to make is that the 'euro crisis' is a manifestation of structural problems in the eurozone 'macroeconomic engineering project'. That is, the eurozone faces structural design problems, akin to a civil engineering bridge with structural problems, for which there are no easy solutions, and whose most likely outcome is collapse and failure.

I am well aware that it is this third argument that is likely to face more scepticism from some readers, who may believe that the 'euro engineering project' is fine, but that it cannot cope with 'bad' or 'non-cooperative' behaviour by some member countries. But surely, at the very least, the size of the problems faced by the eurozone warrants a fresh look at its structural design.

Thus, I would argue that the first step required in order to make the eurozone stable, democratic and prosperous, is to systematically reassess the 'plumbing' of the eurozone, 16.5 years after the launch of the euro, in the same manner as any civil engineering project is checked for structural flaws and maintenance work, periodically.

This means that the key infra-structures (institutions) and the architecture of the eurozone should be reappraised in light of what is known today, and in light of the experience of the first decade and a half of the euro.

2.2. What is the rationale for the existence of the eurozone?

We need to look back at history to understand the main arguments that led to the creation of the eurozone. The goal is to seek to understand in which way that rationale conditioned the eurozone project and whether those early arguments remain valid today.

Why did the nation states of Europe decide to unite their destinies progressively more, a decision in which the introduction of the euro constituted a major leap forward?

There were several arguments put forward towards the creation of the European Union, in the first place, and later regarding the creation of the eurozone. Following centuries of fratricidal wars it was thought that the way to avoid further European wars was to bind destinies together. Secondly, excessive capacity and relatively small scale in some industries (e.g. steel production) meant Member States industries could not be internationally

efficient and competitive. Thus, some sort of joint (industrial) planning was necessary. Thirdly, it was believed that the introduction of a single currency would result in substantial trade growth (Glick and Rose, 2002), though the authors of a leading study have recently made a *'mea culpa'* in this regard (Glick and Rose, 2015). According to their latest study, there is no 'substantive reliable and robust effect of currency union on trade'. The euro was also seen as an important first step towards a political union or a federation like the United States. Finally, even large European nation states realised that they would not remain internationally competitive and their political role would be significantly diminished with the emergence of new powerful economic powers.

Moving past the historic rationale for creating the eurozone and towards the present, if one abstracts from these sometimes petty, often repeated, but nonetheless worthy reasons for creating the European Union and the eurozone and focus instead on the present, then we should ask what is the point of the eurozone?

And if we do so, then the answer should be obvious: to ensure a much better life for its citizens. That means a more stable, prosperous and democratic society. But why would the eurozone be more stable, prosperous and democratic than the nation states that constitute it? The answer must be simple: because together these countries can do more than separately.

In short, the driving rationale for the creation and the continuing existence of the eurozone is that with the euro and with the combined resources of its member states it should be possible to do more, to do better and to reach for more ambitious (policy) goals than with 19 national member states' currencies.

The eurozone can, if it chooses so, put the proverbial 'man on the moon'. It can build buildings 1,000 meters high or a new supersonic commercial airplane. It can define and achieve objectives and goals that would not be in the reach of any of its member countries alone. It is thus the responsibility of eurozone policy makers to imagine and to set the agenda for an ambitious future, which will bring capital and human resources into use in the interest and for the benefit of eurozone's citizens.

This ability, this policy power is important and crucial — because the world is in constant change. Productivity in all economic sectors continues to increase, as a result of technological progress. As a consequence, like in the past, some degree of planning is required to imagine the future and to create the employment opportunities for vast segments of the population.

Economic development is characterised by a continuing reallocation of labour. Sectors that see high productivity growth employ progressively less resources (labour), 'freeing' resources for alternative uses. Growing stocks of capital also means that part of the resources that were used in the past to build those stocks of capital are 'freed' for alternative uses. This means that one constant and challenging task of policy makers is to identify new projects and new tasks that may require the use of the resources that are no longer needed in the old occupations.

There is a role and need for public sector planning, because it is clear that, on its own, private sector planning is insufficient. This occurs because private sector planning typically faces constraints and is guided by criteria that limit in scope and size the type of projects

where it will allocate resources, for example: resulting from its for-profit nature; due to the (liquidity) constraints it faces; due to the time frame considered; and due to its aversion to high-risk projects. As a consequence the private sector will fail to plan and to invest sufficiently, so as to use, to the necessary extent, the resources that are made available from other sectors as a result of technological change, resulting in too many idle resources and sub-par economic growth and development.

Therefore, the argument advanced here is that policy makers have a role in imagining a better future, one that seeks to promote a better use of resources and a better life for citizens, which ideally complements the planning and investment that takes place in the private sector.

Moreover, there are certain types of challenges, like environmental change, privacy rights, dealing with powerful interest groups, and perhaps even military defence concerns – so called public goods – that can only be dealt appropriately at the scale of the eurozone.

In sum and in short, the present rationale for the existence of the eurozone must be that it is necessary to provide a better present and a better future for its citizens, than nation states could provide on their own. The key role of eurozone policy makers is to go and to do, where and their national counterparts could not go and what they could not do, in the interest and for the benefit of the citizens.

2.3. Lessons learned from periods of stress

It was well known that eurozone governance, even prior to the outset of the euro crisis in late 2009, was inefficient, complex and undemocratic. Long cumbersome meetings in the circular meeting rooms with simultaneous translation, familiar from TV news, have always been the hallmark of what is wrong with European Union bureaucracy, in a somewhat surrealistic painting of a 'Star Trek' politically-correct but non-functioning Union.

The euro crisis tested the ability of the institutions governing the eurozone to function under stress and under pressure. The problems with the institutional arrangements and the functioning of the eurozone became more evident.

The response of the institutions governing the European Union to the euro crisis has been widely regarded as very poor, reactive and as having contributed to aggravating the crisis. For example, consider the many steps and discussions prior to the agreement on the creation of the bailout programmes in 2010, and the initial refusal to accept the participation of the IMF as a member of the troika. Or the insistence that Greece's public debt was sustainable at levels most observers would argue were clearly unsustainable. Or still an episode of particularly poor governance and decision making in July 2011, when the European Council approved a 5-page proposal made by a private institution (IIF) that outlined the restructuring of €135 billion of Greece's public debt. Many academics and experts then showed that the calculations that underlay the debt restructuring proposal were biased and that the debt restructuring savings would have been much smaller than claimed by the IIF.

These examples suggest that the eurozone does not seem to have, to date, the mechanisms to ensure that policy decisions are sufficiently scrutinised and robust.

But the response of the institutions governing the European Union in a time of stress – the

euro crisis – showed far more serious problems than simply poor governance or misguided economic decisions. It showed that there are latent and subliminal misunderstandings between the peoples of the European Union.

The European nation states have rich cultural heritages, different languages and political, economic and societal arrangements that while sharing many common traits and values, differ in non-insignificant respects. And while the citizens of those nation states understand their co-citizens better, they have a much poorer understanding of other cultures in Europe. This leaves a void that can be easily filled with stereotypes, ignorance, fears and anger, particularly in times of crisis and hardship.

This is likely the greatest challenge confronting the eurozone. The citizens of each member state have generally, at best, a very simplified impression regarding most of the cultures of the remaining member states of the eurozone, reinforced by the fact that the news agenda tends to be national in scope. This state of things constitutes a fertile ground for prejudice and for simple populist ideas to thrive, particularly in the face of difficulties and of adversity. And thrive they did, with plainly incorrect populist assertions being made regarding some of the countries in crisis, by leading European politicians. It was to be expected, and it is a challenge that is likely to occur again in the future, in and outside the campaign trail. Thus, it requires careful thinking about how it can be best dealt with.

2.4. Eurozone governance

The issues with the eurozone and the European Union governance have long been known. The eurozone has a proto-government, where two key executive bodies have, in practice, the key policy powers: the European Council (heads of state or government) and the Eurogroup (ministers of finance of eurozone member countries). The European Central Bank, given the level of independence and its power to issue currency, is the third key executive power centre in the eurozone, controlling its monetary policy and currency issuance.

The current eurozone governance arrangements are close to insane.³ The heads of state or government and the ministers of finance have already what amounts to extremely demanding full-time jobs in their own countries, being responsible for a government or a Ministry of Finance of a eurozone member country. By design, eurozone policy topics have been arranged as an add-on task, with the Eurogroup holding about eleven regular meetings yearly and the European Council at least two regular meetings yearly. In addition to these meetings, there are also other regular meetings for matters relating to all European Union member countries. Thus, by design, the eurozone key policy deliberations – which are ultimately taken either by the Eurogroup or the European Council in very long ‘marathon’ meetings – are a type of ‘after-thought’ to the day-to-day management of very busy national government decision makers.

The preparatory work for those meetings is carried out by European Commission and by the Economic and Financial Affairs Committee, whose members belong to national administrations, are named by eurozone finance ministers and do not necessarily work full-time on this Committee.

The decision-making body of the ECB is its Governing Council, which is constituted by the Executive Committee of the ECB (6 members) and the governors of national central banks of the eurozone, with rotating voting rights, who also meet regularly. Voting dynamics are not

well known since the ECB does not publish minutes of the Governing Council meetings, though it has started publishing accounts of these meetings since January 2015. But what transpires to public view is that the executive committee of the ECB, and particularly the president of the ECB, yield great influence in formulating and getting approved monetary (and non-monetary) policy initiatives. Key decisions taken by the ECB in the response to the euro crisis could be seen to have the personal marks of the presidents of the ECB during this period (Jean-Claude Trichet and Mario Draghi).

Thus, the way in which the above three key executive bodies in the eurozone are designed is unfortunate. Since the present governance arrangements are not functional, actual practice differs. The agenda and the voting record is, to a large extent, set, or at least strongly influenced, by smaller groups of decision makers within these bodies. Moreover, the deliberations taken by these executive bodies are, to a large extent, the consequence of the proposals that are submitted for consideration before them. Thus, for example, in the case of the quarterly reviews of the bailout programmes of Greece, Ireland and Portugal, the Eurogroup simply ratified the recommendations (including financing tranche disbursement proposals) of the European Commission and ECB staff that were part of the so-called 'troika', in effect quasi 'rubber-stamping' the proposal of this *ad-hoc* committee. More recently, Mario Draghi (ECB), Christine Lagarde (IMF), Jean-Claude Juncker (European Commission), François Hollande (France) and Angela Merkel (Germany) met in Berlin on June 2nd, 2015, to ultimate a 'final offer' for Greece, which was initially construed in the press as a 'take-it or leave-it offer' outlining the negotiating position and conditions of the EU governing institutions and of the IMF for lending further money to Greece (thereby all but allowing it to remain in the eurozone). But then, there was much ado about whether the 'final offer' was really final or open to amendments by the Greek government.

That means, to paraphrase James Harrington, as credited by one of the US founding fathers, [John Adams](#), that important eurozone policy decisions amount to a form of '*government of men and not of laws*'.

This type of improvised decision making, based on informal bodies outside the regular framework of the institutions governing the eurozone though borne out of necessity, is unacceptable and undemocratic. For example, the 'final offer' made to Greece following the June 2nd, 2015 meeting, can be construed as being in violation of the principle '*no taxation without representation*', the slogan that from 1765 onwards led the former American colonies of the British Empire on the path towards revolution and independence, and a principle that since then is often associated with democracy. The question is neither about the merits nor about the substance of the 'final offer' designed in Berlin, which is not publicly known as of the writing of this article. The question is the form and the method adopted in its preparation. Greek interests were not represented in Berlin. Thus, the 'final offer' does not seem to meet this important democratic threshold.

Further, the setting that frames the European Council's and the Eurogroup's deliberations is such that it is incentivised to function, most of the time, in a logic of 'All against one', rather than in the romantic and perhaps utopian vision of All for one, and one for all', popularised by *The Three Musketeers* (1844), written by Alexandre Dumas.

One possible explanation for this group dynamic may be that because whenever deliberations with financial impact are made, the 'gains' of one member country have often to be supported proportionately by 'losses' of the remaining member countries, whose

representatives then have difficulties in defending this in front of their own constituencies. This zero-sum nature of deliberations is conducive to Eurogroup decisions that refuse to yield to the requests of a member country, even if there are rational grounds for the request to be approved. That is, the structure of incentives faced by Eurogroup members may be such that the Eurogroup tends to favour 'All against one' decisions. The eurozone governing institutions have taken some steps to avoid facing these types of incentives, for example through the creation of instruments like the European Stabilisation Mechanism, where the losses became more diffuse. Nonetheless, this type of dilemma continues to be seen, for example, in the current negotiating impasse between eurozone governing institutions and Greece, where the Eurogroup and European Council refuse to better the conditions in no small part because this will result in higher costs for the remaining eurozone member countries. But it can also be seen in the difficulties Italy is facing in solving the Mediterranean migrant crisis where the Italian prime-minister has complained about the lack of support and help from other EU member countries.

Furthermore, the European Parliament continues to be a disappointment, despite having been given more powers. It tends to vote overwhelmingly in favour of the proposals put forward by the 'executive branch' of the eurozone government, with a voting record, particularly in the more complex, sensitive and risky deliberations which is comparable to what one finds in dictatorships. The last legislature approved and thereby operated one of the largest transfers of sovereign power of the member countries in favour of the institutions governing the European Union and the eurozone, i.e. promoted a massive centralisation of power in the governing institutions of the EU and of the eurozone. For example, it approved with 85%-87% majorities key pieces of the banking union (Single Resolution Mechanism, Single Supervisory Mechanism), and key pieces of legislation (Sixpack and Twopack) that reinforced the existing Stability and Growth Pact, thus supporting overwhelmingly the policy power 'grab' proposed by the 'executive branch of government' of the eurozone (the European Council and the ECB).

Finally, the institutions governing the EU and the eurozone have ceased to pursue the approval of changes to the European Union Treaty through the approval in national parliaments and or via national popular referendums. This occurs because this process is likely to result in the failure to approve any changes to the Treaty. However, the way in which the governing EU institutions have reacted to this challenge is to implement crucial policy changes through 'generous' interpretations of the Treaty⁴, through intergovernmental treaties, for which there are often no exit clauses, or through European Union directives of growing intrusiveness. For example, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union ('Fiscal Stability Treaty') has been ratified and entered into force by all eurozone member states and by all but three member states of the European Union. The peripheral countries approved this Treaty under duress, since non-approval would have meant that they would not have had access to the bailout programs. The problem is that, once ratified, it is very difficult for a single member country to change or even to exit these types of international treaties. In this case, the Vienna Convention on the Law of Treaties establishes a long-winded process for a country to exit an international treaty. Thus, a new government with an electoral mandate to change policies may find that a change in policies might violate the intergovernmental treaty. As a result, it may have no practical way in which to fulfil the mandate on the basis of which it was elected by the people, in a perversion of democracy.

In sum, I have enumerated in this section a few of the issues that have arisen in eurozone

and European Union governance, which should be of interest and relevance for all European citizens that believe in democratic rule and due process. The current governance framework cannot possibly work, and to make it workable, EU policy makers have, far too often, taken shortcuts that are outright dangerous.

2.5. Unimaginable power

“With great power there must also come – great responsibility”, Spider Man, August 1962, *Amazing Fantasy #15* (i.e., Stan Lee)⁵

The fact that the above citation is taken from a comic book, does not diminish its importance. Above, I argued that the eurozone is more powerful, more autonomous and more independent, in a number of dimensions, than any of its member countries. These powers, like those of a comic book hero, can and should be used constructively, for “good”, i.e., for the benefit of its citizens. But the policy powers available to the eurozone can also be used for misguided policies for far longer and with far more damaging consequences, than any eurozone member country could possibly achieve.

Economic resources allow its owners to change their surrounding reality. To understand this point, it is perhaps easier to illustrate it with a microeconomic example, which is known to all of us. On an individual family level, money puts the family in their own house, puts a table in the house and puts food on the table. Money allows a family to change its reality in a very physical way. Likewise, lack of money, removes the table from the house, removes the family from their own house and may ultimately leave the family without food. While it is often a fallacy to extrapolate from the individual to the whole of society, the power of money to change the surrounding reality does scale up, to some extent.

Economic power and wealth of unprecedented magnitude allow eurozone policy makers to ignore reality for far longer and to change reality in a far more significant way than any of their national counterparts. And this power is important because it allows policy makers to abstract from day-to-day difficulties, to imagine and to create a different reality. It allows policy makers to commit to projects on a scale that would not be possible – the proverbial ‘man on the moon’. But this detachment from reality also means that policy makers have the power to implement policies for years and decades in a row, which in reality can be highly destructive or misguided. This heightened policy power isolates eurozone policy makers from the costs of policies.

Democracy has been the best response to that type of challenge at the national level. Governments that pursue particularly bad economic policies are usually voted out of office at some point. However, at the eurozone level there is currently no such mechanism. In the view of the author, the European Union governing institutions response to the euro crisis has been very poor. But the key message emanating from EU governing institutions throughout the crisis has too often been a type of ‘stay-the-course’ message, sometimes literally so in op-eds in the main European newspapers. EU policy makers do not seem to be able to think ‘out of the box’ and to question their own approach. They remain embedded in their own coded and to external observers, weird language with meaningless terms like ‘European Semester’, ‘Sixpack’, ‘Twopack’, etc.

However, rather than focus on the potential negative consequences of misguided policies,

which are, as referred above, potentially very large. More worrisome seems to be the fact that eurozone policy makers don't know what to do with their 'great power'. They have thus far been unable to imagine and to devise fruitful and responsible uses for the 'great power' of the eurozone. Most of what eurozone policy makers have produced so far are short-sighted bureaucratic projects like the Fiscal Stability Treaty, which imprisons member countries and its peoples in decades of austerity and widespread social hardship.

3. What can and should be done

So far I have outlined problems rather than solutions, because the problems, I think, are more interesting than the solutions; because it is necessary to firstly identify the problems, before solutions can be designed; because the problems help characterise the effort that is necessary to make the eurozone viable, stable, prosperous and democratic; and because the solutions that I could suggest to those problems would be subjective and subject to the rightful criticism of others who might not agree with the proposed solutions. Therefore, I hope it will be easier to agree on the scope and size of the existing problems.

I have outlined the main categories of the problems that in my opinion exist in the eurozone: (i) structural deficiencies in the euro 'engineering project'; (ii) lack of rationale for its continuing existence; (iii) ignorance and latent misunderstanding among the peoples of Europe; (iv) part-time, *ad-hoc*, governance facing zero-sum negotiating games; (v) unimaginable power. There are certainly other problems. Thus, I would submit that the first step towards a solution would be to systematically identify the problems the Eurozone is facing, before seeking to devise an answer. I will focus the remainder of this section on outlining solutions to some of the categories of problems I have identified in section 2.

3.1. The euro as an engineering project

Regarding the design of the euro architecture and its monetary policy, my belief is that the design of the ECB and of the Eurosystem was and is too radical. I will outline just a few concerns and enumerate a few proposed changes, without explaining their rationale, which would be too long-winded and too technical. The downside of this approach is, of course, that the changes I suggest do not seem to have any justification.

First, the ECB is far too independent; its independence should be starkly curtailed. The technocrats of its Governing Council are essentially non-elected politicians. Thus, perhaps, one could consider the possibility of elections for the ECB Governing Council positions. Moreover, the Eurosystem should only accept sovereign debt of member countries as collateral for refinancing operations. It should stop accepting private sector debt as collateral for its refinancing operations as such operations have significant fiscal effects. Minimum reserve requirements should be starkly increased.

Further, the ECB should not be responsible for banking supervision and for banking resolution since it faces unsolvable and unworkable conflicts of interest in fulfilling those missions while simultaneously implementing monetary policy. Besides, it is simply too great a concentration of policy powers and economic and financial power in the hands of a single institution. The ECB presently controls monetary emission in the eurozone and will supervise and control eurozone private sector banks with about €22 trillion of assets (231% of eurozone GDP). To paraphrase John Dalberg-Acton, 1st Baron Acton, '*Power tends to corrupt and absolute power corrupts absolutely.*' Thus, the ECB in its current form, is simply an extremely bad idea.

Regarding fiscal policy, the key challenge is that history shows that past economic and monetary unions all had significant fiscal transfers between regions and between segments of the population. Eurozone policy makers need to face up to this reality. If the idea is no fiscal transfers and no-bailouts of member countries, then what novel policy can be invented and implemented to ensure that the eurozone can function without fiscal transfers? It will have to be some deviously innovative smart policy the world has never seen. Moreover, there are far more interesting and relevant topics to fiscal policy than balanced budgets, which seems to be the only focus of eurozone authorities. What eurozone fiscal policies can be thought in this regard? How can coordination of fiscal policies between Member States be improved?

3.2. Governance issues

'Aller guten Dinge sind drei.' (German proverb)⁶

There are no easy solutions for the governance problems described above. I believe that the eurozone requires more robust, less personalised decision making, in moving towards the ideal of a *'government of laws and not of men.'* My vision is one where the key power-brokers (policy makers) are not busy negotiating the details of the policy responses, which they then passionately see as their own, but are instead focused on picking the best alternative from the options presented to them by full-time staff, working exclusively for the *de-facto* executive bodies of the eurozone (the Eurogroup, European Council, the ECB). Working documents should be public, and authors should be clearly identified. This would create a healthy detachment between the decision makers and the decisions they have to take, which would contribute to a more rational decision-making process.

Issues at hand could perhaps be attributed to three parallel randomly chosen teams of full-time staff, working independently, each team on one of three alternative proposed responses for the issue being considered, much like cases in a court of law are attributed randomly to judges.

Regarding the zero-sum nature of the negotiating games that take place at the Eurogroup and European Council meetings, the solution is to change the format of the negotiating game from a zero-sum game to a game where there may be winners but there are no losers. One possible approach may be to commit to a very large emergency fund 'pot of money' in advance (which, in essence, is the mechanism behind the European Stability Mechanism), which would be replenished periodically (say, every four years). Thus, in a sense, the money would already have been gone well before the negotiation takes place and before a decision has to be made.

3.3. Lack of imagination

A systematic and recurring effort is required to identify possible uses for the 'unimaginable power' of the eurozone. This means that the eurozone needs procedures and staff in place to analyse, filter, and suggest a few potentially 'very large' projects/policies, which would be submitted to the consideration and eventually to the approval of the eurozone decision bodies.

4. Conclusion

The eurozone, in my view, lacks a sense of purpose and is not fulfilling the aspirations of its citizens. Eurozone policy makers are immersed in day-to-day management, and the

eurozone seems to live in permanent crisis-mode. Eurozone policy makers need to better understand the nature of the problems and difficulties they face with this imperfect but colossal human construct that is the eurozone. If they are able to do so then maybe, just maybe, it is still possible to make the eurozone stable, democratic and prosperous.

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¹ According to [Quote Investigator](#), this quote, erroneously attributed to Albert Einstein, is of unknown authorship (<http://quoteinvestigator.com/2014/05/22/solve/>).

² "Nine years on, the ECB can lay claim – virtually undisputed – to the success of its monetary policy", (Issing, 2008, p. 141).

³ It was not supposed to work this way. The European Commission was designed to be the executive branch of the European Union government. But in practice, though commissioners do have important competencies and responsibilities, the key executive policy powers remain with the Ecofin and with the European Council.

⁴⁴ For example, according to the Financial Times, a secret legal opinion of the General Counsel to the European Council considered the first version of the single supervisory mechanism legislation - which was based on a generous interpretation of the Article 127 (6) of the European Union Treaty - illegal under the Treaty, because the law did not allow for the change of the governing rules of the ECB.

⁵ According to [wikiquote](#), variants of the above citation were previously used by Hector Fezandie in 1894, by U.S. President Harry S. Truman in November 1950, and by Thomas C. Hansard in 1817.

⁶ Translates to "all good things come in three", but it is used to mean that one has to look at several (at least three) alternatives before settling on a path to a solution.