# The Eurozone isn't Europe. Let the IMF sort this debacle

A eurozone may –survive, but it will not be the present 17 member state eurozone. What will emerge, if it is to –survive, will be smaller and more focused around German financial and monetary disciplines. There will no longer be dramatic EU summits with Nicolas Sarkozy, accompanied by a reluctant Angela Merkel, creating an impression of progress soon to be followed by the grim realisation that little has changed. For instance, the announced 50% haircut in Greek government bonds has not yet been voluntarily accepted. All too little of the actual detail, whether participation ratios or other technicalities, has been agreed. As always, political headlines have shown little understanding of market realities.

Even changes of government now in Greece, soon in Spain and probably in Italy, important though they will be for domestic decision-making, will not be the determining factors. Global market realism will from now on decide whether countries will default. The tone of comments from Germany, Austria and Holland will become tougher and more detached. France will have to turn inwards and grapple with its own financial problems. The UK will have to stop preaching, and recognise that its current policy mix is stifling growth.

All in all, politicians in Europe are busted. The IMF is poised to play a key role and much will depend on its managing director, Christine Legarde: if she wishes to retain authority she will have to look less like a former French finance minister and more like a global disciplinarian; the IMF is too valuable an institution in the present crisis for it to be seen as a European plaything.

How have we got to this debacle? President Sarkozy is clearly fed up with David Cameron in particular and the British in general for their “island” view of the eurozone crisis. In many respects this is sad, because we have just finished a Franco-British initiative in Libya that has been a considerable success. It is also not wholly fair, since both Cameron and the chancellor, George Osborne, have risked the ire of backbench anti-eurozone MPs on two fronts.

First, the UK government said, naively, that the only way out of the eurozone mess was to follow the logical path and build a fiscal union, –conveniently ignoring that many member states were not willing to surrender power over handling their economy.

Second, Cameron and Osborne put political flesh on that theoretical bone by offering to ratify treaty amendments to make such a fiscal union possible. The government was ready to allow the new simplified revision procedures in the Lisbon treaty to be applied without the referendum specified in the new European Act 2011. To do this, under the exemption allowed for in the act to give a new power to an existing EU body – in this case the European Central Bank – ministers were ready to say that the change was not “significant” to the UK outside the eurozone. Such a decision could have been open to challenge by any member of the public, and had to be authorised by parliament.

Sarkozy’s problem is that, at the time his frustration boiled over at the G20 summit, he knew better than anyone else that this theoretical solution is exactly that – a theory. Having spent months trying to persuade Merkel that the ECB should become the lender of last resort, Sarkozy found last week that path was totally blocked. The new president of the ECB, the Italian Mario Draghi, who replaced Frenchman Jean-Claude Trichet, made public statements that were worse from Sarkozy’s point of view. Draghi’s refusal to allow the ECB to purchase, on a major scale, eurozone countries’ government bonds was done in a way that stiffened German resistance and has closed this issue for many months ahead – perhaps for years. Pretension, the besetting sin of the present EU, has to end. The 17-member eurozone has to be set within a new EU framework that can adapt to market realities – also one which accepts political realities. Leaving the eurozone cannot be also a decision to leave the EU. Pretending that was the consequence in order to instill fear in a population reluctant to face austerity was a deceit that has backfired on the politicians. The EU cannot now embark on another bout of wholesale treaty reforms over monetary union. To do so risks referendum defeats that would almost inevitably occur in either Ireland, the UK or possibly Holland or France.

There is one vehicle for treaty amendment to achieve a modest redesign that could be ratified by the spring of 2012, namely the Croatian accession treaty, due to be finalised in Brussels by the end of December – and it is not subject to referendum. Also Article 352 of the Treaty on the Functioning of the European Union, which has existed since the creation of the European Community, could be used as a legal base for modest legislative proposals that have to achieve the objectives of the EU and where there is no more relevant treaty article to use. To guard against a challenge in the European court of justice any changes made under this provision should be ratified in the Croatia treaty.

The EU must, first and foremost, end the pretence and establish that all 28 members are free to enter or leave the eurozone while staying in the EU. Then it must introduce a number of practical revisions to introduce Exchange Rate Mechanism II into the criteria for entering the eurozone; formalise the Swedish position outside the eurozone; create greater cohesion by authorising the president of the European Council, as has been requested by the eurozone countries, to chair the informal meeting of the Euro Group but also informal meetings of a new non-euro group. It must also introduce within the Euro Group a more disciplined framework for handling fiscal and debt policies, all of which are compatible with existing EU monetary objectives.

Another change is that the IMF, not the EU, must supervise any default and transition from the euro grouping to the non-euro grouping, guiding them through establishing a new national currency that would be devalued. Transitional management is something the IMF has done successfully many times in the past. This would be a far more cost-effective use of any British expanded IMF facility than keeping the weaker EU countries in the eurozone when they are already either in default or inexorably headed towards it.

*Article  by Lord Owen, published in The Guardian, 7 November, 2011*