

**« Why is it so difficult
to achieve monetary union
in the E. E. C.? »**

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Dedication from the Author
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For an American who is used to living and working in a large, coast-to-coast domestic market, where there is thus no internal monetary problem, it is probably difficult to fully understand the situation which the E.E.C. has been experiencing since 1969. In fact, although we live in a large common market of 260 million consumers, each country has retained its own currency and, as is true for all other countries in the world, since 1969 the exchange rates of the currencies of the Common Market have become unstable. Our situation can therefore be compared to a hypothetical one where the various states of the U.S.A. — Texas, California, Kansas, etc. — had their own currencies which fluctuated against each other. We in the E.E.C. are obviously in no comfortable position.

It should be recalled that, for the nine member countries as a whole, international trade amounts to more than one quarter of the G.N.P. and that more than half of that is intra-Community trade. These figures are an average for the whole of the Community and for smaller partners like Belgium and the Netherlands, they amount to 55 % and 75 % respectively.

But nonetheless it would be wrong to overestimate or underestimate the problems with which we have to live as a result of this situation.

First of all, I should like to explain how this very unusual situation has come about.

In 1958, the Treaty of Rome founded the Common Market and, for nearly 20 years now, this Common Market has worked in an extremely satisfactory manner. If we assess its success in terms of the growth of trade relations between its partners, which is only normal, then we have no reason to complain. Indeed, between 1958 and 1973, trade between the countries of the E.E.C. has increased sevenfold in volume. Since then, the growth has been slower but nonetheless certain.

However, since it was only the most immediate problem which was dealt with in 1958, namely the building of a common market, no provisions were made with respect to either monetary or economic union. The truth is that what has been achieved as a result of the Treaty of Rome has, in fact, never deserved the name « European Economic Union ». However, we cannot regret these shortcomings, because if we had tried to accomplish everything in 1958, we would have achieved nothing at all.

As long as the exchange rates between the E.E.C. partners remained stable, this institutional weakness did not make itself felt, and it is only since the onslaught of galloping inflation in the 1970s that we have been encountering difficulties in the Common Market, where there is no monetary union.

Like other countries which are the victims of inflation, we are affected by this scourge, in that it is the most unjust burden imaginable and results in a loss of substance both for business and for the Nation as a whole. However, we are doubly affected by this scourge in that inflation in the nine countries inevitably progresses at different rates and can therefore be termed differential inflation.

I would almost be inclined to say that differential inflation is even worse than just plain inflation, especially in a Common Market which is only 20 years old.

We have nurtured two successive illusions which we have been forced to abandon :

The first was that, in the Common Market, we could learn to live with inflation. Many people harboured this illusion

throughout the 1960s. However, when inflation began to gather greater momentum, we were gradually obliged to give up such thinking.

Our second illusion was that the rates of inflation in the various countries of the E.E.C. would not deviate from each other to any excessive degree. This illusion has also had to be dispelled, and here I would like to turn to the main subject of my speech, i.e. why the E.E.C., after so many years of a successful Common Market, has been unable to accomplish monetary union.

The gap between the various rates of inflation has admittedly narrowed compared to the peak reached in the period 1974-76, but it is nonetheless still enormous. For example, between January 1977 and January 1978, the rate of inflation in West Germany was 3.2 %, whereas the corresponding rate in Italy was 14.1 %, which means a ratio between the two countries of more 1 : 4, almost as much as in 1975.

The most striking aspect is, of course, the good performance shown by West Germany since the start of inflation, and this seems often hard to understand. I think that several factors have played a role in this respect.

Firstly, Germany is the only country which, in the course of the last 50 years, has twice experienced inflation to the finish. The first occasion was in 1923, when the Mark fell to one billionth or less of its previous value, and the second in 1948, when the Mark stabilized at one hundredth of its value. The inflation experienced in 1923 was, in fact, a not inconsiderable factor in the rise of Nazism. Germany is thus the only country where a general incomes policy is accepted in good faith by all sections of the population and where it is considered unpatriotic to act in a manner which might boost inflation. To a certain extent, the Netherlands may also be mentioned here.

The second factor would seem to be that, with the exception of the Saarland, West Germany is the only E.E.C. country where there is only one trade union. As long ago as the early 1950s, my German colleagues in the European Coal and Steel Community put forward the view that to have a multitude of trade unions meant having an inflationary structure. I found it very difficult to assimilate this idea, because everywhere in Europe there is a plurality of trade unions, the U.K. holding the record with some 70 independent unions. Whatever we may think, the Germans are convinced that the fight against inflation

demands discipline on the part of the trade unions and, as far as I know, they have never forsaken this view. Perhaps we have something to learn here, as West Germany is the country where inflation has been contained within the narrowest limits.

In some circles, some importance is also attached to the existence of co-determination by personnel in the management of large enterprises both in West Germany and in the Netherlands.

The easiest explanation of all for this development is, of course, a reference to the overall sense of discipline of the people in both countries, which seems a somewhat oversimplified explanation.

This brings me to the present situation and the chances we have of overcoming our differential inflation, stabilizing our exchange rates and attaining a de facto monetary union in the E.E.C.

Let me first of all recall a maxim used by Mr. Giscard d'Estaing at the time when he was still French Minister of Finance :

« There is only one rate of inflation which is compatible with a monetary union, i.e. a zero inflation rate ». What he clearly meant was that, as long as the European countries suffer from a veritable inflationary « sociosis », this inflation will inevitably be differential in degree.

The consequence of this differential inflation is that, since 1974, we have had two monetary systems in the E.E.C. : the so-called « snake » and the floating currencies. Germany, the Benelux countries and Denmark are E.E.C. members of the « snake », while the currencies of France, the U.K., Ireland and Italy float. Until such time as France returns to the « snake », which it left in 1976, the « snake » is in fact a « DM area ».

Although we all have to admit that the floating of certain currencies was unavoidable, one must also concede that it has proved disappointing. Firstly, the float has been accompanied in most cases by an almost constant downward trend, and, secondly, this policy has not improved the employment situation. I sincerely hope that, following the recent victory of the Centre Right Coalition, France will now have the willpower and the capacity to rejoin the « snake ».

However, we should not conclude from this that we may hope that, one after the other, the various partners will join the

« snake » again. Membership of the « snake » requires that a government be capable of applying strict economic, financial, social and monetary discipline and, in this connection, conditions are likely to remain difficult for many years to come in more than one partner of the E.E.C.

Discipline in all these fields also means a strong decision-making capacity in the Community as well as in the member countries, and this is hard to achieve.

There seem to be two main reasons for our poor decision-making capacity :

Firstly, at a time when Europe is raising the question of the transfer of sovereignty to the European Economic Community, in several countries the problem of a certain transfer of sovereignty to regional authorities is arising in an acute or latent form. Particular examples in this respect are the U.K. and Belgium. In Italy, the devolution of central power to provinces such as Sicily, Sardinia, etc. has never worked satisfactorily. Even in France, a certain tension arises in some areas such as the Basque region, Corsica and Brittany, although there seems to be no danger of any real unrest.

Secondly, present-day elections show an unfortunate trend towards radicalization which in Europe means a tendency to vote for the extremes, although in all the different member countries, the majority of people really belong to the Centre. This has recently been shown in the French elections and, regardless of appearances, I think it is also true in Italy. In most countries, the government has a narrow majority, insofar as it has a majority at all, and most governments are hardly in a position to make long-term decisions or implement stringent economic measures.

The development of Europe has been complicated further by a number of very untimely circumstances :

First of all, the E.E.C. is faced with unemployment of a largely structural nature affecting some 7 million people. Much of this structural unemployment is to be attributed to the « baby boom », or population explosion, of the early 1960s, as well as to the increasing number of women going to work. The European Commission has just calculated that, with a total population which will only increase by about 4.4 million people, the working population, i.e. the number of people seeking work, will increase by nearly 10 million, reaching a peak around

1982. However, the problem should become less acute from 1985 onwards. At present, we are seeking a solution by extending the system of part-time working, which has made some progress, despite sometimes fierce opposition on the part of the trade unions.

The second problem confronting a number of European countries is a policy on the part of the trade unions to seek a general reduction in working time, under the Malthusian pretext of obtaining a better distribution of the work available, but without accepting a corresponding reduction in weekly wages. This problem is to be felt above all in Belgium, where there is quite serious tension in some sectors, which we nonetheless hope to overcome.

Lastly, there is the fall in the Dollar on the exchange markets. For the E.E.C. as a whole, this constitutes a problem of exceptional magnitude, recalling the U.S. devaluation of 1934. This drop in the Dollar has dramatic consequences for the European economy. What disturbs us most of all is that this depreciation in the U.S. currency appears to be connected with the rise in American oil imports, the U.S. Government being unable as yet to impose a plan to reduce the country's great dependence on such imports.

These are all serious problems which have added further complications to the already difficult process of European integration.

To sum up, what appears to be the most probable conclusion to be drawn concerning the future of European unification ?

Firstly, it would be wrong to conclude from the above that the European ideal has lost its power of attraction for the European public. In fact, it is not Europe which is sick, but the European States which, for the greater part, have almost lost their decision-making capacity. It is unlikely that we shall be cured by waving a magic wand.

Secondly, the 1976 report by Belgium's Prime Minister that we were possibly heading for a two-speed Europe may well fall somewhat short of reality. It is, indeed, impossible for the E.E.C. to refuse entry to Spain, Portugal and Greece, despite all the economic and, in particular, agricultural problems which their entry will cause, especially for Italy and France. These difficulties will entail a series of transitional phases necessary

to cushion the impact of the entry of the three above-mentioned countries on the present member states.

The most plausible theory is that, for many years, we shall be faced with a three-speed Europe. But saying that, I must take care not to be misunderstood. I do not at all mean that the E.E.C. is in danger of being torn into three parts. What I mean is that in the framework of the Community the different political, social and economic conditions will allow of further progress at different speeds, interdependence being already so strong that the risk of disruption is nil. What de Gaulle dared not attempt in 1965, nobody will try in the future, the only exception being the French Communists who, with about 21 % of the French electorate, are, however, not in a position to threaten the cohesion of the Community.

To elaborate on this three-speed Europe, Europe Number One will obviously consist of those countries which are capable of sufficient self-discipline to remain in the monetary « snake ».

Europe Number Two will, for a certain period of time, undoubtedly be composed of those of the nine present members who will be unable to submit to a sufficiently stringent economic and social policy to be able to maintain their exchange rates within the narrow confines of the monetary « snake ».

For ten years or more, Europe Number Three will doubtless be composed of the Mediterranean countries. This will certainly not simplify matters, and some very good Europeans would have preferred to postpone the problem. But it amounts to a duty towards history to which we cannot remain indifferent : Spain, Portugal and Greece belong to Europe.

Finally, a few reflections on recent events :

Firstly, the French elections have been a great relief to all Europeans who are concerned with speeding up progress towards European unification. What is particularly comforting is the convergence towards the Centre which has emerged from the French elections. It was, in fact, the French Centre which was responsible for the great leap forward in Europe in the 1950s.

There is now a possibility of renewing the Franco-German joint action which has been the cornerstone of European unification since the end of World War II.

Secondly, the decision recently taken by the European Summit held in Copenhagen indicates that European elections will indeed be held in June 1979. For Europe, this event represents a unique opportunity to make progress towards stronger European political structures and European parties, with a common programme transcending the borders and a strong impact on public opinion.

I should like to conclude by emphasizing the need for a general line of European action based on the absolute priority for monetary union proposed by Mr. Roy Jenkins and harmonized economic and social policy, which is the prerequisite for monetary stability. In the meantime, point Number One is the safeguarding of the «snake», in which connection I would express the hope that, in the not too distant future, we shall see the re-entry of France in the joint float.

After the dark period we have passed through since the start of the 1970s, it is now possible, and even probable, that, despite an unbalanced situation on the employment front, we are about to enjoy a more favourable trend in the E.E.C.

