Harald Waiglein

Director General, Financial Markets and Customs Duties, Federal Ministry of Finance, Austria

Integration is the key for achieving a higher degree of sovereignty change risks and opportunities

Sovereignty in a strictly legal sense means the power and authority to rule. In an economic sense, sovereignty may be more adequately described as the ability to control outcomes and respond to fundamental challenges. In today's globalised economy, domestic policy autonomy may be more constrained compared to earlier decades, but at the same time, the ability to trade, work and invest internationally has increased economic opportunities for all. Sovereignty arises from working together rather than policy independence.

In the financial sphere, sovereignty is necessarily incomplete due to spill-overs from other jurisdictions. As regards exchange rates, there are even political commitments not to target them for domestic purposes. The free flow of capital is among the basic principles of EU integration and the global market, and no other sector is more integrated worldwide than finance. Thus, the quest for more sovereignty in the financial sphere has to strike a balance between maintaining open markets and protecting legitimate interests. Rather than making an increase in financial sovereignty an explicit political objective, policy makers should work towards improving the conditions for economic and financial stability and strength to maximise global influence.

The EU and the euro area have progressed on many fronts since the 2009 crisis. The Banking Union has supported financial stability through harmonising supervisory standards and cutting feedback loops between banks and their sovereigns. The ESM was established as a lender of last resort to distressed euro area Member States. The ECB has expanded its toolbox to address the fragmentation of financial markets and support the transmission of monetary policy. Economic and financial surveillance was strengthened with a view to detecting and addressing risks early on.

Still, there remains untapped potential for the EU to further develop its financial and capital market, and thus to strengthen financial sovereignty. Euro area exporters would benefit from an extension of Euro-based payment infrastructure outside the euro area, which would bolster the euro's role in global payments and exchange market transactions. Further developing equity and venture capital markets would help mobilise private capital for investment and release pressure from banks to provide financing to the real economy.

Yet there are limits to the EU's financial sovereignty, due to the EU being a union of nation states rather than a single nation. Financial interests cannot be traded against geopolitical interests, as practiced by other global powers. There is not a single EU President other nations could talk to, but there are several EU Presidents + 27 Heads of State or Government. This certainly complicates decision making and international economic relations and influence. Therefore, the EU's influence in the international arena should not be measured by comparison to other global powers, but by comparison to the influence EU Member States would be able to exercise individually. Against this measure, the achievements of the EU over the past decades are unprecedented. Internal integration, ultimately also including political integration, rather than restraining market forces, is the key for reaching a higher degree of sovereignty. ●