

German politicians break another taboo

Calls for weighted voting and German veto in ECB Some animals are more equal than others

by Gabriel Stein

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'All animals are equal, but some animals are more equal than others.' Thus wrote George Orwell in *Animal Farm* his satire on Stalinism. Now this sentiment seems to have reached Germany, at least with respect to the equality between nations within the euro area. But perhaps this is unfair. Perhaps it would be better to say that German politicians want to apply another old adage to the workings of the European Central Bank, namely 'He who has the gold makes the rules'.

An article in *Frankfurter Allgemeine Zeitung*, *Schuldenkrise – Die EZB wird zum Zankapfel* (Debt crisis – the ECB becomes a bone of contention) on 16 August quotes various German politicians wanting to change the rules of ECB decision-making. Some of the choice quotes are 'As the largest shareholder, Germany must in all cases have the right of veto' and 'That Cyprus and Malta have exactly the same vote as Germany is a serious construction error.'

These sentiments are not surprising. Nor are they new. But what is new is that they are being voiced more openly instead of, as hitherto, in private discussions. Nor can they, in fact, be faulted. It has frequently been pointed out that a monetary union between roughly equal economies ultimately has to become a political union (by virtue of being a fiscal and transfer union) in order to survive. This is broadly speaking true. However, there is an alternative, namely if the strongest country in the union is willing and able to take upon itself the policing of the union, notably of the fiscal policies pursued by various countries. But, doing so also requires the powers to enforce such policing.

There is an inherent contradiction here. If euro area countries want everyone to remain equal, they must – sooner rather than later – move towards political union in order for the union to survive and prosper. But to propose this, certainly in the creditor countries, would today be political suicide. Alternatively, they can agree to shareholding-weighted (which means GDP-weighted, since this is how the ECB shares are distributed) voting within the ECB (and potentially other euro area institutions). But this means formally accepting German decision-making. That would be difficult enough for Greece, Italy or Spain, let alone for France.

This has always been one of the underlying dilemmas within EMU. By bringing it out into the open, German politicians have broken a taboo and raised questions that, ultimately, have to be answered. But either way is difficult and will lead to rancour, without there being a clear answer.