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Renunciation of Sovereignty the Pivotal Political Problem

by Dr Hans-Eckart Scharrer, Hamburg

The summit conference which was held at The Hague on December 1st and 2nd 1969 drew up a fresh programme for the European Community. The heads of government of the six EEC member states decided that, the customs union having been achieved, the course should now be set for an economic and monetary union. This decision marks the beginning of a new development phase which, it is hoped, will end in the conversion of the Community into an economically integrated area in Central Europe. The distance between these aims and the present starting position and the magnitude of the tasks ahead in the transitional period become clear when one considers that a monetary union presupposes: a uniform currency under the control of one common central bank; freedom of movement between member states for all goods and production factors (labour as well as capital) and payments of all kinds; a high degree of harmonisation of the financial and budgetary policies of the constituent states. Concealed behind a multitude of "technical" questions there is the pivotal economic problem which the member states will have to face — the gradual renunciation of their sovereign rights as individual nations in

the interests of common aims; in other words the transfer of part of their responsibilities to supra-national bodies. The transitional period ahead will thus be for the countries concerned a period of apprenticeship during which their primary task will be to learn giving up some of their sovereign rights.

"Monetarists" vs. "Economists"

Discussions between monetary experts and economists on a realistic time-table for the creation of a monetary union have recently been marked by doubts about the readiness of the governments voluntarily to give up economic responsibilities. The "monetarists", represented by France and Belgium, favour an early start with the narrowing of the permissible margins of exchange-rate fluctuations and with the creation of an exchange equalisation fund. Their aim is to "force" the governments to harmonise their policies. The "economists", represented by the Federal Republic of Germany, the Netherlands and Italy, doubt the effectiveness of this kind of pressure; they fear that the governments may relapse into national protectionism in order to ward off spill-over effects from other countries which in the absence of

exchange-rate fluctuations may be particularly strong. The economists therefore plead for harmonisation of economic policies as a first step, as a test to see what further steps may be taken in the monetary field. After the poor experiences with the common agricultural policy, which was expected to act as a driving force, propelling the Community towards integration, the economists' view may be more realistic than the confidence of the monetarists in the inexorable force of events. On the other hand, their stated opinion may be no more than a rationalisation of their lack of willingness to accept a narrowing of their authority.

Lack of Willingness ...

Harmonisation of national economic policies appears necessary in the first instance in the sphere of macro-economic aims. Coherent national objectives are a prerequisite to a parallel economic development in all the countries of the area to be integrated and thus to well balanced and stable exchange rates. Stable market rates between national currencies are in turn essential if the parity system is to have a firm foundation and if in the end the national currencies are to be replaced by a

common currency. The so-called "Barre-Memorandum", published by the EEC-Commission on February 12th, 1969, which is the basic document of the Hague decisions, therefore calls—quite logically—for a convergence of national guide-lines. Admittedly, the Medium-Term Economic Policy Committee has in the past repeatedly worked out five-year projections. But these were additions of the isolated national plans rather than consistent sets of objectives. They were visible evidence of the lack of willingness on the part of the governments to make any concessions in their economic programmes in favour of the plans of their partner-countries or of a joint programme.

... to Agree on Aims

One of the reasons why the way towards a formulation of a European set of aims has hitherto been blocked is the fact that at least the big countries are inclined to identify their own national options with the common objectives. The Germans, for instance, frequently fail to appreciate that the higher rate of price increases such as is tolerated abroad is not so much a sign of the "unsoundness" of the economic policy of these countries as an expression of a different economic and social structure and of a different conception of macro-economic welfare functions. For this reason alone a general acceptance of the German way of thinking ("community of stability") can by no means be expected, just as other countries will have to give up hopes to impose their set of values ("community for growth") on the Community. All countries will therefore have to answer the question as to whether the one percent of extra growth or price stability, respectively, they may achieve if they continue to conduct their own affairs autonomously is worth abandoning the

pursuit of a common set of objectives. Should they answer this question in the affirmative, the logical consequence would be to scrap all plans for a monetary union and put in its place an integrated area with flexible parties which would be the only way of ensuring the autonomy of the various national policies.

Supplementary Arrangements for Co-operation

Whether the governments will in future be prepared to co-operate more closely remains to be seen. Will they be able to agree, for instance, on the third programme for a medium-term economic policy, establishing compatible quantitative standards for growth, employment, prices and balances of payments, say on the lines tentatively laid down by the EEC-Commission in December 1969?

Agreement on common medium-term aims remains of no practical value as long as it is not supplemented by an effective system of consultation and co-operation which makes for harmonious short-term policy. At the end of January of this year, the Ministers of Finance and Economic Affairs of the member-states agreed on the procedure to be adopted for joint consultations with regard to business cycle policy. The agreement provides for prior consultations before a member state takes any important decisions or measures which affect its own economic equilibrium, internal or external, or the equilibrium of the partner-countries or constitute a deviation from an agreed line of policy. These consultations may take place in one of the committees concerned with economic policies (the Monetary Committee, the Short-Term Economic Policy Committee, the Budget Policy Committee, or the Committee of Central Bank Governors) or in the Ministerial Council. The de-

cision was much applauded at the time, but some doubts have since arisen as to its practical value.

For one thing, the circumstances demanding prior consultation are so little defined that a country wanting to avoid a discussion of its policy will have no difficulty in getting out of it. Furthermore, even a consultation in due form need not necessarily lead to a co-ordination of the measures to be taken; each government is free to accept or reject the opinions of the others. In fact, previous consultations on such important matters as devaluation of the franc, introduction of exchange control in France, unpegging of DM-rate were to all intents and purposes of an informatory character only since the decision had already been made by the responsible national body. Thirdly, the governments have so far been rather unsuccessful in the pursuit of their self-determined national objectives so that a parallel development of the various national economies is by no means guaranteed even if the governments concerned prove to be co-operative. There is therefore no cause to indulge in a general euphoria. On the other hand, the establishment of a mechanism for consultation offers at least the chance of a gradual intensification of European co-operation. It is now for governments and central banks to use that chance. Each step taken towards co-ordination of economic policies must therefore be regarded as a genuine achievement, even if progress is slower than the ambitious planners expected.

Mutual Assistance

Not long after the Hague Conference, the Central Bank Presidents reached agreement on a system of mutual short-term aid. According to this \$2,000 mn credit agreement, the Central

Banks of the member-states can count on three-month credits from their partners, provided the financial need has arisen "from a temporary balance-of-payments deficit despite co-ordination of economic policies" (article III of the agreement). In the middle of June, the European Commission submitted a draft-agreement, providing for medium-term assistance in the form of additional \$ 2,000 mn worth of credits for two and five years, respectively.

It is undoubtedly true to say that the planned narrowing of margins and the gradual dismantling of restrictions on payments may possibly accentuate existing imbalances in foreign trade even if economic co-operation functions well. But the problem of mutual assistance is hardly that urgent that it needed solving right in the beginning. As a matter of fact, Central Bank co-operation has worked so well in the past that a formal agreement was hardly needed at all. Neither is the linking of the assistance with the obligation to consult a sufficiently convincing argument in favour of a quick ratification of the agreement; the intended disciplinary effect should in practice be rather small. The mutual support mechanisms must therefore be considered to be a symbolic rather than practical step in the direction of monetary union.

Common Reserve Fund

Even much less important for the near future would appear to be the creation of a Common European Reserve Fund, for which much propaganda is being made. Undoubtedly, in the final phase of the Monetary Union a central administration of monetary reserves will have to be part of the functions of a supra-national Central Bank. What is however far from clear

—even to many of its advocates themselves—is what possible functions such a Fund could usefully fulfill during the transitional phase. The proposal that the Fund should grant support credits to partner-countries from its own resources is still relatively straightforward; but then for transactions of this kind no pooling of reserves is necessary. Quite a different matter is the frequently heard opinion that a fictitious Euro-franc (a mere clearing currency) may be used for interventions in the foreign exchange markets and as new reserve medium could constitute a desirable alternative to the dollar. Such a proposal is nothing but an unrealistic wish-dream.

Considerable scepticism is also indicated in regard to the role that this synthetic currency is intended to play in the integration of capital markets. The fact that it has so far been impossible to develop within the European Community an integrated capital market—in contrast to the Euro-capital market—is least of all due to the non-existence of a common reckoning unit. It is primarily due to the in parts very stringent restrictions on capital movements which exist in all countries other than the Federal Republic. It is therefore at this point that the lever should first be applied.

Majority Decisions Essential

When one looks at the attempt at, and proposals for, agreement that have hitherto been made, one is struck by the importance attached to technical and institutional arrangements such as a narrowing of margins, support systems and reserve funds. Now it is quite understandable that in a mass society

visible symbols should be required for such an abstract process as monetary co-operation. It would however be dangerous if these symbols were to take the place of substantial progress towards integration. In this context the final question arises: Are there any more effective means to compel the partners to co-operate?

One fundamental obstacle stands in the way of co-ordinating economic policies: the governments' dependence on their national parliaments and their electors. This dependence is of no importance for the realisation of Community policy as long as there is no conflict between the priorities of the individual countries and the EEC-area as a whole. In cases, however, where such conflict exists, the governments face a dilemma: They must decide between the interests of their own states and those of the Community. As they are answerable exclusively to their own nation, they will as a rule opt for the national interest and in so doing block once again the progress of the Community.

In the view of the planned expansion of the Community it is now more important than ever to change as soon as possible from the practice of non-committal consultations to binding majority decisions and to strengthen the powers of the Commission. In this way a certain equilibrium would be established in the parallelogram of forces between the national and European authorities. But even so an economic and monetary union is in the long run inconceivable unless essential areas of jurisdiction and control be transferred to an authority of the Community — an authority that is responsible to a European Parliament.