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EC in Need of a New Strategy

Stage I on the road to Economic and Monetary Union (EMU) in Europe ended on December 31, 1973, without any positive vision of what is going to follow. Hijacked by four Arab Foreign Ministers, the Community's Heads of Government felt unable at the Copenhagen summit meeting to agree upon a strategy for stage II. They rather demonstrated what "European Identity '73" means: a wide variety of national economic and political interests coupled with a notable lack of Community spirit and a high preference for integration through talk over integration through action.

In fact, only few of the moderate goals envisaged for stage I have been achieved. In its resolution of March 22, 1971, the EC Council of Ministers had pronounced the member countries' intent to progressively coordinate their short-term economic policies and to decide upon a number of well defined issues relating to the EC tax system, the liberalisation of capital movements, regional policy, and monetary policy. Three years later the coordination of demand management is realised in a formal sense only, no progress has been made with respect to harmonising taxes, capital movements are even more restricted than before, and in the monetary field the Community is split between (internal) fixers and floaters; only in the regional sphere some progress is in sight. What is worse, the governments have no strategy of how to proceed in the future. They rely on what they like to call the pragmatic method, a

minimalist muddling-through approach dependent upon arbitrary short-term decisions (usually in the form of noncommittal resolutions).

Are there any means of overcoming the present deadlock? A major prerequisite for positive action appears to be the admission of the political authorities that EMU cannot be reached within any reasonable period of time given the prevailing political and economic constraints. Termination of the politics of illusion will facilitate the formulation of more operational aims. Such aims have to be deduced from the fundamental goals of European integration as defined in Article 2 of the Rome Treaty, namely to secure steady and equitable growth and stability in all member countries.

A strategy along the following lines would be in accordance with these goals and would at the same time yield visible results to the citizens: (1) One bundle of measures ought to be directed towards dismantling non-tariff barriers within the EC. The final aim is a Community without economic frontiers between member countries. This requires some degree of tax harmonisation, predominantly in the field of indirect taxes. Moreover, technical standards must be harmonised to some extent, though much can be left to the competitive market forces provided consumers are adequately informed about the main attributes of products. (2) Given the EC-wide adherence to exchange controls it is sensible to ask for their equalisation vis-à-vis third countries

(preferably at a low level). Behind a common external fence internal capital controls should gradually be abolished. Here, too, any excessive ex-ante harmonisation of financial systems and banking regulations appears to be unnecessary. (3) European regional and social funds should be concentrated upon 2-3 backward regions rather than spread evenly according to the „juste retour“ principle. Development of these regions should be made a matter of common effort and be "sold" as such to the European public. (4) More emphasis ought to be put on joint projects in the R+D field. These projects need not always be undertaken on an EC-wide basis: In R+D there is considerable scope for an "Europe-à-la-carte" approach. (5) As to monetary policy, consultations should be continued and intensified. However, considering the present lack of coherence all efforts to gradually freeze intra-EC exchange rates should be given up for the medium-term future. There is also no need for a pooling of reserves or other liquidity cosmetics. Instead, one might attempt harmonising and steadying internal monetary policies, e. g. along Friedmanian lines.

Taken as a whole such a strategy would be directed towards economic rather than monetary union, a goal which for the time being is likely to yield higher social benefits and give rise to less costs for everybody, and has therefore a better chance of being realised.

Hans-Eckart Scharrer