

Beyfuss, Jörg

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EEC – What in Ten Years?

While public discussion in the EEC has been focusing during the last weeks on the effects of the decision taken by the Federal Republic and the Netherlands to set their currencies free to float, the consequences for the member countries of the Community decision to transform into an economic and currency union have hardly been commented. The following articles analyse the significance of and the problems that will arise from this decision.

Harmonisation of Aims – Essential

by Jörg Beyfuss, Cologne *

To achieve satisfactory economic growth, full employment and stability within the European Community at the same time and pace, the Council of the Common Market and the Government Representatives declared on February 9, 1971, their political determination to create in the course of the next ten years an economic and monetary union. This objective is to be achieved in stages. The declaration marks the beginning of a new chapter of European policy. The aims of this policy are fascinating: there is to be a common economic and monetary policy which is to be "effectively and quickly" pursued by the organs of the Community. Common Market policy is subject to European parliamentary control. The introduction of a European currency would apparently be a matter of pure form and political union within reach. Looked at from this European angle, February 9, 1971 must indeed be regarded as a historic date.

* German Industrial Institute (Deutsches Industrieministerium).

If, however, one looks at the situation from a different point of view—the angle of economic procedure—doubts begin to arise. The declaration of the Council of February 9 states that in achieving economic and monetary integration will realise at the same time and pace the aims of the magic triangle.

Problems to be Expected

No doubt that this causal relationship does not lack a certain logic. For the impulse to achieve closer economic and monetary integration springs directly from the stage in the European integration process the Community has now reached. On the one hand, the desired customs union has been achieved. On the other, the consequence of that very customs union has been that cyclical fluctuations in business activity now spread rapidly throughout the Community and that it has become more difficult for individual member-countries to remedy such disturbances in the economic equilibrium by themselves because important in-

struments of economic policy may no longer be used or have become less effective. This dilemma is bound to lead to greater economic disturbances within the Community, if individual member-states are to retain their right autonomously to determine the aims they wish to pursue as well as the means by which to reach their objectives. For if a country pursues its aims independently, it must administer the means at its disposal in stronger doses or have recourse to other means which render a common economic trend for the whole Community impossible. In the first case, undesirable repercussions will occur in the other partner-countries. In the second case, the stage of European integration so far achieved would be in jeopardy.

So far it is evident that relating to procedure the autonomy of an individual state is confined to the setting up of targets. Whether it will achieve its objectives depends in large measure on what its EEC-part-

ners want to do and how they want to do it. This has been illustrated most forcibly in the course of the present business cycle.

Chances to Achieve Common Objectives

It is conceivable that the chances of a common achieving of objectives will improve, if the narrowing of the individual member-state's scope for independent action is compensated for by a strengthening of the guiding mechanism of the Community as a whole. In the centralisation of the possibilities of intervening in matters of economic and monetary policy lies the "Toulon" of a rational policy of integration. We are reminded of the well-known dispute between the monetarists and the economists which the Brussels decision of February 9 ended by coming down in favour of the monetarists. The monetarists see in the prior fixing of exchange rates a means of achieving integration; the economists, on the other hand, want monetary union only after the harmonisation of economic policies and the convergence of the various streams of economic development. The opposing views spring from different perspectives, but there is unanimity on one point: At the end of the road towards integration there must be a common policy as to procedure and the economic development of all member-countries must be synchronised.

The monetarists believe that this can be achieved by forming at the very outset of the integration process an association whose members would afford each other protection against any contingent risks. (Fixed exchange rates, monetary support system and pooling of foreign currency reserves). The economists, on the other hand, fear that without prior alignment of their various economic

policies the partner-countries will end up by accepting as solution of the problem of co-ordination a measure of inflation determined by the less stability-conscious member-states.

It is an undeniable fact that at present the individual member-countries determine their objectives and pursue them independently of each other. Not only do these objectives vary quantitatively; the actual means of achieving them differ as well because the social and sociological structures of the partner-countries are far from uniform. In spite of the fact that integration has already led to a narrowing of the scope for autonomous action, events have shown that what freedom of action remained was sufficient to enable individual members of the Community to achieve divergent objectives.

Inflation Catching Up

In these circumstances, a definite fixing of exchange rates would mean that only internal economic measures would henceforth be available to prevent undesirable business trends from extending across national frontiers. The more stability-minded countries could not fully exploit their growth potential or, to put it differently, the inflation in one country would be financed by the other countries' restricting their growth. The original Werner-Plan envisaged, simultaneously with an early fixing of exchange rates, the pooling of currency reserves. Now, if something like this happened or if automatically operating monetary support systems were created that worked independently of all political considerations, the inflationist countries would automatically be able to have recourse to the currency reserves of the stable countries which would thus become the true financiers of the inflationist

countries. A monetary union constructed on these lines would not be able to force inflationist countries to change their economic policy—at least not for reasons of liquidity. The question then arises whether an inflationist country could be forced by other means to alter course. Assuming that all the other partner-countries are determined to maintain their stability by consistently preventing the inflation from gaining a hold within their own frontiers, the competitive position of the inflationist country would in the long run deteriorate; not only would its imports increase, but its exports would decrease. The combined effect of these two factors would result in growing unemployment which in turn would have a damping effect on price rises.

On the other hand, it must be borne in mind that it would be increasingly difficult for the stable countries to stop inflation from penetrating their frontiers. They would have to reckon with the psychological resistance of their own people to an austerity policy imposed upon them from outside. It is therefore safe to assume that, in the event of a prior fixing of exchange rates, the automatic adjustment of diverging economic developments will take place at a level somewhere between that of the most stability-conscious and the most inflationist-minded country. The result would be that the Community as a whole would suffer an inflation of medium severity. Whether this possible development can or cannot be reconciled with the Community's declared aim, reiterated on February 9 of this year, to create a community of stability and growth, is, when all is said and done, a matter of definition.

An altogether different question is, however, whether the integration concept put forward by the economists as an alter-

native would produce essentially different results. According to the economists, the integration process should begin with a common agreement on economic aims. Bearing in mind that the aims realised by individual member-states in the past presumably correspond to what each was capable of achieving, it is fair to say that any agreement on a set of objectives would be a compromise between the diverging aims hitherto pursued by member-states individually. For a considerably larger measure of inflation would be unacceptable to the stable countries, whereas the others could not be expected to agree to a considerably greater degree of stability.

Revision of Objectives Essential

Looked at from this angle, the quarrel between monetarists and economists is therefore pointless. In so far as countries with hitherto diverging economic aims are earnest in their desire to pursue henceforth an inte-

grated economic policy, they will have to revise their previous objectives. Whether this revision in the sense of mutual adjustments occurs automatically or as a result of negotiation, is of secondary importance.

Nevertheless, the economists' proposed solution of the problem of coordination may be said to be more realistic. A monetary union presupposes more than the mere fixing of exchange rates. It requires in addition unlimited freedom of movement for capital, freedom for all credit and finance institutions to operate wherever they wish, joint management of monetary reserves and, above all, joint direction and control in the matter of creating money. Evidently, such a monetary community can function without running into crises only, if economic developments in the participating countries proceed along roughly parallel lines and at more or less the same pace. Such parallel development could be achieved through the influence of def-

initely fixed exchange rates, provided the EEC-states refrain from taking measures liable to upset the free movement of trade and capital. To be sure, the level at which the mutual adjustments take place might have to be left to chance, whereas the solution proposed by the economists allows more scope for actively influencing the final outcome. The unavoidable revision of national aims could be undertaken in stages, thus lessening the political conflicts that any change of course is bound to cause.

It seems evident that the idea of controlled and gradual adjustment of aims is gaining ground within the Community. The political pre-condition for this process of mutual adjustments is that national steering controls and the influence national policies exercise on one another are still strong enough to achieve these objectives. But these are problems that confront any policy that sets itself quantified aims.

No Guarantee for Success of Coordination

by Dr Hans-Eckart Scharrer, Hamburg *

On the January 1, 1971, the European Communities entered a new stage of their evolution: on that day, their transformation into an economic and currency union was started. It is an ambitious aim, which confronts member states with new problems and tasks. Further dismantling of fiscal and administrative obstacles in the path of free movements of goods, services, and capital will greatly enhance the interdependence between the individual national economies, which has

already been very close, and conspicuously so, in the past. A probable effect of this will be uncontrolled—and usually undesirable—economic development within the integrated area, unless governments unreservedly use all the instruments of their economic policies for serving jointly-agreed aims and priorities.

Harmonisation of Aims

The beginning of a concerted economic strategy will be determined by fixing quantified data for medium-term orienta-

tion about the desired evolution of certain overall figures for the Community. Working out such data is an indispensable, though not sufficient, premise for effective coordination of measures influencing the economic process. The Third EEC Programme on Medium-Term Economic Policy for the Period 1971–75, passed by the Council of Ministers on February 9, 1971, marks some progress against its predecessors, because it contains for the first time an attempt to place national quantified target data, which were worked out in isolation, opposite a joint target

* The Hamburg Institute for International Economics.