

## **Easing the Crisis: Immediately Feasible Steps**

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It has become increasingly clear that the euro crisis, or at least its duration, is largely a crisis of governance. That is, a crisis due to an inability to manage it. There of course are more fundamental factors at play, rooted in the defective design of monetary union, but it is the inadequacy of day-to-day crisis management that is fraying confidence in the responses provided to date. With the consequence that any positive post-summit effects are increasingly fleeting, fading in the course of a single morning.

The inadequacy of crisis management stems essentially from the dominance of an intergovernmental approach at the expense of a supranational Community method. The intergovernmental approach – reflected in placing crisis management fully in the hands of ministerial or government summits – results in the pre-eminence of national political priorities and interests over common, supranational ones. A lowest-common denominator outcome, far removed from the needed federalism. The decision to move toward a banking union and, over time, other federal arrangements is thus in itself highly welcome. But the process will indeed unfold only "over time." In the interval, steps must be taken to better align the short-term approach with the longer-term vision. Steps that are per se modest, but that have the advantage of being immediately feasible.

First, the duty of speaking with one voice in public needs to be firmly established. Following a European Council meeting, and its adoption of decisions by mutual agreement, there should be a single press conference, held by the Presidency of the Council or of the Eurogroup, illustrating the results on the basis of the joint communiqué. The practice of national press conferences should be abolished outright. It is hard to believe, but countries which years ago sacrificed their national currencies with relative ease, are now unwilling to forgo a news conference. Paraphrasing Henry IV of France, the single currency is surely well worth, if not a mass, at least a press conference. It will of course not be easy to muzzle heads of government, but at least ministers should be more disciplined, and it is in any event worth establishing the principle. And to do so as from now, starting with the ministerial meeting of next Friday 20 July.

The ECB, for its part, has (more or less) succeeded in communicating a unity of purpose among the 17 governors of euro area central banks – a certainly opinionated group of individuals. Here, too, there are some deplorable

exceptions (the most egregious being that of Bundesbank President Jens Weidmann), but they are indeed exceptions and rarely concern the monetary authority's central responsibility: that of influencing the path of inflation, including through the skillful management of expectations. Expectations are of course shaped in the first instance by concrete action, but importantly also by a disciplined communications strategy, made of well-chosen words consistent with the policymaker's final objective.

This is especially the case in overcoming financial crises, whose *sine qua non* is the re-establishment of confidence. But there can be no confidence without a sense of unity of purpose, recently shattered by the continued disagreements expressed by northern countries. In this setting, the persistence of elevated spreads, judged by the IMF to be in excess of those justified by fundamentals, is unsurprising.

Unfortunately, the intergovernmental approach, and the disunity that it generates, is destined to persist, since – as is the case with the current EFSF – the permanent ESM will not be a Community institution. But here too positive steps are feasible as from now. Specifically, there should be an extensive delegation of powers from the ESM's Board of Governors (which is nothing more than the current Finance Ministers' Eurogroup) to the more technical Board of Directors, composed of persons appointed by each Minister "among people with high competence in economic and financial matters."

Although it would be naive to think that such delegation would be able to fully de-politicize and "denationalize" the euro area's crisis management decisions, it would help attenuate their current intensity. Removing these decisions, especially those regarding interventions in individual countries, from ministerial or governmental summits would also improve their efficiency. A crisis, with its intense and shifting rhythms, cannot be handled by meetings held on a pre-arranged schedule and under the glare of the media spotlight. It needs rather to be managed in a continuous manner by a body in so-called "permanent session" and governed by adequate confidentiality, such as – at the international level – the Executive Board of the IMF. Lessons should indeed be drawn from the IMF, whose decisions are never commented upon by individual Executive Directors, much less by each of the 188 member countries (imagine the cacophony that would result).

And finally, also in line with the IMF's approach, the ESM's Director Klaus Regling and its staff should be subject to the same requirement set in the Fund's Articles of Agreement whereby "the Managing Director and the staff of the Fund, in the discharge of their functions, shall owe their duty entirely to the Fund and to no other authority. Each member of the Fund shall respect the international character of this duty and shall refrain from all attempts to influence any of the staff in the discharge of these functions." Only with such a guarantee of independence and emancipation from national capitals can one hope in a truly "European" approach, key to overcoming this long and painful crisis.

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