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# Postponement Is No Answer

**T**he closer monetary union gets the more obvious it becomes that this ambitious project is threatening to sow discord in the European Union rather than cement it together. Keeping to the deadline of 1 January 1999 and to the economic requirements (the convergence criteria) while having as many members as possible is turning out to be a fundamental dilemma. This dilemma is exacerbated because of differing national interpretations of the priority and meaning of the convergence criteria and because the model of a multi-speed Europe laid out in the Maastricht Treaty is being increasingly contested politically by major countries apprehensive of being left behind. The enormous economic policy problems of some member states in meeting the convergence criteria by 1997, the year of reckoning, also raise the additional question – which has been hotly debated – of whether and how budgetary discipline can be maintained in the long term after monetary union has been entered into. And finally there is the threat of currency turbulence, at the latest in the so-called Phase A (1998) – after the members have been selected but before the irrevocably fixed conversion rates have been set. The more political yardsticks are applied to membership rather than economic ones the more violent this turbulence is likely to be. Should monetary union be postponed?

The advocates of postponement include many declared opponents of monetary union, who hope to derail the unloved project altogether. Another faction in the postponement camp is for a short-term breather, about three years. This faction includes representatives from Spain and Italy for example, who hope in this way to improve their prospects of being in at the start. However, this school also numbers amongst its ranks maximalists from France and Germany, who think that European monetary union only makes sense when as many of the major member states as possible are on board from the beginning.

In fact, judging by present trends, it is unlikely that any country other than Germany or Luxemburg will qualify for membership of the monetary union on time, if the Maastricht criteria are strictly applied – especially the observance of the limiting of public debt to 60% of GDP and the budget deficit to 3%. However, the criteria in the provisions of the Treaty – Art. 109j and 104c and the protocols on convergence criteria and the excess deficit procedure – are by no means as closely defined as might appear from public debate in Germany. “The sustainability of the government financial position” is not closely pegged to the two ceilings. Rather, it is enough for a member to be making rapid progress towards these targets. Ultimately, it is up to the Commission and the Council to decide whether a member is in breach of budget discipline and its deficit is excessive.

In the case of Ireland the Commission and the Council have shown that they are prepared to take a broad view of the criteria. This heavily indebted country was already given the fiscal clean bill of health when it curtailed government debt from 97 to 91%, albeit with a consistently low budget deficit of about 2.2%. Applying such soft criteria to deficit and debt trends would put other candidates into the running for monetary union in 1997:

- ☐ France and the United Kingdom: diminishing deficit (to under 4%), debt requirements met;
- ☐ The Netherlands and Denmark: deficit criteria met, debt consistently under 80%.

Austria and especially Belgium pose greater problems. Their deficits are both on the decline and could well be "close" to the reference value by 1997. However, Austria's debts exceed the 60% line (though not by much) and they are moving in the wrong direction – upward. Belgium's debt ratio is gradually receding, but it looks like staying at the top of the European list at 130%.

Nevertheless, this need not mean that the monetary union will be forced to close its doors on these countries. It is up to the European Council, based on a recommendation by the Council (and finally the Commission) to decide by a qualified majority which member states "fulfil the necessary conditions for the adoption of a single currency" (Art. 109j, para. 3). It is therefore a political decision, who is to be allowed to become a member of the monetary union, although this decision will of course have to pay heed to the convergence criteria. This defuses the political dilemma outlined above somewhat. Postponing the deadline would, however, be a viable proposition if the deadline of 1999 could only be retained at the expense of a considerable political "stretching" of the convergence criteria.

Any anti-economic dilution of the membership requirements would, namely, result in severe economic distortions. Even the generally positivist Green Paper of the European Commission concedes that the exchange rates could come under pressure if the markets gauge the decisions on deadlines and members to be dubious and/or doubt whether the current market rates are in line with the conversion rates to be pegged on New Year's Eve 1998/99. Both responses are possible if countries are allowed to join the monetary union which patently fall short of the required "high degree of *sustainable* convergence" as stipulated in Art. 109j, para. 1, and which fulfil those convergency criteria relating to a certain point in time only in the year under examination, and that only with difficulty. Exchange-rate pressure would be fatal for Germany. With the level of (unit) costs already so high, it cannot afford another revaluation against the currencies of other major European Union countries without provoking a further substantial relocation of production with the resultant loss of jobs. It is therefore very much in Germany's interest that only those countries are allowed to join the monetary union who consider themselves – by virtue of their stability record and economic policy line to date – to be in a position to join without a "last" hefty real depreciation against the D-mark and can produce conclusive evidence of this. Basically, the (only) countries that can do this are the ones that belong to the stable core of the European Monetary System, even though not all of them fully meet the budget criteria. The Union is going to have to walk a tightrope, which it will scarcely be able to avoid by postponing the deadline. Due to the great danger of speculation and the unmistakable loss of confidence an additional bilateral accord should be concluded with France to remedy this. The monetary union should start on time with this set of countries as any delay would pose new risks.

It is also very much in German interests to work for closer economic and monetary policy ties between the monetary union and the countries which do not join at the beginning. For both political and economic reasons a schism in the European Union must be prevented. Rightly, the Commission's Green Paper points to the risk of turbulences on the foreign exchange markets in the currencies of non-member countries if market participants no longer expect these countries to follow the course aimed at convergence and stability to which they are committed by the Treaty. The answer cannot of course be to let these countries join the monetary union in 1999. This would be tantamount to a false start. Rather, the aim should be to install the European Central Bank as the leading central bank in a reformed, credible EMS.

Postponing the deadline would not solve any of the problems pending in the critical transition period or after the monetary union has been established. Especially, it would not solve the fundamental dilemma between the political goal of monetary union and the economic conditions required for it to function. Without a clear programme, postponement would tend to prolong existing uncertainties and to sow fresh doubts.

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