'On course for monetary union' from The Irish Times (23 September 1996)

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On course for Monetary Union

This weekend's meeting of EU Finance Ministers in Dublin again highlighted the political determination across Europe for monetary union to start on schedule. Detailed preparatory work on the move to a single currency and the operation of monetary union is well under way and the Dublin meeting continued the push towards final agreement on the key issues. The Minister for Finance, Mr Quinn, is confident that final plans will be ready to be formally sanctioned at the EU summit in December.

As this weekend's meeting was an "informal" gathering, no final decisions were taken. However the ministers gave their broad political backing in some key areas. Agreement on how to control the relationship between those inside monetary union and those outside is now almost finalised. And progress was also made on agreeing the rules to which members of monetary union will have to adhere. There are no apparent major road blocks to final agreement on these issues although some important matters of detail remain to be agreed.

However, as the ministers continue to insist that everything is on schedule, the signs are that many states will still struggle to meet the criteria set down in the Maastricht Treaty for membership of the single currency. France, in particular, undertook a questionable manoeuvre in switching funds in drawing up its 1997 budget and even Germany is struggling to keep its budget deficit below the 3 per cent limit.

It remains to be seen how flexible EU politicians will be in interpreting the Maastricht rules when the final decisions are made early in 1998 and what kind of political pressures this will throw up. Maintaining the balance between the economic rigour necessary if the single currency is to be stable and the political considerations needed to maintain the solidarity of the Union may not be an easy task. Still, EU politicians insist that there is no going back and that monetary union will go ahead on schedule at the start of 1999.

Mr Quinn and his Government colleagues insist that not only is the single currency the correct political route for Ireland, but also that it will bring substantial economic gains. A recent report from the Economic and Social Research Institute said that it would be in Ireland's interests to join although the gains would be substantially lower if Britain stays out. With this in mind the Government will welcome the emphasis at EU level on monitoring the economic policies of those states which do not join the single currency, as well as those which do.

Unfortunately the current British government has set its face against membership of a reformed EU exchange rate mechanism, designed to limit the amount that currencies outside the system fluctuate against those inside. Stable British economic policies would lessen the threat of the kind of sharp fall in the value of sterling which would hit Irish business. But it would not eliminate this risk, particularly as movements in the dollar affect sterling to a large degree on the foreign exchange markets.

For this reason, and because membership of monetary union would put increased competitive pressure on the economy, the Government's sole focus in the months ahead must not be on completing plans for EMU as part of its role as EU president, important as this task will be. It must also set out clearly in the light of the ESRI report how it believes budgetary policy should be managed as monetary union approaches and what implications EMU has for the forthcoming talks on a new national agreement. Monetary union, as Mr Quinn put it this weekend involves playing "in division one" and it is essential not only to qualify but also to lay the groundwork for prospering as a member of the single currency club.