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Merkel and Sarkozy agree on joint proposals for eurozone reform

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A German-French summit concerning eurozone reform took place on 5 December in Paris. At the press conference at the conclusion of the talks, Chancellor Angela Merkel and President Nicolas Sarkozy said an attempt to amend the treaties would be made at the forum of all 27 EU member states in order to agree the imposition of sanctions for excessive indebtedness. The introduction of a uniform definition of the budget brake was also suggested in order to enable the Court of Justice of the European Union (CJEU) to monitor the observance of this rule across the eurozone. Should problems with amending the treaties by the EU as a whole occur, Merkel and Sarkozy announced introducing 'fiscal union' regulations under a separate intergovernmental agreement to be signed by the 17 eurozone member states. They also want the European Stability Mechanism to be launched already in 2012, and not in 2013 as planned. This instrument will have at its disposal capital of approximately 700 billion euros which will enable the granting of loans to the most heavily indebted countries. France agreed to the German proposals, in effect of which the European Central Bank (ECB) is to remain independent, and withdrew its proposal of issuing eurobonds. In exchange, Germany agreed to exclude the participation of the private sector in the costs of restructuring in case of an insolvency of next eurozone member states as had been the case with Greece. Germany softened its stance on the role of the CJEU, which will not interfere with the budget policies of individual countries.

Commentary

- The proposals presented do not guarantee that existing problems linked to rapidly increasing debt costs will be resolved. Instead, they only focus on strengthening the mechanisms preventing countries from excessive indebtedness. This would not have prevented the current crisis in the case of many countries: Spain and Ireland each had a disciplined budget policy before the crisis. Given the present economic conditions, none of the most indebted countries will be able to meet the criteria set by France and Germany for many years.

- The possibility of implementing these rules under an intergovernmental agreement only within the eurozone club suggested by Merkel and Sarkozy is meant to act as a threat to such countries as the United Kingdom, which in exchange for amendments to the treaties will demand concessions in other areas. Germany and France have thus suggested that if no consent to treaty reforms is obtained, those EU member states which do not belong to the eurozone will no longer have influence on political decisions within the community. Nevertheless, even if the treaties are amended, the divide between the eurozone member states and the rest of the EU will be growing.

- The proposed solutions are proof that the role of Germany is growing at the expense of France. The concept of the changes complies with the proposals put forward earlier by Germany. Germany will not agree to the role of the ECB changing or to the issue of eurobonds at least until the time when the intergovernmental agreement bringing into force the rules of the 'fiscal union' becomes applicable. Despite the apparent agreeable co-operation, which the leaders of the two countries were trying to present at the conference, it still seems that there is no complete agreement about the ways to rescue the eurozone in the face of the big risk of deepening economic stagnation. One example of the differences existing between France and Germany is their recent dispute over who should be appointed the chief economist at the ECB. France wanted Benoît Cœuré to be appointed to this position although the candidacy of Joerg Asmussen, undersecretary of state in the German Ministry of Finance, had already been agreed.