Mario Draghi: The future of the euro – stability through change

Contribution from Mr Mario Draghi, President of the European Central Bank, published in "Die Zeit", 29 August 2012.

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Across Europe, a fundamental debate is taking place about the future of the euro. Many citizens are concerned about where Europe is heading. Yet the solutions presented appear to them unsatisfactory. This is because these solutions offer binary choices: either we must go back to the past, or we must move to a United States of Europe. My answer to the question is: to have a stable euro we do not need to choose between extremes.

The reason this debate is taking place is not the euro as a currency. The objectives of the single currency remain as relevant today as they were when the single currency was agreed. To spread price stability and sustainable growth to all European citizens. To reap the gains of the world's largest single market and make the historic process of European unification irreversible. To raise Europe's standing – not only economically but also politically – in a globalised world.

The debate is taking place because the euro area has not yet fully succeeded as a polity. Currencies ultimately depend on the institutions that stand behind them. When the euro was first proposed, there were those who said it would have to be preceded by a long process of political integration. This was because sharing a currency would imply a high degree of joint decision-making. Member countries would be a "Schicksalsgemeinschaft" and would need strong common democratic underpinnings.

But a deliberate choice was made in the 1990s not to give the euro such features. The euro was launched as a "currency without a state" to preserve the sovereignty and diversity of member countries. This informed the so-called "Maastricht setup", which laid the euro's institutional foundations. But as recent events have shown, this institutional framework left the euro area insufficiently equipped to ensure sound economic policies and effectively manage crises.

For this reason, the way ahead cannot be a return to the *status quo ante*. The challenges of having a single monetary policy but loosely coordinated fiscal, economic and financial policies have been clearly revealed by the crisis. As Jean Monnet said, coordination "*is a method which promotes discussion, but it does not lead to a decision.*" And strong decisions have to be made to manage the world's second most important currency.

A new architecture for the euro area is desirable to create sustained prosperity for all euro area countries, and especially for Germany. The root of Germany's success is its deep integration into the European and world economies. To continue to prosper, Germany needs to remain an anchor of a strong currency, at the centre of a zone of monetary stability and in a dynamic and competitive euro area economy. Only a stronger economic and monetary union can provide this.

Yet this new architecture does not require a political union first. It is clear that monetary union *does* entail a higher degree of joint decision-making. But economic integration and political integration can develop in parallel. Where necessary, sovereignty in selected economic policy fields can and should be pooled and democratic legitimation deepened.

How far should this go? We do not need a centralisation of all economic policies. Instead, we can answer this question pragmatically: by calmly asking ourselves which are the minimum requirements to complete economic and monetary union. And in doing so, we will find that all the necessary measures are firmly within our reach.

For fiscal policies, we need true oversight over national budgets. The consequences of misguided fiscal policies in a monetary union are too severe to remain self-policed. For broader economic policies, we need to guarantee competitiveness. Countries must be able to generate sustainable growth and high employment without excessive imbalances. The euro area is not a nation-state where persistent cross-regional subsidies have sufficient popular support. Therefore, we cannot afford a situation where some regions run permanently large deficits vis-à-vis others.

For financial policies, there need to be powers at the centre to limit excessive risk-taking by banks and regulatory capture by supervisors. This is the best way to protect euro area taxpayers. There also needs to be a framework for bank resolution that safeguards public finances, as we see in other federations. In the U.S., for example, on average about 90, mostly smaller, banks per year have been resolved since 2008 and this had no impact on the solvency of the sovereign.

Political union can, and shall, develop hand-in-hand with fiscal, economic and financial union. The sharing of powers and of accountability can move in parallel. We should not forget that 60 years of European integration have already created a significant degree of political union. Decisions are made by an EU Council filled by national ministers and by a directly elected European Parliament. The challenge is to further increase the legitimacy of these bodies commensurate with increasing their responsibilities and to seek ways to better anchor European processes at the national level.

A more solid political foundation should allow for agreement on a basic principle: that it is neither sustainable nor legitimate for countries to pursue national policies that can cause economic harm for others. This constraint has to be built into how countries design their economic and social models. The only sustainable model is one that is consistent with the terms of a common currency. Countries have to live within their means. Competition and labour markets have to be reinvigorated. Banks have to conform to the highest regulatory standards and focus on serving the real economy. This is not the end, but the renewal of the European social model.

From the ECB's perspective, a strong economic union is an essential complement to the single monetary policy. Building this will require a structured process with correct sequencing. Yet citizens can be certain that three elements will remain constant. The ECB will do what is necessary to ensure price stability. It will remain independent. And it will always act within the limits of its mandate.

Yet it should be understood that fulfilling our mandate sometimes requires us to go beyond standard monetary policy tools. When markets are fragmented or influenced by irrational fears, our monetary policy signals do not reach citizens evenly across the euro area. We have to fix such blockages to ensure a single monetary policy and therefore price stability for all euro area citizens. This may at times require exceptional measures. But this is our responsibility as the central bank of the euro area as a whole.

The ECB is not a political institution. But it is committed to its responsibilities as an institution of the European Union. As such, we never lose sight of our mission to guarantee a strong and stable currency. The banknotes that we issue bear the European flag and are a powerful symbol of European identity.

Those who want to go back to the past misunderstand the significance of the euro. Those who claim only a full federation can be sustainable set the bar too high. What we need is a gradual and structured effort to complete EMU. This would finally give the euro the stable foundations it deserves. It would fully achieve the ultimate goals for which the Union and the euro were founded: stability, prosperity and peace. We know this is what the people in Europe, and in Germany, aspire to.