# 'Europe in two stages', from the Frankfurter Allgemeine Zeitung (13 July 1978)

## Europe in two stages

**The pros and cons of the Community's new monetary plans / By Heinz Stadlmann**

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It is still too early to predict what part the European Community's new monetary plans will play at the Summit Meeting of the big industrial nations in Bonn this coming Sunday and Monday. What is certain, however, is that feelings will again run high when this subject, with all its political and economic implications, is addressed.

In terms of domestic politics, it is striking that the fundamental agreement that has prevailed so far between government and opposition on the subject of European Community policy has been shaken for the first time in many years. The CSU Chairman, Franz Josef Strauß, has categorically rejected the plans for a new European monetary system, saying that Europe must not become an Inflation Community. The Union parties would therefore reject the Bremen Resolutions. While it remains to be seen whether Strauß's views really are representative of the entire Union, disagreement between the major parties on an important issue of European policy is clearly on the cards.

Legitimate reasons can be found for Strauß's almost brusque rejection, though the impression remains that annoyance at Schmidt's solo initiative and earlier secretiveness is also a factor. Many people agree that the planned European monetary system increases the risk of inflation. But whether this legitimate concern is enough to justify the immediate and absolute rejection of a crucial step for future European cooperation is another question.

One of the main arguments against introducing a monetary union is that the Federal Republic would have to carry the main burden. While such an assessment is certainly correct, the understandable disinclination to carry that burden nevertheless fails to acknowledge our interest in the smoothest possible economic development in the Community. Half of Germany's exports are sold to EEC Member States and half of all imported goods also come from this area. We cannot therefore disregard the situation in these countries. The Community's strongest economic power also has an obligation to show solidarity. Is it really so unreasonable to expect the Federal Republic to lend the Community's poorer countries a helping hand? If used correctly, monetary union could facilitate stabilisation policy in the weaker countries.

A new monetary system will not be without consequences for intra-Community relations either. As the Plan's initiators, the Federal Chancellor and the French President will be doing their utmost to achieve a success. In doing so, France and the Federal Republic will move closer together and coordinate their policies even more closely. While the Benelux countries are likely to join more or less unreservedly, Great Britain is facing a difficult decision. Economic sense favours participation right from the start, but there is considerable resistance on the domestic front. Britain's constant squabbles with the Community will probably dampen any willingness to let London extort all kinds of conditions. Economically, Italy will not be in a position to come on board straight away. The outcome would thus be a closely cooperating European core and a second group of countries following some way behind. Such a development would not in any way be a disaster, though. In the report by the Belgian Prime Minister, Leo Tindemans, a two-tier Europe has also been described as a feasible option.

In a well-functioning system, the monetary plans would certainly have a strong integrating effect. The scope for national decisions in the area of economic policy will inevitably be reduced if there is a constant requirement for concerted action. The British concern about loss of sovereignty is therefore entirely justified. Economic policy decisions by governments and central banks can then no longer be taken independently of the interests of all parties concerned.

The European monetary system's external impact is currently only known in theory. What will happen in practice is still unclear. Contradictory effects are certainly possible. The initiators' first objective is to achieve a broader basis from which to combat speculation by merging several currencies. The stronger counterweight on the market is supposed to reduce exchange rate fluctuations in relation to the dollar. This would, it is argued, be good for the dollar too, although rate fluctuations are of less importance to the American economy. The situation would be different if the surplus countries, meaning the oil states first and foremost, considerably increased their investments in ‘European currency’. This might lead to a drop in the dollar rate and confirm the Americans in their existing suspicion that the European monetary system is directed against the dollar. Politically, the result could be considerable. Because the whole idea cannot be accomplished without cooperation from America.