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# The Euro Crisis

The inside story

Translated from the Dutch by David McKay

2018 Prometheus Amsterdam

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English translation © 2018 David McKay  
Cover design Robbie Smits  
Cover photo Paul Wilkinson Photography  
E-book Elgraphic  
[www.uitgeverijprometheus.nl](http://www.uitgeverijprometheus.nl)  
ISBN 978 90 446 4005 2

## The Eurogroup: who and what

This book is written from the perspective of the Eurogroup president. I was struck on many occasions by what a unique role that is. The Eurogroup is not a formal institution of the European Union. It is a forum for intergovernmental cooperation — national governments working together — rather than a Community, or supra-national, body.

The legal foundation for the Eurogroup was laid in 2007, in a protocol attached by the Lisbon Treaty to the Treaty on the Functioning of the European Union (TFEU). Known as Protocol 14, it has just two articles. The first states that the ministers of countries whose currency is the euro will meet informally to discuss their responsibilities with regard to the single currency. The European Commission will take part in those meetings, and the European Central Bank (ECB) will be invited. The second article is even shorter, providing simply that the ministers will elect a president for two and a half years, by majority vote. I was elected to that position on 21 January 2013 and remained in office for five years.

Alongside the protocol, the Eurogroup has also developed its own working methods, which it can easily alter when necessary. The working methods address questions

like what topics will be discussed in the meetings: namely, the economic situation and outlook, including price developments and competitiveness. They also call for the ECB president to inform the Eurogroup about the bank's monetary policy stance. The euro exchange rate, which is the joint responsibility of the Eurogroup and the ECB, is discussed a couple of times a year. The Eurogroup also makes joint preparations before its president participates in international meetings and discusses the national budgets twice a year. In the autumn, it assesses the draft budgets in the light of the fiscal rules. In the spring, the ministers review how the budgets are being put into practice, considering the latest economic data. They also make recommendations on fiscal expansion or contraction in the euro area for the budget year ahead. Partly on my initiative, an independent European Fiscal Board has been founded, which advises the Eurogroup on budgetary policy. Besides fiscal matters, we also spent much of our time in recent years assessing the need for structural reforms to improve the workings of the private economy and public services in our countries. But the lion's share of our time and attention went to crisis management, through both temporary support programmes and long-term improvements in the monetary union.

The fact that the Eurogroup has so few rules and is formally separate from Community institutions like the European Commission and European Parliament helped us to reach agreement at crucial junctures in the crisis. But this same fact has drawn fire from critics, who question how democratic the Eurogroup is.

As Protocol 14 states, the Eurogroup is an informal body. Formal decisions are made elsewhere. Decisions about legislation, even those affecting only the euro countries, are

taken by the finance ministers in meetings of the Economic and Financial Affairs Council (ECOFIN). For that reason, the Eurogroup always meets the day before ECOFIN gatherings. Decisions about emergency loans from European financial assistance programmes, and the conditions attached, are made by those same finance ministers of the euro countries, but in their capacity as governors of the European Stability Mechanism (ESM). In practical terms, all these decisions — whether about how to pull the euro area out of its slump or how to implement those plans — are made by the Eurogroup ministers. They require unanimity among the nineteen ministers, who are mandated by their national governments and parliaments. Making decisions this way is not always easy. But it has worked every time, except once.

The president announces the decisions to the public, sometimes in a written statement but always at a press conference immediately after the meeting. Even though the decisions are made unanimously, it is the president who has to present and explain them to the outside world. When there is criticism — and there always is — the president takes the flak.

The first Eurogroup president had the longest term of office, eight years. This was Jean-Claude Juncker, former prime minister of Luxembourg and now the European Commission president. Juncker was his country's finance minister when first asked to lead the Eurogroup, and for years he juggled the roles of finance minister, prime minister, and Eurogroup president. For his last four years, he was an 'external' president, after Luc Frieden had become Luxembourg's finance minister. Juncker has served as the Commission president since late 2014, and during that time I worked closely with him. A born politician, he became a

parliamentary secretary in Luxembourg at a young age, and soon afterwards a minister. Whatever his role, he plays it with humour and determination. I succeeded Jean-Claude as Eurogroup president in early 2013 and was in turn succeeded in early 2018 by the Portuguese finance minister, Mário Centeno.

In late 2013, the preparations for a new Commission set various events in motion in European capitals. For example, the former minister Pierre Moscovici toured Europe to announce his candidacy as commissioner of economic and financial affairs. And in The Hague, where I was serving as finance minister, we soon had our first discussions of who should be the next Dutch European commissioner and which office was our top priority. We met on the ground floor of the Torentje ('the Turret'), the building that holds the office of Prime Minister Mark Rutte. Besides Rutte and myself, the participants were Diederik Samsom, Halbe Zijlstra, Frans Timmermans, very occasionally Lodewijk Asscher, and several high-ranking officials.

Samsom, the Labour Party leader, had agreed with Rutte in September that the new Dutch commissioner should come from Labour. With me (another Labour Party member) leading the Eurogroup, the Netherlands had no chance of another financial or economic appointment. Samsom had his eye on the position of energy commissioner, because of the importance of climate policy. Determined not to lose any of the Labour ministers in the Dutch government to Brussels, he approached ex-ministers Wouter Bos and Dick Benschop, but they were both unavailable. Meanwhile, Angela Merkel was out to win the support of the European People's Party group (EPP) for Juncker as a *Spitzen-*

*kandidat*, or lead candidate, for EC president. As part of this campaign, she had promised the Eurogroup to the Spanish prime minister, Mariano Rajoy.

We were concerned about that, of course, and came up with a defensive argument: there was no reason whatsoever for a Eurogroup president to bow out in the middle of the term. It would be possible only if the minister were offered a position as a European commissioner. And the Netherlands would consider that possibility only if the position offered was economic and financial affairs (ECFIN) commissioner.

Mark was unenthusiastic. He saw me as a pillar of his coalition and his cabinet, and would have hated to see me go. Lodewijk Asscher was also opposed. Timmermans was loyal, but he too had his misgivings. Samsom shared Rutte's serious doubts about the idea of me leaving for Brussels. My own preference was simply to remain the Dutch finance minister and leader of the Eurogroup, and I was loath to leave the efficient finance ministry in The Hague for the bureaucratic, hierarchical realm of the European Commission. So, even though we'd chosen a strategy, not one of us was really enthusiastic about it.

Our problem was solved by none other than Juncker, and by some undiplomatic words of my own. Juncker had already promised ECFIN to President François Hollande and his candidate Moscovici. Furthermore, he was eager to have Timmermans on his commission. When I half-jokingly called Juncker a heavy drinker on television, it freed him to work with his preferred candidate and freed us from our dilemma in The Hague. Since the Commission and Council presidents both came from the EPP, my claim as a Labour politician to the role of Eurogroup president was strengthened. Juncker initially wanted Martin Schulz as his first

vice-president but, when Merkel blocked that appointment, he offered the position to Frans Timmermans at a dinner with Rutte in mid-August. So I remained in The Hague and in the Eurogroup, and Timmermans became the first vice-president of the Commission. This was the best outcome for everyone. We had achieved our goal of holding on to the Eurogroup and gaining an influential European commissioner post — by an unexpected route, to be sure, but that’s politics for you.

The Eurogroup ministers represent nineteen very different countries. Even though those countries share a common currency, economic conditions may vary greatly from one to another. Each one has its own history, language, culture, political system, and legal framework. Their economies may also differ dramatically in character. Sometimes we find common ground, and sometimes our interests clash. Outsiders often see Eurogroup conflicts as running along north—south lines. Such conflicts exist and, unfortunately, I was sometimes caught up in them. But the web of relationships is much more complex. There are large countries and small countries; former Eastern bloc countries that see participation in the single currency as an extra layer of political protection; exporting countries and importing countries; countries with their own major banks and countries that mainly host foreign banks. There are Protestant and Catholic countries, some would add. But with my own roots in the Catholic south of a very Calvinist country, I know how unclear that distinction can be.

The ministers not only come from nineteen very different countries but also have diverse political views and are generally in coalition governments. Their careers as finance

ministers may be long or short. During the five years that I led the Eurogroup, I saw fifty-five ministers come and go. Some attended just one meeting, perhaps to bridge the gap before a permanent appointment. The longest-serving minister, in the group for eight years, was Wolfgang Schäuble. He was the Eurogroup's most experienced member in every respect, and its grand old man. Unlike most of us, he experienced the crisis from beginning to end and often reminded us of earlier commitments. As a German lawyer, he had an unfailing memory for such things. But his political memory extended much further back. He had become a member of parliament in 1972, when the Bundestag was still in Bonn, and played a key role in German reunification. Appointed interior minister in 2005, he had moved to the finance ministry in 2009. In October 2017, he was elected president of the German parliament, the Bundestag. Other seasoned veterans included Luis de Guindos from Spain, who was in the group for six years before leaving to become vice-president of the ECB, and the Irish finance minister Michael Noonan, who led his country out of the crisis. Such long-serving members were exceptional, and their experience was most welcome. On average, the euro countries changed ministers once every two years during the crisis. Greece had five different ministers — that was another of the many challenges.

Only eight of those fifty-five members were women. Sadly, financial policy is still far too much a man's world. Even so, high-powered women like Christine Lagarde — French finance minister and later managing director of the International Monetary Fund (IMF) — Maria Luís Albuquerque, and Dana Reizniece-Ozola (the group's only chess grand master) set their stamp on our policies. But, regretta-

bly, there is still no upward trend in the number of women in the Eurogroup.

Language has always been an important issue in Brussels. Sometimes, in public meetings, the ministers must be seen to speak their own languages. At moments like that, when the cameras are on, many ministers fall back on carefully prepared talking points, which they read verbatim. The Eurogroup does not work that way. Meetings are in English, and other languages are spoken only in the exceptional case that a minister's English is truly inadequate. A strong command of English is vital to the success of the meetings. The participants cannot work with pre-written speeches, because they engage in genuine political debate, exchanges of views, and negotiation, and not all decisions are prepared in advance. In short, unlike other Brussels gatherings, the Eurogroup meetings are not easy to 'fix' in advance.

Finance ministers do not tend to be lightweights in national politics. Many brought years of national political experience to the table, like Wolfgang Schäuble and Michel Sapin. Others came from long careers as high-ranking civil servants, like Vittorio Grilli and Luis de Guindos. A number came from the private sector and later returned there. The link to the central banks was strong as well: Mário Centeno had worked there, and so had Vítor Gaspar. Others came from academia, such as Koen Geens and Dušan Mramor. Heads of government have also been known to sit in on the meetings, although that was before my time. The French president Nicolas Sarkozy, a former finance minister, and the Greek prime minister Lucas Papademos each attended one Eurogroup meeting. One member, Alexander Stubb from Finland, had even been a prime minister. Both Jean-

Claude Juncker and Mario Monti had served both as prime minister and as finance minister, Juncker longer than Monti. That, too, was prior to my appointment.

The informal hierarchy in a gathering such as the Eurogroup is sometimes difficult to grasp. Wolfgang Schäuble was, of course, the most influential minister. But was that because Germany is by far the largest euro area economy? Or was it — as Thomas Wieser claimed in his farewell interview with Marc Peeperkorn in the Dutch newspaper *de Volkskrant* — because Schäuble was such a hard worker, who studied and discussed the EU dossiers in Berlin, mastering all the relevant details? Both are true. He had strong opinions and a powerful vision for the future of Europe. But he was also very experienced and willing to share his experience with his colleagues.

The Eurogroup is supported by the Council Secretariat in Brussels. During the meetings, Carsten Pillath, the Council's director-general for economic policy, was always seated to my left. His contribution to a smooth process was essential. To my right was Thomas Wieser, who led the officials in the Eurogroup Working Group (EWG), an advisory body to the Eurogroup, and was also an important advisor on the issues. To his right was Stefan Pflueger, who runs the Eurogroup secretariat. Behind them was a row of staff members from the secretariat and my own European team from The Hague. The directors of our collective institutions were, of course, also regular participants in Eurogroup meetings. The central bankers Mario Draghi and his fellow board member Benoît Cœuré independently presented the ECB's view. I developed an excellent working relationship with Draghi, and I believe the respect was mutual. He was indispensable to the Eurogroup at decisive moments, as a lead-

ing economist educated in the United States at MIT, and with experience at the World Bank, as a senior government official, and as a banker.