“It’s time for a radical blueprint for a new Europe”

by David Owen and David Marsh

The two-year old euro sovereign debt crisis is entering a very dangerous phase. Whatever happens in the stand-off pitting Greece and other indebted countries against their creditors, the relationship between the European Union’s members and non-members of economic and monetary union seems set for far-reaching change. Given the great uncertainties facing the eurozone, it is time for Britain, Poland, Sweden and the other Emu non-adherents to formalise their position by establishing the “Non-Eurogroup” (NEG) as a central, constructive element of the EU.

This move to enshrine the 10 EU countries outside the euro in a definitive group would bring many benefits. These are well-run economies, at least as stable as those in the euro. The UK, Sweden and Denmark have lower long-term interest rates than most eurozone countries; Sweden’s 10 year government bond yield is lower than Germany’s. The Czech National Bank has lower short-term interest rates than the European Central Bank. Poland’s growth record in recent years is the best in the union.

Setting up the NEG would establish rights and responsibilities for non-eurozone members, ending the long-held European position that non-membership of the euro represents a form of second-class EU citizenship. It would protect these countries from political and economic discrimination. It would allow a formal mechanism for countries to move between the two groups, calling a halt to to the absurd interpretation of many eurozone governments that if a country such as Greece were to leave the euro, it would have to quit the EU altogether. A separate group for the non-euro states would not mean that they would remain permanently outside the euro, but it would recognise the reality that, in most cases, this state of affairs will last for longer than many had previously thought.

Bringing together central banks and governments from 10 countries in a secure framework that could be buttressed by central bank swap lines and other credit facilities, the NEG would provide a stabilising mechanism for the whole of the union. The new group would help Europe better withstand euro strains and would be a source of unity, in contrast to the divisiveness of the present set-up.

The new constellation would have to be negotiated. The sooner that started, the better. The British government has so far shown astounding insouciance in the face of plans by the Eurogroup to move to a more “federal” structure to repair some basic eurozone design flaws such as the lack of fiscal union. Countries such as Sweden and Poland that have relatively pro-European views have displayed alarm or irritation at being potentially excluded from Eurogroup councils, but have failed to put forward practical alternatives.

A useful way forward would be to press for changing the language of Protocols 14 and 15 in the European Treaty, which leave non-euro states in an unsatisfactory half-way house en route to inevitable adoption of the euro. Instead, NEG would be given proper status as an essential part of the EU, equivalent yet also linked to the Eurogroup. None of this would detract from the non-euro states' ability to participate fully in economic reform efforts and in European integration across areas such as competition policy, trade relations and research policies.

There would be a chance to introduce the principles of the NEG in the next few months thanks to a decision by the 17 eurozone states that Herman Van Rompuy, president of the European Council, should chair at least two summits a year of eurozone leaders. This is part of what Nicolas Sarkozy and Angela Merkel call a (not-yet-defined) "economic government". It is true that the eurozone needs a new system of governance; holding off a euro collapse is in everyone's interest. But we must not forget that the president of the council is enjoined under Article 15.5 (c) of the Treaty to "endeavour to facilitate cohesion and consensus within the European Council." Any new position for the president should be authorised by Treaty amendment. To preserve necessary balance, Mr Van Rompuy (or his successor) should also chair a summit at least twice a year of non eurozone countries. This would establish both the legitimacy in every respect of the non-euro EU states and also the role of the president as serving the interests of all EU states with no hint, as exists in the present Treaty language, that non-eurozone status is somehow imperfect. Such a rule would also make clear that a future Council president could come from a non-eurozone state.

All these points are important for the future of Europe. The non-euro states can play a vital role in galvanising Europe to overcome its economic and political difficulties. In a cooperative and fair-minded manner, they should be allowed to get on with that task.

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