Tasks Facing the EMU Eleven

The die is cast - following the European Council's resolutions on 2nd-3rd May, European Monetary Union (EMU) will get under way on 1st January 1999 with eleven participating countries. So there is little point now in musing on whether it might not have been better to start out with a smaller group of so-called core-currency countries that have already maintained a de facto monetary union for a decade, with stable exchange rates, low inflation and virtually harmonized interest rates. Nor will it be any help to critically review whether the deficit criterion really was met in 1997: by focusing attention on just one single reference year, the Treaty of Maastricht had, wittingly or unwittingly, effectively encouraged member states with open arms to resort to one-off measures and creative .accounting. However, what certainly is necessary is to remind governments that under the Maastricht Treaty - which they have all accepted - the European Central Bank (ECB) is assigned complete independence in its pursuit of the overriding objective of price level stability. This policy assignment must be fully respected and supported by member governments. The monetary framework set by the ECB must be observed by those determining both fiscal policy and wages policy, and it must be clear that responsibility for any adverse economic developments following a violation of that norm will lie with the violator and not with the ECB. In order to assert its claim the ECB must be prepared to enter into conflict if necessary.

The participating countries have not, by any means, completed their economic policy tasks once and for all simply by formally complying with the convergence criteria. EMU means a quantum leap in the framework for economic policy, demanding a lot more than fulfilment of the criteria in just one reference year. Various other endeavours will be required to give the monetary union the cohesion it needs for the long haul. These will include both tasks that will be agreed upon and monitored on a Community level, to ensure the success of the EMU project as a whole, and others that each of the participating members will need to tackle under its own powers and responsibilities, to position itself successfully within the new currency area and assert its economic potential. The common tasks include the attainment of fundamental agreement on a policy vis-a-vis the dollar, the further consolidation of public-sector budgets, and the completion of the Single Market.

Although it would not be right to adopt a policy of "benign neglect" with regard to the dollar, a highly interventionist exchange-rate policy should indeed be renounced on principle, and so should the fixing of an exchange-rate target, as both approaches are liable to generate more macroeconomic costs than benefits. Given that it will no longer be possible for dollar trading to interfere with bilateral exchange rates among the EMU participants, and that they will have halved their dependence on trade with other currency areas once "Euroland" is formed, there will be no reason to pay any greater attention to the euro-dollar exchange rate than the USA itself does. Rather, all efforts ought to be geared to strengthening and developing the common currency area on the inside.

An essential component of that process will be the continuing consolidation of public-sector finances. In their stability declaration made in Brussels, the finance ministers made some new pledges, but these do not yet go far enough. The final objective was spelled out in the Stability and Growth Pact: budget deficits should approach zero on a medium-term average, which means the structural deficit has to be eliminated on a lasting basis. Most of the participating countries are still a good distance away from this final goal. Other tasks which remain important are the further reduction of the stock of government debt - in Belgium and Italy at a distinctly faster pace - and in Germany and France the reversal of the present debt trend. Finally, there is a "qualitative" side to budgetary consolidation, too,

which needs to focus on keeping down the public sector's share of total expenditure in the economy, with particular emphasis on cutting back public consumption spending; this is vital for Europe's bid to recover its economic dynamism in the global competition to attract investment.

• Another element of activity on the EU level which is as important as ever is the need to cut down the impediments to competition, whether state-generated or privately-generated, which hamper the full realization of the benefits of a single economic and currency area. These include different national approaches to the taxation of interest and dividends; the use of the country-of-destination principle in value-added taxation which runs counter to a true economic community; the government subsidies and protected markets for publicly-owned enterprises, both of which are still rife; and the continuing practice of market segmentation by multinational companies. Even just recently, the. Directive on Posting of Workers has put up a new obstacle to labour migration around Europe, thus shoring up the rigidity and the cartelizing tendencies in labour markets, and hence amplifying the unemployment problem.

European harmonization is not what is needed in the fields of employment and social policy. Even if the ultimate goal is the same around Europe, namely cutting unemployment, different countries will still have to take different paths to attain this aim. As the United Kingdom, the Netherlands and Denmark have shown, national employment policies can still be successful within the context of a Europe growing closer together, and the success need not be at the expense of partner countries. The same principle will apply when monetary union is operating. Above all, it is important to resist any moves which, in the name of a European employment policy which is supposedly necessary to back up European stability policy, attempt to introduce unworkable, dirigiste formulae into Community-level action. To put it bluntly: if France and Italy believe that a reduction in working hours without loss of pay offers the best way of meeting the challenges of monetary union and globalization that is up to them, but there is no reason why the Union as a whole should follow their example.

Monetary union is changing the environment in which firms make their investment and production decisions, thus causing the different countries and regions in the EU to reposition themselves in the marketplace. With a common currency, national borders will lose still more of their significance, the terms under which finance can be raised will even out across Europe, cost differentials will become more transparent, and firms will tend to base their operations at fewer locations as they implement new "European" strategies. Hence individual countries' economic policies within the monetary union will need to focus on building up the particular country's strengths as an investment location, and on promoting flexible adjustment to changes in the economic environment.

EMU will create new economic opportunities for both firms and employees in a European market on a continental scale. Exploiting these opportunities on a basis of competition among countries and regions is not, by any means, a zero-sum game. The employment available in Europe is not a finite quantity, and a dynamic economy in one region can also have positive knock-on effects on income and employment in others. However, those involved in economic policy-making and collective bargaining will need, more than in the past, to keep an eye on what is happening beyond their own borders if they do not wish to waste these opportunities. Under monetary union, a national tax policy which is led mainly by wishful thinking with regard to income distribution while neglecting the intra-European (and worldwide) mobility of firms, managers and professionals will be penalized by low investment and economic activity. A national education policy which fails to meet the challenges of rapid economic and technological change will impair the medium-term chances for growth and employment within the greater European market. Clinging to rigid industry-wide collective agreements and to wage formulae developed in times of full employment and low international exposure will render microeconomic adjustment to asymmetric shocks difficult and foster the emergence of regional employment problems which can no longer be mitigated by currency devaluation. Entry into EMU should be understood as a signal for the start of a bold rearrangement of national economic policies in Europe with the sights set on sustainable innovation and growth policies. Then EMU will become a success story.

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