While Europe's political leaders continue their diplomatic dance, real power in the eurozone has shifted to central bankers.

by Blog Admin

Since the beginning of the eurozone crisis European leaders have attended summit after summit, which tend to result in little effective action. In light of the European Central Bank's recent decision to buy stricken country's bonds, **Federico Castiglioni** *argues that the power to shape Europe's financial and fiscal future may now be vested in the monetary policy of central banks.*

At the Vienna Congress of 1815, which was supposed to redraw Europe's political map, Prince Charles de Ligne wittily remarked: "Si le congrès dance, il ne marche pas." If the Congress dances, it does not move along. He believed that the European aristocracy was showing more interest in the gala balls of imperial Vienna than in the painful responsibility to design a new political order after the French revolution.

Angela Merkel, Mariano Rajoy, Francois Holland and Mario Monti Credit: Mariano Rajoy Brey (Creative Commons BY NC ND)

Centuries have passed, but history – especially European history – has a tendency to repeat itself. From the beginning of the Eurozone crisis, images of high-level meetings, conferences, working lunches and dinners appeared on the evening news. The main participants were the "big four" of the Eurozone: Germany, France, Italy, and Spain. The only definite agreement that has come out of this mass of social events is that no real agreement exists, except the collective will to continue the subtle diplomatic dance. On economic issues, Europe does not speak with one voice. But the dance has become important in itself. It is mandatory that one keeps dancing with all the other heads of state. Denying a dance to someone might result in serious annoyance.

This is true in the case of France, the reluctant mistress of the ball, who sometimes seems to side with her Mediterranean neighbours and sometimes denies any allegiance to them whatsoever. France cannot decide whether it is better to be last among the strong powers, or first among the weaker ones.

It is also true in the case of Italy, which sides with Germany on questions of fiscal austerity one day, and courts the French with calls for a stronger European Union the next. In the end, Italy is rebuffed by both France (which fears contagion) and by Germany (which continues to embrace the prejudice that Northern Europe is hard working, while Southern Europe remains lazy and sunbathing).

It is true in the case of Spain, the first country of the gang of four to show visible cracks and is shunned by everyone else as a result. Even Italy isn't too keen on talking with the Spanish at the moment: it does not require the same kind of assistance and therefore looks to Spain with the suspicion reserved for a friend with an unexplained fever, who wants to come over for a visit.

Finally, there is Germany, the rich girl at the party. Chancellor Merkel does not deny anybody a dance: not to Mariano Rajoy, the Spanish Prime Minister, who is asking for money from the European Central Bank in exchange for better budgetary control. Not to Mario Monti, Italy's prime minister, who insists that Europe needs better political governance. Not to François Hollande, the French president, who promotes the traditional Franco-German alliance and leadership (and is careful to insist on precisely that order: The *Franco*-German alliance).

And thus, the congress dances without really moving.

In 1815, the sudden reappearance of Napoleon put an abrupt stop to the dancing. When the old emperor returned from exile in Elba and seized power in Paris once again, fear became the driving force in Vienna. Napoleon, like today's financial crisis, was a much greater threat to the European political balance of powers than any decision coming from meetings in Vienna could have been. Thus, career diplomats like Metternich and Talleyrand found themselves in the position of having to remove all roadblocks and settle most open problems within a few weeks, often passing over the heads of their kings.

Is there something that could have a similar effect in 2012? Evidently, neither the threat of recession nor rising unemployment are sufficient to shake up the dance floor. We have become too accustomed to worrisome statistics and the closing of factories between Hamburg and Lisbon. Maybe today's Napoleons are the central bankers, the only ones who seem to have the will and the power to plan their moves and to fight on the financial battleground of the Eurozone – in place of, and in spite of, national governments.

The decision of European Central Bank President, Mario Draghi and of the other central bankers (with the exception of Germany) to buy bonds of countries with high spreads in the secondary market is a demonstration that daring decisions are still possible. But it illustrates that politicians and governments are more witnesses than active players. It also demonstrates that a single centralized institution is more powerful and credible – in Europe and outside Europe – than any agreement resulting from the dance among two, or four, or twenty-seven countries.

The founding fathers of liberal economics thought of central banks as weak powers that had to be autonomous from politics to maintain independence and prevent the manipulation of data and decision for political advantage. They had never envisioned a situation with strong central banks and weak political power, like the Europe of today.

In this environment, the fight between the European Central Bank and the German Bundesbank (and between their respective heads, Mario Draghi and Jens Weidmann) reflects the shifting balance of powers in the eurozone. The fact that their decisions are taken with no concern about the social stability of the European countries, without any common course of action from ECOFIN (the committee of European ministers of finance), and without any participation from the Barroso and Van Rompoy shows the impotence of institutions besides the central banks.

In the absence of a European Finance Minister, when ministries of finance fail to find a common view and course of action, the power to shape Europe's financial and fiscal future is vested in the monetary policy of central banks, with each central bank influenced in its actions by the need to protect itself and its own mission. The German Central Bank is trying to avoid any hint of inflation – that is its main institutional objective, while the ECB tried to prevent the failure of the common currency, which would also imply the demission of the ECB.

Maybe all this will convince European politicians to stop their dances and seize the political initiative anew. Right now, they seem to have passed it over to the bankers that they themselves appointed. Or maybe we, the citizens of Europe, must grasp the importance of political action. While the heads of state continue to dance, in the splendor of the summits in Paris or Rome, the true Europe is in the making in the financial towers of downtown Frankfurt.

This article first appeared at The European.

Please read our comments policy before commenting.

Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

Shortened URL for this post: **http://bit.ly/R3oqCs**

About the author

Federico Castiglioni – *European Federalist Movement*
Federico Castiglioni is a member of the European Federalist Movement and collaborates with the online magazine "Critica Liberale". He holds a B.A. in History and International Relations from the University of Rome, with a thesis on the "Idea of Europe".