EDITORIAL COMMENTS

Rethinking the economic and monetary union

As conventional wisdom has it, a crisis either cures or kills. The successive crises confronting the European Community have neither had perceptible curative effects nor have they made a quick—and possibly merciful—killing. We may still hold out hopes that integration has progressed so far that we shall somehow be able to muddle through. The original expectations that the common market's spill-over effects more or less automatically would lay the foundations for economic union and even for political union now seem to be definitely dead and buried. If the Community is condemned to succeed, arguably because the point of no return has long been reached, there will be nothing automatic about the process. The Community has shown remarkable powers of survival, but even its achievements up to now are put in jeopardy by the lack of any "quality leap".

At the euphoric summit conference of October 1972 the concept of European Union was introduced, rather by coincidence, it appears. At Paris in December 1974, Mr. Tindemans was entrusted with the formidable job of making a comprehensive report on the overall concept of European Union. This European Union is not necessarily the final stage of a United Europe. It marks the end of "the process of transforming the whole complex of relations between the member States", but if the date of 1980 is maintained this union is bound to be embarrassingly tenuous. However, it would be no less than cynical to state that whatever will appear to have been achieved in 1980, must be labeled "European Union". It would be just as cynical to devise attractive but unworkable schemes for future co-operation among the member States in a European Union. Mr. Tindemans's task will therefore be to devise in a realistic and ambitious manner the essential characteristics of such a Union. It should first of all be a device for consolidating and perfecting the present state of integration (*i.e.* the common market) and in the second place it should constitute the framework for organizing the elaboration of common policy orientations in areas where uncoordinated actions of the member States would either be ineffective or destructive of Community achievements.

Leaving aside questions concerning improvement of the democratic legitimacy of Community action and the definition of human and social values to be upheld in a European Union, the above elements of this Union broadly correspond to the decisions of the Hague on the establishment of an economic and monetary union (1969) and those of Paris regarding Community policies in a number of complementary policy areas (1972). The lack of significant progress on either of these projects has taught us that the approach of small and balanced steps (the criterion of adequate parallelism) simply has not worked.[1] The member States have not really renounced unconditionally and irrevokably the use of any major economic policy instrument. It would seem therefore that a new "test" of political will, as proposed by the Marjolin study group,[2] should not result in giving us more of the same (*i.e.* commitments to coordinate policies or to establish common funds), but that the cure should rather consist of a surrender of a few concrete national powers, on the exercise of which rests the viability of any economic and monetary entity. It seems a bit unfair on the part of the Marjolin group to chide the Werner group for having had "insufficient understanding of what economic and monetary union is". They knew what it was and that it could be done provided that the major policy decisions could be taken at the Community level. The major weakness of the plan and the subsequent Resolution of March 1971 [3] may have been that the necessary transfer of power has not been effected and that any steps for monetary unification should be based on parallel progress in coordinating economic policies.

In a report recently presented to the Dutch Foreign Ministry, an advisory committee on European Union headed by Mr. Spierenburg unanimously proposed to regard monetary union as absolutely essential to any further progress toward a European Union.[4] Taking essentially a "monetarist" stand, which may come as a surprise in a country where national interests were thought to be better served by adherence to the "economist" creed,[5] the Spierenburg group suggests to relaunch the economic and monetary union by creating a monetary union at one stroke.

A new treaty ought to fix the date on which national currencies are to be replaced by a common currency. The decision to establish the monetary union does not require a complete federal structure but certain fundamental decisions must go alongside with it and certain unavoidable implications must be understood and accepted. The new treaty must lay down the decision to establish the monetary union at an agreed date and define the obligations the member States must have accepted in the monetary, budgetary and a few related fields. It should also determine

1. See also the Article by Mr. de Man, this issue, pp. 193-210.

2. Rapport du groupe de réflexion "Union Economique et Monétaire 1980," Brussels, March 1975, II/675/3/74.

3. J.O. 1971, C28; 8 C.M.L.Rev. 1971, 206-212.

4. This does not mean that the report does not contain important suggestions as to how policy coordination in several other quite crucial areas ought to be brought about.

5. See Szász, "The Monetary Union Debate", 7 C.M.L.Rev. 1970, 407-422, at 411.

which powers shall be given to the Community institutions. The treaty could possibly provide for stages, along the lines of Article 8 of the EEC Treaty, but the unconditional and compulsory character of the obligations undertaken by the member States constitutes the main difference with the EMU charter adopted on the basis of the Werner report.

Evidently the introduction of one European currency transforms the Community into one monetary area. National currencies will disappear and the balance of payments of individual member States will become invisible. Strategic elements of monetary policy (money supply, demand management) are to be decided on centrally. Within the limits set by these decisions, national monetary authorities retain their powers. Of course, they no longer will be able to change the parity of the common currency and they are also precluded from reserving gold and foreign currency reserves for national use.

Furthermore, national autonomy regarding budgetary policy cannot remain unrestricted. In order to prevent excessive expansion of public expenditure the Spierenburg report, like the Werner report, also proposes to give the Community institutions regulatory powers in respect of a few key elements of budgetary policy, *viz.* the margins within which the size of public budgets may vary, the permissible extent of budget deficits and the methods of financing these deficits. Moreover, budgetary policies of the member States should conform to short-term and medium-term economic policy guidelines to be established at the Community level.

The main objections to such a plan are well-known. The first rests on the popular misconception that the creation of a monetary union is conditioned by a complete unification of all economic, financial, fiscal and social policies of the member States. This sort of argument was used by France in the mid-fifties, when it argued that the creation of a common market without prior harmonization of social and fiscal charges and other conditions of competition would have disastrous consequences for certain countries. No catastrophies have occurred, however. Even in the U.S., which is a monetary union, the regional differences in wages, taxes, productivity, etc. are still considerable.

A more valid objection is that a single currency deprives the member States of their policy instruments in regard of the rate of exchange. Indeed, if a country experiences excessive wage or price inflation its industries will not be able to sustain competition with those of other member States. As it will not be possible in a monetary union to shift off the burden of uncompetitive industries to other member States that country shall have to resort to some form of wages and prices control of its own making.

The most valid argument against monetary union concerns the need to pool monetary reserves. Invisible deficits on invisible balances of payments of certain countries will have to be financed out of the common reserves. Even if monetary and budgetary restraints are placed on member States in order to prevent weak partners from capitalizing on the efforts and discipline shown by other countries in managing their (more succesful) economies, there is no absolute legal guarantee that member States will not be tempted to disregard certain rules of the game. Inflationary expansion of government spending could then prove to be contagious and excess demand throughout the monetary union would be a likely result. This argument cannot be refuted. It is firmly based on the conviction that in money matters partners are to be trusted only up to a point.

The restrictions on monetary and budgetary autonomy will require the adoption and revision of a large number of rules and technical arrangements. This alone is sufficient for cynics to say that it can't be done. There is no doubt that it can be done, however. The real problem is whether the European Community has acquired such a degree of solidarity that the possibility of sharing resources and reserves can be regarded as a serious proposition. Dr. Pen, noted Dutch economist and a member of the Spierenburg committee, has rightly observed [6] that no one, not even the Dutch government, is obliged to subscribe to the committee's recommendations and to promote a scheme based on solidarity. But whoever refuses to endorse this solidarity cannot seriously claim to be a champion of a European Union, which presumes even more extensive and intensive solidarity. Seen from this angle the Spierenburg report helps to clarify the issues in the debate between advocates of European Union and those who would rather stick to some form of fair weather integration. Chances that the former category will have its way are not bright. We may have to live for some decades to come with a more or less successful customs union patched up with assorted measures frequently of an emergency character and calculated to retard the process of steady disintegration. However, not only countries whose economies are presently in very bad shape would be well-advised not to discard "monetarist" schemes too lightly. The somewhat morbid expression *"hodie mihi, cras tibi"* may also apply to the economic life of states.

6. See his article "De Eurodaalder, een realistisch perspectief?", *Economische en Statistische Berichten* of May 21, 1975, no. 3002, 476-479.