

# We're not to blame

German commentator

**Josef Joffe** on the lessons of the currency crisis

Who deserves to be first in line for the pillory? Mr Lamont, Mr Major, or Herr Schlesinger, the boss of the almighty Bundesbank? To pose the question is like trying to pin the blame on any particular motorist in a multiple car crash.

For politicians it is always useful to mutter "treachery", to target those heinous forces conspiring against the pound from beyond one's own borders. The facts, though, are both more straightforward and profound, and they spell out lessons all good Europeans ought to heed as they look behind the French referendum, indeed, beyond Maastricht.

Lesson no. 1: politicians can fool some markets some of the time, but in the end, the chickens will come home to roost. Of course, Messrs Schmidt (Germany) and Giscard (France), the two co-founders, had hoped that the straitjacket of the EMS would force everybody into fiscal frugality and monetary discipline. But nation-states listen to different gods.

Lesson no. 2: virtue becomes unbearable unless relieved by a bit of sin. In the first four years of the EMS, parities on average were changed every seven months; between 1983 and 1987, realignment occurred once every 18 months. In short, everybody could stay on the wagon because he was allowed to take an occasional sip from the bottle. Since 1987, however, everybody behaved as if realignment were *verboten*. The result was a monetary earthquake that brought the whole EMS edifice crashing down.

Lesson no. 3: don't put the fox in charge of the hen house. Here, too a bit of history will help to clear the mind. Originally, the idea was that (West) Germany would act as the martinet, meting out monetary discipline to the spendthrifts — Italy, France, the whole lot. Originally, Germany was also ideally equipped for the task. The Bundesbank was the most independent of them all; those 18 stern-faced governors, their hands firmly on the monetary tiller, would keep the Bonn government in line and, by yanking the EMS chain, force the profligates elsewhere to shape up or face the ultimate humiliation of devaluation.

THE TIMES

But then came reunification, and that has been the ultimate source of all our troubles. In financing the bill, Helmut ("None shall be worse off") Kohl took a page out of George ("Read my lips") Bush's book: no new taxes. The price tag of unity is about DM 200 billion per annum. That has created inflationary pressures — around 4 per cent, still not much by British standards. But in German eyes, 4 per cent looks like the prelude to Armageddon-on-Rhine.

Hence, the Bundesbank stepped in — like those Wall Street computers programmed to buy and sell on the basis of pre-set benchmarks. The bank, to be sure, was only obeying built-in orders: when faced with fiscal irresponsibility, jack up interest rates and hold down the money supply.

Towering German interest rates, of course, have put an unbearable strain on everybody else. The Bundesbank message was: raise your own rates or devalue — no matter whether France or Britain, facing real recession, could have used a hefty dose of monetary relief. What was John Major to do? Kill all chances of recovery or unlink from the tyranny of the deutschmark — as the United States did long ago?

The moral of the story: the EMS, a rickety construction to begin with, cannot work if the German martinet cannot live by the fiscal discipline he is supposed to impose on the rest of Europe. Hence, there is method in the current monetary madness: if we cannot hang together, it is better to hang loose.

But all is not lost. More than French *anti-Maastrichtisme* or the Danish "no", this EMS earthquake should teach all good Europeans humility — for the sake of Europe. The nation states of Europe are a long way from a common economic policy that would allow for a common monetary policy. Let's not chase impossible dreams. We can build a better single market without a single currency; indeed, a bit of monetary freedom will help us. Thus the EMS collapse may turn out to be a blessing in disguise.

The author is editorial-page editor of the *Süddeutsche Zeitung*, Munich.