# COUNTDOWN TO E-DAY

## A unified Europe, long a distant dream, is about to arrive for both East and West. But not everyone is prepared for its impact

By JOSEF JOFFE

HISTORIANS LOVE DATES LIKE MAY 2, 1998 BECAUSE they rhyme with "fate" and "make-or-break." On that day, a mere four months away, the European Union will separate the good from the bad and the ugly. The Fifteen will decide who among them shall be admitted to the inner sanctum of monetary union that is to be launched less than a year from now.

It is a date with fate because it will either make or break the grandest experiment ever in the history of European integration. Come New Year's Day 1999, those so anointed will have to give up a very big chunk of their sovereignty: the power to mint and manage the nation's money. This is hardly a trifling matter, for control over monetary policy—over the interest and exchange rate—has been at the core of the modern nation state. With easy money, governments have battled unemployment. By devaluation, they have tried to trigger export-led growth. To stem inflation, they have tightened the money supply. Yet after Jan. 1, 1999, these critical weapons of national policy will have gone the way of the halberd. The Bundesbank and the Banque de France will close up shop and hand over their powers to a European Central Bank. By 2002, when the three-year transition phase is over, marks, francs, guilders and the rest will be history; there will be only euros and cents.

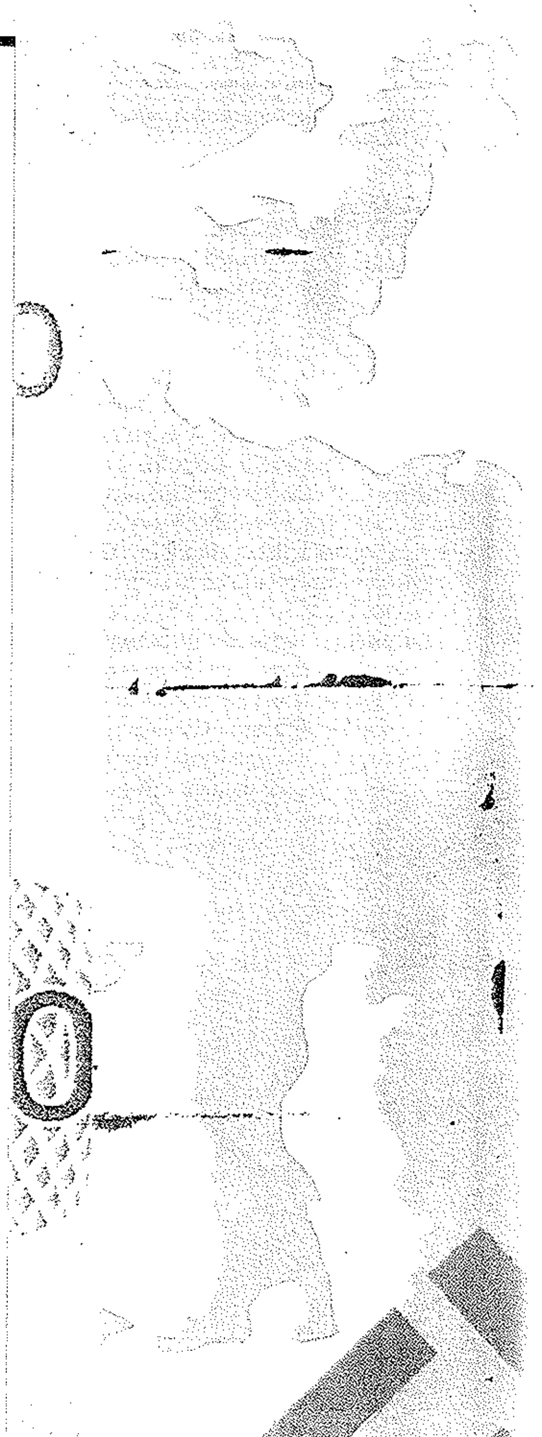
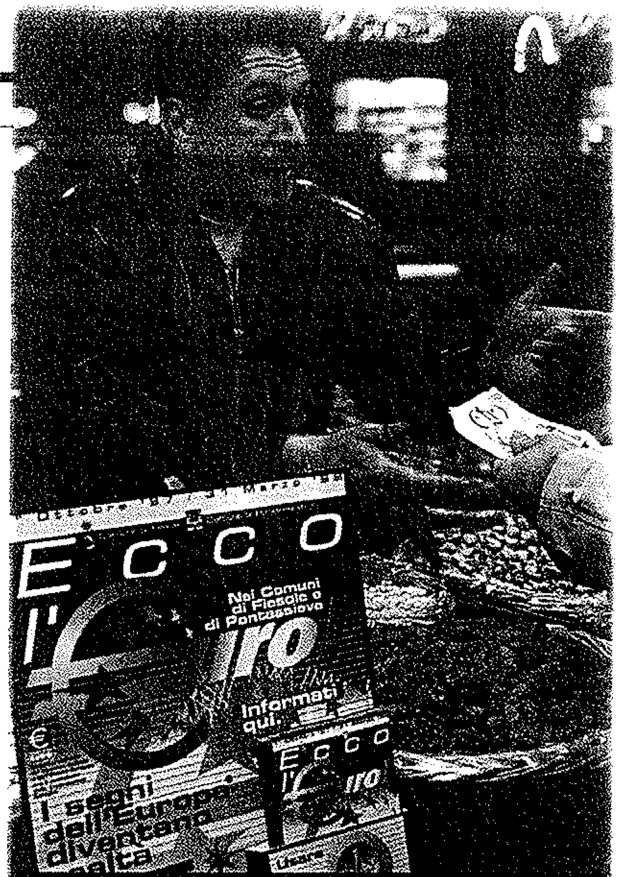




Illustration for TIME by Brian Cronin (Right)




**EURODATES IN 1998**

Second half of March European Monetary Institute and European Commission publish EMU convergence report.
March 12 European Conference in London of the leaders of the 15 E.U. member states and the heads of the 11 countries seeking to join the E.U. (Turkey has been invited, but the Ankara government has not announced if a representative will attend.)
March 30-31 General Affairs Council: foreign ministers of the 15 E.U. member states and the 11 applicants meet in Brussels.
March 31 Start of negotiations with the first six E.U. candidates: the Czech Republic, Estonia,

If it works, France, Germany and their fellow qualifiers will have taken a giant step toward toward self-transcendence—indeed, the biggest since the debut of European integration almost 50 years ago. If the euro derails, the fallout will damage more than just the tracks laid out in Maastricht in 1992. It may tarnish much of what Europe has achieved since 1952 when the original Six first joined hands in the European Coal and Steel Community. The stakes are huge.

For Europhiles, the plunge into monetary union goes under the heading of Deepening. But that is only half of the ambitious agenda the E.U. has imposed on itself for 1998 and beyond. The other half is called Widening. Admission to the currency club in May will occur less than five months after another fateful choice—or "historic event," in the words of German Chancellor Helmut Kohl. At their Luxembourg summit in mid-December, the E.U. leaders at last opened the door to eastward enlargement. Five "Easties"—the Czech Republic, Estonia, Hungary, Poland and Slovenia—now stand a real chance of membership early in the next millennium; another six were invited to get in line for admission by, say, 2010.

So there is more than just the euro to try Europe's soul (and stomach) in the next several years. It is "deepening" and "widening" all at once—adding muscle and speed while trying to gain weight. Boxers preparing for the heavyweight championship have occasionally succeeded at this tortuous game. But the E.U., a bunch of 15 (and soon 20) nations, is no Muhammad Ali. If the worst-case scenario comes true, the E.U. might end up like Mike Tyson in his hapless comeback attempt against Evander Holyfield. Tyson had literally bitten off too much; he was stopped in mid-fight and disqualified.

European Economic and Monetary Union has to do with fusing many sovereignties into one; enlargement is the very opposite, as it brings in more national wills. Worse, Poland and other Easties are not at all like Austria, Finland and Sweden, the prosperous and well-ordered trio inducted during the last round of expansion in 1995—neither a drain on the E.U.'s resources nor a strain on its political fabric. Bringing in Sweden or Austria was like inviting a rich aunt for Christmas. Her table manners are impeccable, and she brings tastefully wrapped gifts.

The Easties are more like long-lost second cousins with a dubious past and a poor credit rating. Poland and the Czech Republic have a per capita income of less than $3,000—as compared to the $27,000 produced by every Austrian. Yet this disparity should not disqualify them. Indeed, if the E.U. were organized in the right way, it could do wonders for the Easties. But it is not.

Theoretically, the E.U. would envelop these young market economies in a free trade area that would encourage their economic strength: low-wage production that fuels rapid export-led growth. But the E.U. is only half a free-trade system—for services and industrial goods. In agriculture, the E.U. is a wasteful cartel designed to protect farmers. One half of the E.U. budget ($45 billion) goes into farm support to sustain high prices. Another $33 billion is earmarked for payments to the poorer members like Spain, Portugal and Greece.

This poses a deadly dilemma for enlargement. Much needier than these Mediterranean countries, newcomers like Poland employ seven times as many people (proportionately) in the agricultural sector than does Germany. To extend the E.U.'s subsidy system to them would simply break the Brussels bank. Yet to let them compete freely would break the backs of many inefficient farmers between the Algarve and the Aegean. In the event, millions of West European peasants would look none too fondly at their governments during election time. French farmers have stormed city halls for lesser provocations.

WHEN THE FIFTEEN EXTENDED THEIR invitation to the Eastern Five last December, they behaved as sagely as two-year-olds who think that the world disappears when they clap their hands over their eyes. Instead of at last attacking their absurd farm-support system, which hurts not only outside producers but also E.U.'s consumers, they chose the classic European way out: Let's stumble ahead and tackle the problems when the collision occurs.

For the time being, they told themselves, we are just talking with the Eastern candidates. This will take at least until 2004, and six years is a long time in politics where, as the Americans say, 24 hours can make all the difference. We have done our European duty by showing the new democracies a silver lining on the horizon; let our successors deal with the inevitable storms ahead.