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The Euro: Assessing Its Political Future

Speculations about the break-up of the European Monetary Union emerged during the height of the 2007 U.S. financial crisis. Initially, the European Union dismissed any need for a coordinated fiscal action or reconstruction because leaders were not convinced that their regions were going to be affected by the crisis. However, when it became evident that the European financial systems were being attacked, the EMU had limited capacity to deal with multiple national bank failures, for the Union did not have a unified fiscal system. More recently, as the EU recovers from this financial crisis, there lies a growing distance between economically stronger and weaker EU countries which threaten the unity of the EMU. In this paper, I aim to discuss some parallels between the EMU and the former Bretton-Woods; their economic goals, strong leadership and concentration of power among a few states. But unlike the latter system, I believe that the EU is strong enough to surpass the threats of dismantling the EMU and its Euro.

The development of a transnational union such as the EU is a phenomenon in itself. One of the unique characteristics of a nation is the primordial bond that gives people their sense of identity, which is strong enough to hold the citizens' unwavering loyalty and enables them to work for a common economic, political and social goal. Hence, it comes to no surprise that when transnational unions are proposed, they are usually faced with doubt and criticism. Despite previous failed attempts of transnational unionization through the gold standard or the Bretton Woods system, the European Union has emerged successfully and continued to stay strong in the past two decades. Moreover, the success of the EMU and the use of the Euro as a single currency conveyed great coordination and agreement among the member-states.

The EMU was founded on the belief that a single currency can help establish a strong centralized European market with an independent central bank. This can result to low inflation that will increase growth and foreign trade with non-EU countries, and help domestic businesses overall. Similarly, the foundation of the Bretton Woods system can be attributed to the desire of developed countries for economic stability following the Second World War. In order to avoid another international financial crisis and worldwide depression that occurred in the inter-war years, developed countries coordinated to work for a common goal of preserving capitalism through the development of an international system with fixed exchange rates to stabilize international political economy and trade.

The participating countries favored tight regulations on the market to control the value of currency, and eliminate the "beggar-thy-neighbor" policies in the preceding years. Government intervention was necessary to regulate the fixed exchange rates of the different countries, in order to provide an environment conducive to international trade alongside domestic stability. The countries agreed to keep a standard reserve currency and peg their currency to a single unit, which in this case is the U.S. Dollar. The countries accepted the leadership position of the United States because the countries were suffering great economic losses from the World Wars and needed aid to rebuild their domestic economies. The leadership position of the United States gave a strong foundation to the system and provided confidence and security to the other countries because of the country's strong financial power. Moreover, both the Bretton Woods system and the EU distributed their power among only a few states, which makes the union easier to regulate.

In the EU, it was the leadership of President Nicolas Sarkozy that prevented the spread of the Russia-Georgia conflict in 2008. This highlights the importance of a strong leader amidst any kind of union in order to form a united front. It was also under his leadership during the current financial crisis that initiated talks and action towards possible reforms through a summit in 2008. Initially, the member-states have been hesitant to enact a coordinated action tactic due to the fact that each country will be burdened with other countries' bank failures. Moreover, the economically stronger countries were still in disbelief about their own banks being affected. It was later on that they agreed to an EU-established aid for the member-states, after most of the countries started to suffer economically.

The cause of the delay of action of the EU was due to the fact that there was a lack of coordination and strong leadership among the members. There were fiscal policy considerations that were overlooked, including those that could have paid great dividends in the future. The leaders failed to see the benefits of coordination because they were focusing too much on the rehabilitation of their own nation's financial system. Control over their fiscal policy was one of the few things that each nation had left to their own sovereignty and were unwilling to give it up.

Complacency and lack of coordination led to the now financially unstable state of the EU, especially the idleness of the European Commission and the Eurogroup. The break-up of the single monetary currency have been speculated upon, as each nation is fighting to take control of their monetary systems. Stronger states have the incentive to leave the EMU so that they can let go of any responsibility to aid other states in the name of the Euro, and strengthen their national currency. Weaker states also have the incentive to leave the union and fall back to a "beggar-thy-neighbor" policy; they can devalue their currencies to gain competitive advantage in the market. This is the problematic decision the EU member-states are facing towards its proposed referendum to Greece. Conversely, the Greek government is working towards promoting this bail-out to their increasingly aggravated public, who are unwilling to comply with the austerity measures that accompany the referendum.

These are strong ideas to consider, but there are deterrents to leaving the EMU. The initial concern would be the cost of the turnover from the Euro back to the national currency. Also, I believe an even stronger deterrent could be the repercussions from the other members of the union, especially for the smaller states who are vulnerable to soft power measures; the member states can choose to provide barriers to entry against them.

Overall, the idea of a break-up of the Euro is not unfeasible, but greatly impractical. The European Union is strong enough to hold on to the loyalty of its member-states because of their shared history and deep interrelations. Germany can credit much of their post-war success and recovery to the EU, especially France. And although it can be said that the balance of power is shifting from France to Germany, there is solidarity between the two. I also believe that the EU can learn from the financial crisis and work towards strengthening their coordination. Lastly, unlike the Bretton Woods system, the countries are not pegged to the currency of one country, but to a currency as a whole. This does not only bind the countries together economically, but bond them as a region. There is an emergence of European nationalism among most of the EU-countries that would be hard to reverse with a simple policy change.