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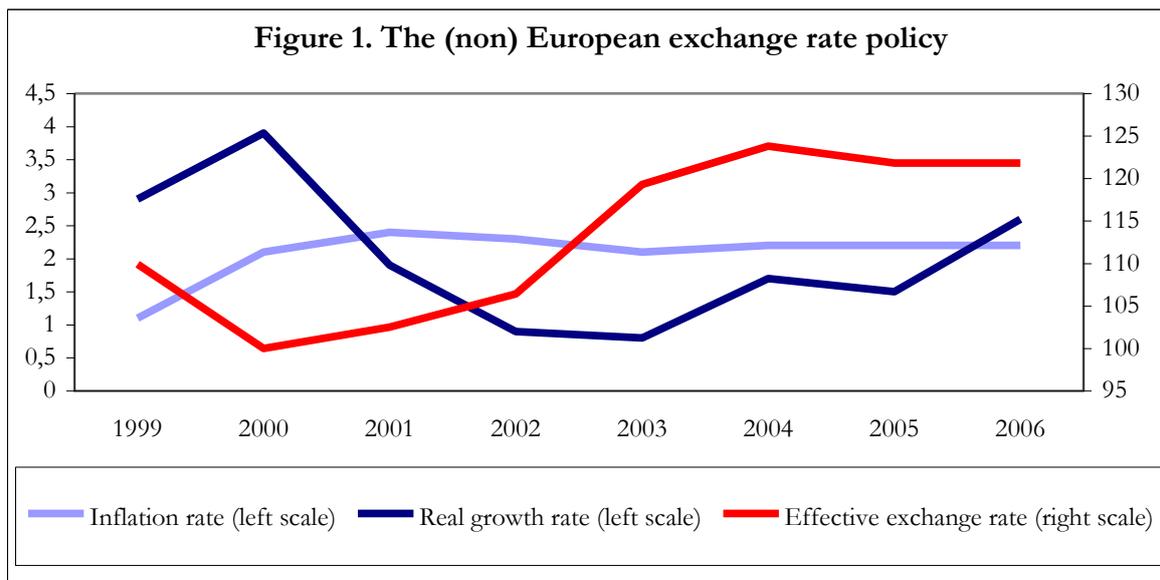
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## Is the Euro serving European public goods?

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1. The European Union (EU) should aim at providing European citizens with European public goods. In a pseudo-federal system like the EU, political deliberation should be about how to finance and produce the public goods that benefit all European citizens, and not only member states individually. Sustainable development is the typical example of a European public good, but there are many others, some of which belong to the economic policy domain: macroeconomic stability, full employment, social integration,...
2. Those European public goods are far more important to the welfare of European citizens than the scrupulous observance of doctrinal criteria of budgetary and monetary stability, which, at their best, constitute intermediary objectives for economic policy and, at their worse, prevent the final objectives from being reached.
3. The Euro zone was built in order for European citizens to benefit from economic sovereignty in a fast-globalizing world. Because of the doctrinal bias that has presided to the design of the Euro zone economic institutions, the Euro is in today's globalization a symbol without sovereignty. As such, it does not serve well European public goods.
4. Since 1999, the Euro has indeed been "strong" when the economy was "weak" and "weak" when the economy was "strong" (see Figure 1). In other words, the Euro exchange rate has destabilized the Euro zone economy instead of contributing to stabilize it.



Source: OECD.

5. While the consequences of the chaotic European monetary system were logically negative for European countries, one could reasonably hope that the creation of the single currency would give the Euro zone economy a true monetary sovereignty. It has not been the case so far. Yet, the major difference between the respective history of the ECU's and the Euro's parity is that the former was a currency basket: no one was responsible for its fluctuations. So one would have hoped that this would not be the case with the Euro, which was born out of a coherent political project backed by a strong institutional framework.
6. The priority has clearly been given since 1999 to price stability over exchange rate stability (with an undeniable success, as shown on Figure 1) in the Euro zone. The activism of the European Central Bank (ECB) on the Forex market has been asymmetric: it intervened when the Euro depreciated (threatening price stability), but not since it has appreciated.
7. It is thus clear that the Euro is not only a currency without a State, but a currency without sovereignty. It is not governed because it has been *de facto* put under the sway of an independent authority whose conviction is that the Euro zone should not have an exchange rate policy. On the contrary, one can make the argument that the Euro zone economically needs an exchange rate policy and is legally entitled to it.
8. European law, on this point ambiguously unambiguous, gives the share responsibility of the exchange rate policy to the ECB and the Council. The ambiguity runs both ways: the Council can formulate general orientations for the exchange rate policy but must respect the ECB lexicographic order (price stability is first, then comes the rest, Article 105 of the EUT) and the ECB, submitted to this order, must support those orientations when they are formulated (Article 111).
9. More precisely, since, as the ECB itself puts it, the "ultimate responsibility" for the exchange rate policy lies with the member states, a distinction must be made between independence of means and of objectives. The ECB appears to be independent in terms of the means chosen to achieve the general objective set by the Council. But these objectives have to be discussed between the Council and the ECB. And these objectives and that of price stability have to be compatible. The exchange rate policy is thus (although somewhat tortuously) unambiguously a shared competence between the Council and the ECB.
10. Instead of conforming to this institutional framework, the Euro zone members states have opted for the bizarre creation of the Eurogroup, the informal gathering of Euro zone economic and finance ministers, which has been created in 1997 with no legal basis to "dialogue" with the ECB.
11. Apart from the regional pro-cyclicality mentioned above, the consequences of the non-exchange rate policy of Euro zone are twofold. At the regional level, it reinforces spurs for member states to engage in social-tax competition. The case of Germany since 2000 is spectacular in the respect. Since the nominal exchange rate is intangible and the common exchange rate policy non-existent, member states are encouraged to develop their own individual exchange rate policy through their social-tax compact (i.e. their real exchange rate policy). This creates a "new European competitive disinflation" detrimental to the least competitive member states and, more importantly, to European growth and cohesion.

12. At the global level, the Euro zone is only an involuntary player in the international monetary system, through the derivation circuit played by the Euro with respect to the dollar. But the Euro can thus be said to serve as the adjustment variable to global imbalances. Without an exchange rate policy of the Euro zone, movements of the exchange rate of the Euro simply reflect the exchange rate policies of the rest of the world. If the dollar was to brutally depreciate, as it could easily do, the Euro zone would face a situation of crisis without a crisis management mechanism.

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