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<u>Historical Perspective:</u>
Given my Swiss-American background, let me start by explaining that the US and Switzerland also had to overcome challenges when they were introducing their single currencies, the USD and CHF. Both countries had individual currencies in the different states and cantons. Eventually the Swiss and US Constitutions regulated that there would only be one currency. In the US, the Dollar was established by the Coinage Act in 1792 and in Switzerland the Swiss Franc was established by the Federal Coinage Act in 1850.

What is actually more interesting is that Switzerland became part of the so-called Latin Monetary Union in 1865. France, Belgium, Italy, and Switzerland formed the Latin Monetary Union and agreed to change their national currencies and make them freely interchangeable facilitating trade. The agreement came into force on 1 August 1866. The four nations were joined by Spain and Greece in 1868, and subsequently Romania, Bulgaria, Venezuela, Serbia and San Marino.

Some members started to debase their currency by minting coins with an inadequate amount of silver. In addition, the decline in the value of silver from new increased supply, created arbitrage opportunities to sell silver coins and buy gold coins at a fixed silver-gold ratio. These dislocations together with the political turbulences of the early 20th century led to the end of the Latin Monetary Union.

<u>Lessons of the Latin Monetary Union:</u>
First, cheating destroys unions, whether monetary, fiscal or political. Therefore, you need a means of enforcement for unions to last. Second, fixed exchange rates are vulnerable to changes and consequently may attract speculative attacks--therefore, systems require some flexible mechanisms to deal with change. Third, any monetary union will fail without a fiscal and political union. The Draghi statement “we will do whatever it takes” only took away the panic from the market, the Eurocrisis and the sustainability of the Euro is not yet resolved.

So what are the short-term challenges that Europe faces today? I think there are three. First and most importantly, we need to restore trust in government, especially the EU. Second, public finances must be stabilized, without excessive austerity. Third, a path to sustainable growth must be charted. This will require implementation of structural labor and regulatory reforms. In addition, Europe faces longer-term challenges such as demographics--Europe will see its population aging and also falling by 20 million by 2050 while Asia and Africa will continue to see massive incline in inhabitants.

European integration and European unity must be elevated to a new level to successfully overcome these challenges. What has been missing is a clear target picture of where Europe should strive to be ten years from now.

Allianz Seven Pillars for the Future of Europe:

1. *Reform of EU governance while strengthening the democratic legitimacy of EU institutions*
2. *State explicit exit rules for countries that do not live up to their commitments within the Monetary Union*
3. *Provide fiscal guidance: a fiscal rulebook, empowering an EU finance commissioner to intervene when necessary*
4. *Provide economic guidance: to detect and correct the evolution of imbalances that may derail economies*
5. *Enhance competencies for European institutions, particularly European banking (bank union, harmonized deposit protection)*
6. *Create common policies to foster investment in Europe's infrastructure, boosting growth and competitiveness*
7. *Develop a sovereign debt restructuring mechanism offering liquidity, but with conditionality & an orderly process of default*

European VAT Revenue Bond Idea:

One concrete way to address the existing European sovereign debt problem is to consider using the VAT as a European tax mechanism to be redistributed on a per capita or per capita debt basis. These bonds would be structured in such a way to receive an "AAA" rating. Proceeds would be limited to redeem existing national debt before being allocated for national spending or issuance of new national debt. Benefits would include market liquidity and lower borrowing costs. The introduction of such a bond would begin the process of fiscal unity but without a blank check for national spending. This market solution could lay the foundation for greater stability and growth within the Eurozone.

Summary:

In conclusion, while the Latin Monetary Union is old history, the fate of the Euro is ours to see. Today we need less bank intervention and more political leadership. As Europe maps out its future, European leaders will first need to win the hearts and minds of the people that a "united Europe" is worth the sacrifice and second to lay out a clear roadmap towards this destination.