# Now we have the euro, it is time to prepare for full political union

ON THE first of January – actually, make that the fourth, as the first working day in 1999 – the world will wake up to a genuine revolution, something without precedent in history. It is a common currency, the euro, without a common state.

This has never been tried before. Historically, the sequence was always reversed. Take the 19th century. First, Bismarck had to pound 25 little Germanys into the Reich in 1871 – with "blood and iron", as he famously put it. Only then did a common currency, the mark, follow. Ditto Italy in the days of Cavour and Garibaldi: first political fusion by force, then a common lira from Milan to Messina. Or the United States. The first step was the constitution in 1787; true monetary union came only 126 years later with the founding of the Federal Reserve (and with a bloody war of unification in between).

So the Europe of the Eleven faces a daunting task. On 1 January, the Eleven will relinquish a big chunk of national sovereignty: the power to manipulate the quantity and the price of money. Nor is this all. Under the Stability Pact, which is part and parcel of European Monetary Union (Emu), the Eleven have also given away a large chunk of fiscal sovereignty. No longer can they go into wanton deficit spending, never mind the national debt. Electorates barely accept such regimen when meted out by their own governments. But now, they will have to submit to those distant, almost anonymous men ensconced in the European Central Bank (ECB) in Frankfurt.

If they do, the euro is safe. But the steady sniping against those "unaccountable" Eurobankers by the likes of German finance minister Oskar Lafontaine already tells of the troubles to come. "Little Napoleon," as his countrymen call him, and his leftish brethren who govern 13 of the

**JOSEF JOFFE**

*The euro is like putting the cart before the horse. Either Europe will federate or disintegrate*

15 EU countries don't like the idea of an ECB that is virtually the German Bundesbank writ large. They want more than just easy money. They want to grab hold of the Eurobank's independence while it is still new and unsure of itself.

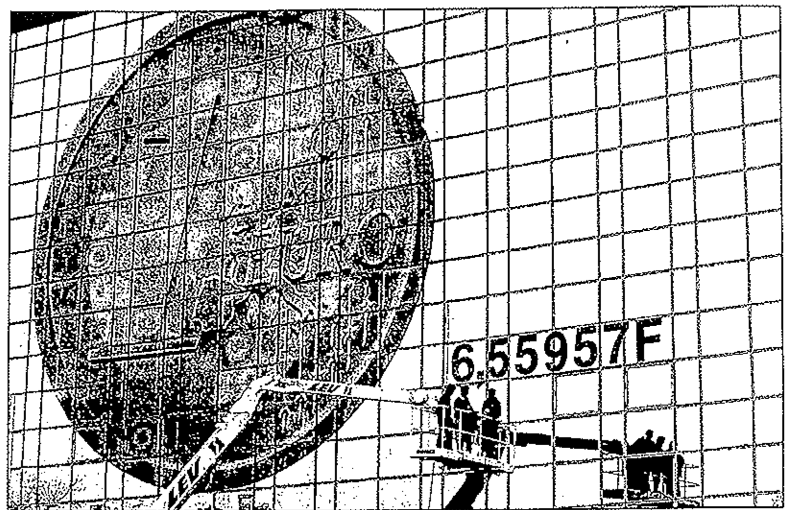
This will be one battle line after January 1: politics vs. sound money. The other is just as serious. Will all those governments who just squeaked in under the bar of the Maastricht criteria (low debt, deficit and interest) stay the course of euro-minded virtue? What if, say, the Germans do and the Italians don't? Unless all of these governments behave as if their were already one, conflict among them will put enormous pressures on the "union".

Think about Emu as a train where all the cars must move at the same speed in the same direction at all times. Unless they do, the train will derail. That is the greatest test faced by a monetary union without political union.

But for now, Emu's prospects look much better than could have been expected in March when only very few among the Eleven could make the cut without having to massage the books. To begin with, the monetary tsunami that crashed through the East Asian economies did not derail the Emu train as it moved toward the 1999 starting line. All currencies remained in tandem and on track.

Also, popular opinion is no longer running against the euro as it did in key countries, notably Germany, since the Maastricht Treaty was signed in 1992. Germans are still not happy when contemplating the impending loss of their precious deutschmark. But nowhere in Euroland did the critics manage to turn Emu into a a salient issue, let alone a rabble rouser. Because no mainstream party has picked up the anti-euro flag, people have accepted the inevitable. Also, fears have failed to galvanise because nothing will really change for Herr Schmidt and Mme Dupont on January 4. They will still carry deutschmarks and francs all the way into to January 1, 2002. In the meantime, the euro will enjoy a fairly easy trial run. Because they are either anticipating a "hard" euro or continued political turmoil in Washington, the money markets are depressing the dollar, which strengthens the currencies of the Eleven. That should build trust in the euro and even turn it into a a new reserve money rivalling the dollar. Inside Euroland, Emu will do wondrous things for large banks and insurance companies. Obviously, if all stocks, bonds and policies traded between Lisbon and Leipzig are denominated in one currency only, then sheltered national markets will collapse, burying previously favoured niche players.

There will be one big playing field where Herr Schmidt and Mme Dupont can suddenly pick among Fiat, VW, Renault and Seat shares whereas in the past they used to cling to their familiar national car makers.




Unveiling the new conversion rate of franc to euro at a Paris bank yesterday *Michael Lipchitz*

That will make for more efficient capital markets and perhaps even jog the EU's lagging growth rates.

In general, the euro will simply add to the pressures of the global market. Giants like Siemens or Credit Lyonnais, previously favoured by national habits and policies, will have to compete in a much more transparent market. That should be good for the consumer, as it will drive down prices

This is the upside of the euro. The downside is the familiar one. You can't really have a common currency without a common government. At least it has never been done before. So the euro is like putting the cart before the horse. Either Europe will have to federate – or it will disintegrate.

Why so? The modern nation state is inextricably tied up with the sovereign's control over the purse. Indeed this is how the modern nation state came about in Britain and France in the 16th and 17th centuries – when Henrys and Louis grabbed hold of the public finances with the help of their Wolseys and Colberts.

Monetary union will wrest this critical piece of sovereignty from the hands of several states. They can no longer manipulate the exchange rate to stimulate increase exports. Nor will they be able to pump up the money supply in order to stimulate investments. Under the Stability Pact, they can't even do the Keynesian thing: go into heavy deficit spending to drive down employment. This is why the euro is a make-or-break affair.

Either the EU's member states go all the way and federate in a United States of Europe, or they claim back what they have relinquished at Maastricht in a fit of absent-mindedness: their suzerainty over monetary and fiscal policy. But this strange being spawned by Maastricht – monetary union without political union – cannot endure.

Think about trains where each car has its own engine and engineer. Either they all act as one, or the couplings will break and the train will derail.

*The author is the editorial page editor of 'Süddeutsche Zeitung' in Munich*

THE INDEPENDENT, Jan. 1999