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The Aim Remains: Monetary Union

by Alwin Münchmeyer, Hamburg *

No doubt the monetary measures taken by the Government of the Federal Republic on May 10 have caused quite a stir. The question is: Can the European economic and monetary union still be achieved, in spite of the German measures?

Because of the importance and the consequences of the measures the German Government has taken on May 10, I would like to explain more in detail the German point of view, to make it easier for outsiders to understand the internal German discussion. The German people attach unusually great importance to monetary stability. This attitude—a result of painful experience with two major inflations—in the eyes of German voters justifies emergency measures of the Government which would not be looked upon as absolutely necessary in other countries, where inflation is less feared. But the Federal Republic of Germany also realised from the beginning that, in searching for a way out of the monetary dilemma, a common EEC-solution deserved absolute preference over any form of an independent national action. This intention may not have been completely understood owing to certain mistakable formulations, not least coming from official German quarters.

The Brussels Solution a Compromise

The undeniable success of the liberal economic policy pursued by the Federal Republic of Germany during the postwar period called for a particularly critical examination of all solutions which are not compatible with the free market principles. Therefore only a temporary interference designed to overcome an unusually critical situation, seemed to be justifiable.

The Brussels' solution bears all features of a compromise. I should not like to qualify this compromise as being generally "good" or "bad" — such qualifications depend very much on the criteria applied. But, which are the problems yet to be solved?

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☐ We have to induce the liquidity to flow out of the country and to prevent new inflows from abroad. Especially in view of the revaluation of the Swiss and Austrian currencies and the foreign exchange controls introduced by several countries, it is not altogether impossible that additional vagabonding dollars may find their way into Germany.

☐ The ban on interest payments on foreigners' deposits, the prohibition of "broading out" securities between banks and the ban on the acquisition of money market papers by foreigners should not be the starting point for complete and lasting foreign exchange regulations.

☐ An addition of the two "second-worst" solutions i.e. floating rates, on the one hand, and interference with free capital movements, on the other, has to be avoided.

☐ Without denying the existence of the component called "imported inflation" undoubtedly only internal stabilisation measures, will be an effective remedy against the "home-made" inflation, that is, in my opinion, the even more important component. Here the public authorities are called upon to set a good example by revising their fiscal policy. Otherwise it is an illusion to expect the employers and the employees to change their wage policy to suit the situation.

☐ The European integration must not be hampered, through the delay in introducing the first stage on the way to the European monetary union. Progress in this direction will be delayed as long as flexible exchange rates are applied.

Alternatives for Economic Policy

What are the alternatives for the Federal Republic's economic policy under these circumstances? I see three major possibilities: The first one would

be that we soon return to the old parity. The consequences would be the following: a better basis for monetary cooperation within the EEC, German export trade would again have a stable basis for its calculations; on the other hand it would be more difficult to enforce internal measures and especially to avoid further wage increases; the foreign money may not flow out of the country because the old parity may not be regarded as a definite one; additional foreign exchange regulations would probably have to be introduced as complementary measures.

The second possibility would be that we would soon fix a new parity which would mean a revaluation of the D-Mark. The consequences would be: difficulties with our EEC-partners, since at least some of them would not consider such a revaluation necessary; but if they have to choose only between a flexible rate and a higher parity, they may opt for the latter as the second-best solution; the German exporters will have great difficulties to compete in foreign markets; however, the chances to reduce inflationary pressure at home will improve; the speculators might sell their D-Marks if they regard the revaluation as sufficient; complementary foreign exchange regulations would probably not be necessary anymore.

The third possibility to consider would be a continued floating for a longer period, with the consequence that progress in the direction of a monetary union will be delayed if not endangered. However the German government could wait and see what could be achieved by the floating rate as regards the outflow of money, the internal stability and the competitiveness of German exporters. A prolonged floating may even leave a chance to return to the old parity.

These alternatives will show you already how difficult the decision will finally be for the German Government and the Bundesbank.

Common European Solution Necessary

Anyhow, we should discuss all these possibilities quite frankly with our EEC partners and without the stress of a 21-hour's meeting. A common European solution has to be found after a thorough exchange of views and in the interest of the monetary union we are striving for.

This brings me to the second part of my observations. I don't mind admitting that, for two reasons, I am a passionate supporter of the idea of a European monetary union: In my opinion

the European monetary union can be firstly a motor for the economic and political integration of the EEC-members, and secondly it improves the prospects of progress in the further development of the international monetary system.

If the monetary union is to become the driving force of integration it must, however, not be encumbered by an excessive interpretation of the idea of parallelism. Otherwise the monetary union will be nothing but the crowning instead of the forerunner of an economic and political European union. I admit that this concept presumes a certain waiving of national sovereign rights. This is the point where the so-called "monetarists" and "economists" really come very close to each other. A European central bank must be as independent as the Deutsche Bundesbank.

Assuming that the integration process really could be promoted in the manner suggested by this concept what benefit would the international monetary system have from this integration? I would like to restrict myself to a few suggestions; The EEC must develop into a bloc of stability; in dealings with the non-partner countries the Community will have to defend and observe a liberal policy; stability and liberality would give the EEC a strong influence on the further development of the Bretton Woods Monetary System. I am not sure whether, in the future, the dollar and a common European currency should be linked by a fixed rate of exchange. The answer to this question cannot be given by us Europeans alone. The United States of America have much to say and do in this respect. Should the USA fail to play its part, Europe would be forced to introduce a flexible relationship vis-à-vis the dollar.

Problem of Creeping Inflation

However, there is no question that an efficient EEC as an independent monetary area could play an important part in the monetary system of the future, relieving the dollar partly from its heavy burden as key currency. I do not wish to end up by lapsing into the role of a fantasist who sees the day approaching when a world central bank assumes responsibility for a healthy functioning of the international monetary system. But I think I am realistic enough in hoping that a time will come when it may be possible to steer the world's supply of liquidity in a sensible manner. In that case we may rightly hope for the first time in many years that the problem of creeping inflation at world level can be brought under control. And this, surely, would not be an insignificant achievement.