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On bended knee to Frankfurt

CARTOONISTS & WRITERS SYNDICATE



Entry into the hallowed hall of EMU requires atoning for all our sins, writes Josef Joffe

THE problem of European monetary union (EMU) is very simple. It is a revolt against the primacy of politics. Yes, there are also plenty of economic problems. How do you collapse 15 currencies into one, how do you make sure that exchange rates are properly aligned on E-Day, how do we avoid monetary turmoil and capital flight before that fateful day?

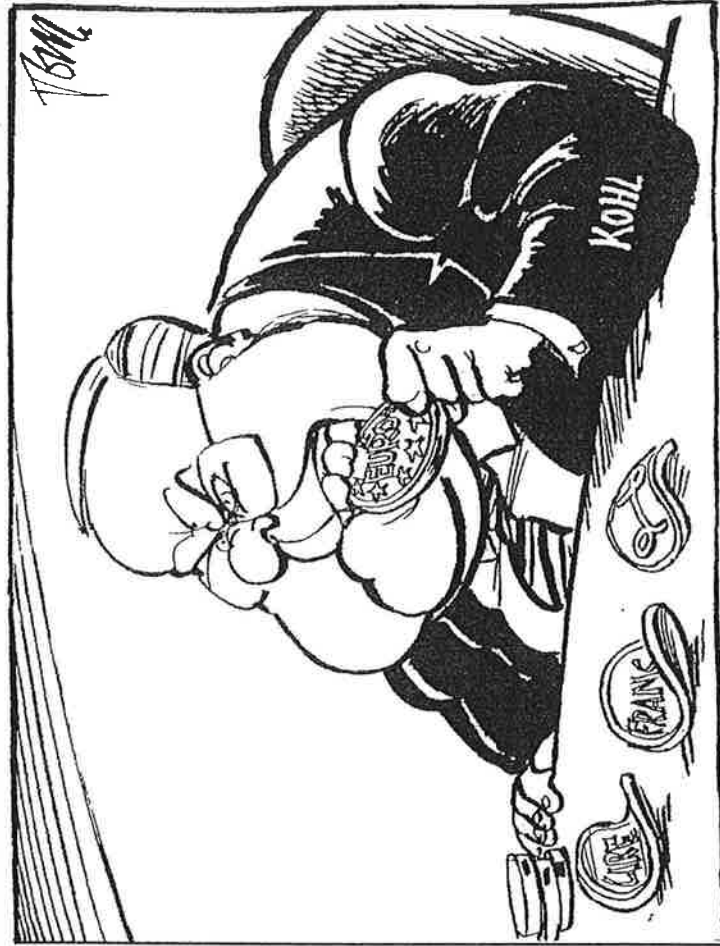
Bankers all over Europe are already worrying about these issues. They will undoubtedly find the solution of them all, the root of all our mounting troubles, has to do with politics.

For EMU, as laid down in Maastricht, is asking the governments of Europe to give up their most precious prerogative next to national defence - national control over economic policy, over taxes, interest and public spending.

The coded talk these days, fuelled by the ever harsher utterances of the Bundesbank, is about "living up to the Maastricht criteria". With that injunction, Hans Tietmeyer and his grey-suited colleagues in Frankfurt mean that entry into the hallowed hall of EMU requires atoning for all the sins that democratic governments have so fondly committed for decades - vast budget deficits, spiralling public debt, high interest rates, gyrating parities, and a "what, me worry?" attitude to inflation.

Only two countries could

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more or less in tandem, they will not reach the Promised Land of Maastricht. This is why we keep pushing the date forward. Crossing the Jordan is now set for 1999, two years after the original date. But you would not be taking too high a risk in betting against 1999, either.

The moral of this tale? Politics is more important than economics, and, if push comes to shove, national sovereignty will trump European faith.

Is there a way out? Yes. Over the next few years, at least the key countries of the European Union could try to conduct more or less the same fiscal policy - preferably by spending less and refraining from taxing more. That would make for low interest rates, higher growth, less unemployment and stable exchange rates.

If we are all in the same boat, we might just as well be flying the same flag. We would have monetary union - that is, unchanging parities - whether we called it EMU or not.

But as long as we do not sail together, we will not have EMU. We might have a deutschmark bloc (which exists already), and we will have Tietmeyer's successor preach the stern virtues of the Bundesbank.

We will keep moving. E-Day forward into the mist - and 1999 is already receding in favour of 2002.

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that tried to shrink the slice is now in opposition.

This is the crux. As long as governments are beholden to their electorates, they will not yield pride of place to Frankfurt. They will think first about staying in power - and then about Maastricht.

Hence, they will conduct a fiscal and monetary policy that keeps their voters reasonably happy - if need be, by profligacy and borrowing or, worse, by running the banknote printing presses a bit faster.

Or put it this way - unless all EMU enthusiasts move

"Europeanist" thinking collides mercilessly with the powerful claims of politics and sovereignty.

When President Chirac drew up his first budget he worried first and foremost about combatting runaway unemployment with more government spending. And so he went deeper into debt.

An Italian prime minister, whoever he may be, will think above all about staying in power. And so he will not cut pensions or raise taxes.

Sweden? Social peace apparently rests on a social policy that eats up 60 per cent of GDP. The last government

be true that fiscal discipline, low interest rates and a tight-fisted approach to borrowing are good things for each and all. Like parents, governments should not spend more than they make.

Keeping revenues in line with outlays will keep interest rates down and investment up - which is good for growth. Western economies will probably do better in the long run if they all followed the law as laid down by the Bundesbank.

But people are asking: who elected or appointed the Bundesbank? And this is where sound economic or