

'Only a political leap can help Europe' from the Frankfurter Allgemeine Zeitung (20 March 1976)

Caption: On 20 March 1976, the German daily newspaper Frankfurter Allgemeine Zeitung argues that economic and monetary union will come about through strengthened European political cooperation.

Source: Frankfurter Allgemeine Zeitung. Zeitung für Deutschland. Hrsg. Eick, Jürgen; Welter, Erich; Fack, Fritz Ullrich; Deschamps, Bruno; Fest, Joachim; Reißmüller, Johann Georg. 20.03.1976, Nr. 68. Frankfurt/Main: FAZ Verlag GmbH. "Europa hilft nur ein politischer Sprung", auteur:Kobbert, Ernst , p. 10.

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Only a political leap can help Europe

Lessons from the recent monetary crisis, by Ernst Kobbert

Brussels, March

In his report on the European Union, the Belgian Prime Minister, Leo Tindemans, had referred to the European currency snake as an available component for the gradual implementation of economic and monetary union. If the European Heads of Government are to discuss the Tindemans Report in Luxembourg in early April, the views that Tindemans expressed will be sidelined by the sight of the Community in its current desperate situation. For the moment, there is very little prospect of finding any improvement in the point of departure. Economic policy is now conducted at national level within the nine Member States of the Community, where it is influenced by all kinds of different conditions and takes particular account of the respective sensitivities of the electors.

In the process, Europe continues to go downhill: the Brussels Commission said as much in its commentary on French withdrawal from the snake. If economic and monetary union does not succeed, many other things that have been achieved with great difficulty are also under threat. In theory, everyone regards the European Community as a necessity on economic and political grounds. However, as soon as specific details are considered, national interests come to the fore. If the theoretical support for the EC is sincere, then one day that great leap of faith must be taken and Europe must become the benchmark.

A comparison comes readily to mind: the *Länder* of the Federal Republic of Germany make different contributions to the total balance of trade and payments, and there is a horizontal financial compensation mechanism that links them. As soon as this degree of common purpose is achieved in Europe, currency speculation against Italy, France, Britain or Belgium might well come to an end. Only then would the question be whether the European currency as a whole is strong or weak. Speculation about revaluation today is directed at the Deutschmark, not at any Schleswig-Holstein or North-Rhine-Westphalia currency.

Ever since economic and monetary union began to be discussed, an argument has raged between the monetarists and the economists. The monetarists say that monetary union should force countries to show solidarity towards one other, whereas the economists' theory is that monetary union is impossible until there is better harmonisation of economic policy. The monetarists assume that governments shy away from currency devaluation because they see it as an admission of economic failure. Ever since the floating of currencies has become respectable, any country can avoid formal devaluation and claim that they are allowing their own currency to find its real international value — just as Britain and France are doing today.

A few years ago, when the first national economists spoke up in support of freely fluctuating currency rates, this was considered to be a great opportunity in the broad field of international relations. However, it was repeatedly stated that fixed exchange rates were needed within the European Community, meaning they should not be allowed to float against each other. All that is now long forgotten. Since the European countries have not been able to harmonise their economic and monetary policies, with some having a great fear of inflation and others being more anxious about unemployment figures, and in spite of all the committees on harmonisation set up within the Community, harmony has never been achieved. Under the conditions prevailing hitherto, harmony might have been achieved only at the price of general and much higher inflation.

The political conditions might have had to be changed. If Europe were to make that great leap towards monetary union, with common reserves and a common policy towards third countries, the situation would look quite different: the weaknesses of one country would also have to be borne by the others. Today, this price is too high for many Member States, and, after everything that has happened, the goal is deemed to be unattainable.

The behaviour of the EC has been very divided. Over and over again, it has shown inhibitions about meddling in the internal affairs of fellow Member States although, at the same time, the Finance Ministers

and the Governors of the issuing banks have been able to reach agreement at the Brussels Council of Ministers on the issuing of a Community loan to help two weak countries, Italy and Ireland, out of their difficulties. The granting of these loans is combined with tough conditions: there are conditions requiring the limiting of budget deficits, conditions on the granting of credit and even on incomes policy. No one knows whether all the Finance Ministers and Central Bank Governors meeting in the Council of Ministers actually regarded this policy of imposing conditions as realistic. One point in the policy already raises a question: the condition of an incomes policy and the possible necessity for a rise in taxes is an intrusion into politics. The loans are a contract between governments, but everyone knows that today, in every country in the European Community, there is a 'shadow government' of trades unions. Will they go along with it? The situation arose once where the Italian members of the Council of Ministers insisted that the European Community dictate conditions to their country. They were seeking support for their own national policy. However, whether it was sufficient to implement a rational economic policy remains an open question.

However, if an attempt is made with these Community loans to strengthen the creditworthiness of a financially weak country by demanding such commitments, then that must also be a possibility on a larger scale: for example, in the creation of a large common reserve fund for the defence of currencies, even with agreement on a horizontal financial compensation scheme, where the stronger help the weaker. This has never been attempted before, because the starting point for all discussions remains national autonomy in economic policy. Economic and monetary union will never come about like that. It can only be successfully introduced through a major step forward — and that must be a political step.