

**The Political Economy of
European Monetary Union**

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By A. R. Nobay *

Foreword

This paper, by Bob Nobay, was written in the interval between the publication of the Delors Committee Report, in 1989, and the signing of the Maastricht Treaty in 1992. It documents the political incentives, notably to protect the single market structure, and within that the Common Agricultural Policy, that led to the adoption of EMU, a step taken without the support of a serious consideration of how adjustment to asymmetric shocks might be handled within EMU, an oversight which has now turned out to be of major consequence.

Bob notes, presciently, that,

“It is hard to see, given the experience of German reunification, how German citizens would willingly transfer resources to their counterparts in Greece. More likely, the burden of adjustment will fall on the weaker countries, who additionally will be required to meet this fiscal bill of health proposed in the EMU protocols.”

Given the lack of adjustment mechanisms, Bob therefore conjectured that,

“in a few years time a single currency for wider Europe would seem as self-evidently nonsensible as CAP is today.”

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He was somewhat previous in this, but then economists often go wrong in assuming that what we see as unsustainable will rapidly collapse. Market trends, in housing, exchange rates, etc., often persist long after they have gone toxic.

But what this demonstrates that, unlike the earlier 2007/8 crisis, economists, including those here in the FMG, had provided a clear analysis of the central weakness of the single euro currency system.

C.A.E. Goodhart

1. INTRODUCTION

Issues of European monetary union and international commercial policy share the centre stage of very current deliberations. This paper addresses the broader political economy perspective of monetary union rather than the specifics of this or that proposal, so as to abstract from the somewhat fluid nature of the discussions. I consider in turn, the background to the quest for monetary union, the conventional economic wisdom of such issues and finally, and more speculatively, the political economy aspects of European monetary arrangements in the world economy.

Discussions of European monetary union proceed as if it were an exclusively European issue. In part, this insularity is understandable, since there are a series of European and member specific issues which need to be dealt with. Even here though, the agenda conspicuously limits the discussions of two important European questions – firstly, the very real concerns of the newer so-called southern or rim members, Greece, Portugal and Spain, and second, the fundamental questions of the inevitable enlargement of the Community following from the geopolitics of Eastern Europe.

European integration, however, cannot be considered in isolation of the international monetary system and international commercial policy. It is some two decades since the demise of the Bretton Woods system which in itself was a landmark in the political economy of the post-war international order. Bretton Woods was an attempt to bring together world monetary, trade and investment problems in an integrated fashion. Regrettably, however, its evolution tended towards a separation of monetary and trade issues.

The framework of monetary rules were enshrined in the articles of the I.M.F., whereas the adjunct trade body, the International Trade Organisation (ITO) failed to materialise in the face of opposition from the U.S. Congress in 1948

GATT, which was intended as a provisional trade policy measure to set off the first round of multilateral tariff reductions in 1947, became the mainstay of international trading rules. Despite the myriad of loopholes and waivers, GATT operated remarkably in the immediate post-war period of the fifties and sixties. The GATT rules, however, were not designed or intended to promote free trade. This is most manifest in the treatment of agriculture, enshrined in Articles XI and XVI, permitting quantitative restrictions in imports and subsidies to agricultural exports. It was this background, together with U.S. agricultural self-interest and benign neglect on trade matters in the interest of cold war politics, which led to the creation and perpetuation of the Community's CAP¹

The trade agenda, however, has slowly but inexorably shifted towards the original intent of Bretton Woods – the 1986 GATT ministerial meetings in Punta del Este initiated far-reaching revisions to the existing GATT articles under the aegis of fifteen negotiating groups, since reduced to seven. Moreover, the world economic and political order has changed significantly since then and the previous separation of international trade and monetary arrangements can no longer be expected to continue.

The current Uruguay rounds have faltered and may well founder on the issue of agriculture and specially, of course, the Community's CAP. It is somewhat ironic that concurrently, the inter-governmental 'agreement' on monetary union should be taking place. From a historic perspective, the very idea of European monetary union can be traced to the demise of Bretton Woods inspired fixed exchange rate system and its repercussions on the Community's agricultural policy.

¹ See Hugh Corbet (1991) and A Viravan et al (1987) for further discussion on world agriculture and trade issues.

We may therefore have moved full circle. CAP, having induced a move to a single European currency could also precipitate an international system comprising of competing trading blocks which Bretton Woods had aspired to be rid of.² The stakes then are high and the potential consequences dwarf the popular notion of shoe-leather benefits of a single currency.

II FROM CAP AND BRETTON WOODS TO DELORS AND EMU

From a narrow European perspective, exchange rate stability was essential to the emerging Community arrangements on agriculture. The Bretton Woods monetary system could be sustained only insofar as the United States pursued policies that produced a reasonable degree of price stability. Europe was then free to exercise benign neglect as far as intra-European policy co-ordination was concerned.

Aside from the 1964 exchange rate crisis in Italy, it was assumed that parities could be sustained without undue difficulties. As Raymond Barre, the Vice-President for the Commission's Economic and Financial Affairs, put it

‘The fixing of common agricultural prices, their expression in the form of a unit of account, reinforced this feeling so much more than economic and monetary relationships, within the Community were harmonious between 1960 and 1967, at least in appearance’ Barre (1970).

Of course, U.S. inflation, together with differential inflation rates within the Community, soon put an end to the illusion of mutual harmony. Indeed, the progressive layers of Community rules and directives concerned monetary harmonization, leading eventually to the

²On trade matters, Bretton Woods sought, with some success, to replace the inter-war size and power base by rules of trade. The move to three major trading blocks will inevitably lead to rules by size, rather than by GATT

Delors Plan (1989) can be traced to responses to individual member country 'misdemeanours'. The exercise of policy independence was not compatible with CAP needs for exchange rate stability. Thus, the Commission's Action Programme for the second stage (1962-1966) singled out the consequences of major modifications to exchange rates on the common agricultural policy and with it the view 'that the Common Market itself could be imperilled'.

Action on its proposals for policy co-ordination was given a fillip after the March 1964 Italian balance of payments crisis, which was resolved by substantial help from the U.S., much to the chagrin of the Community. This event led to calls for advance consultations on matters of international monetary policy, parity changes and the general lines of fiscal policy.

The call for establishing a monetary union was first made by the Commission in October, 1964. However, as noted above, the 'harmonious relationships' and operations of the common agricultural policy exerted little concern for substantive policy co-ordination. It took the unilateral measures in November, 1968 by both Germany (the 4% taxes and rebates on external trade and foreign deposits limitations) and France (quotas and rebates) to produce the Barre Plan, (*Bulletin of the European Communities*, 1969, (3)) which called for advance consultations on individual treasures which would have 'important effects' on other EEC countries.

In the event, neither France nor Germany took notice of these directives when it mattered – the French devalued by 12.5% in August, 1969, without consultation, Germany floated and then revalued the mark by 8.5% on October 25. So much for harmony. These events led to the re-emergence of monetary union on the agenda following the Heads of Governments meeting in The Hague in December, 1969. The Werner Report appeared in October, 1970 (*Bulletin of the European Communities*, 1970 No. 11). And so to May, 1971, when Germany and the Benelux countries floated. The only substantive Council response was to safeguard

the common agricultural policy with compensating taxes and subsidies to offset exchange rate changes.

The events outlined above illustrate the extent to which Community has sought, in the interest of CAP, to counter discretionary behaviour by individual member countries, principally France and Germany. The Delors Plan for monetary union is a culmination of this quest for Community rules. The call for monetary union has little to do with the single market of 1992, contrary to the deliberate coupling of these in popular discussions³. Rather, the Commission has been led down the path of monetary union and the single currency simply because the key players have, in practice, failed to agree on co-ordination that was deemed necessary for the continued survival of the common agricultural policy.

However, an important prerequisite for monetary union is shared preferences on objectives, as emphasised by Harbeler. It is precisely the observed failure to meet this requirement that monetary union is supposed to resolve. This, therefore, raises the interesting political economy question, given this internal contradiction, of why there would seem to be near unanimity on the issue of a single currency. We defer discussions on this question to the last part of this paper.

A substantive consequence of the Community's insular response has been its failure to play a responsible role, consistent with its economic importance, in reforming the international monetary and trading system. The view that a single European currency in itself imparts a greater Community role in the important discussions on the unresolved issues of international monetary reform misses an important point. A reserve currency status imposes significant responsibilities regarding both liquidity and adjustments and on these matters Europe, and the surplus country, Germany in particular, has consistently shied away from assuming the mantle

³The single market, of course, requires the lifting of capital controls and this may have implications for the ERM. The extended European Economic Area illustrates that free trade can coexist with individual currencies

of leadership. A single European voice, as illustrated in the current GATT negotiations, is hardly any recommendation for responsibility behaviour. Harry Johnson (1973) had, in a characteristically provocative and prescient way, anticipated some of these events when he warned of the consequences of the new mercantilism that might emerge from such a scenario.

Be that as it may, the political commitment to European monetary union would seem to be assured. We, therefore, need to take stock of the economic issues to address the consequences of Europe adopting a single currency. There is a rich literature, dating back to the mid-1950's, which addresses precisely the kinds of issues that the move towards monetary union will pose. Hence, economists have a comparative advantage on this question. Of course, there is always impatience on the part of those who would wish to confront the issues on a higher spiritual plane. The road to hell, though, is paved with good intentions.

III IS EUROPE (WHICH EUROPE?) AN OPTIMUM CURRENCY AREA?

Political preferences which underline the enthusiasm for a single currency do not somehow obviate well-established propositions in economics⁴. Two such propositions bear repeating. Firstly, free trade is in general welfare improving and efficient and in this respect the single market Act is to be applauded, assuming of course that such a free trade area is 'trade creating' rather than 'trade diverting'. Secondly, price rigidities and in particular those that arise from administered prices, have serious consequences for quantities and in the context of national economies or groups, this means output and employment. A single currency is but a rigid locking together of member countries' exchange rates and prices and the implications for some economies should be obvious.

In a recent lecture, a Vice President of the Commission, Sir Leon Brittan (1990), concluded with the pious hope that 'in a few years time, a single currency for Europe will seem as self-

⁴ See Perlman (1991) for parallels between the Latin monetary union of 1885 and current moves to EMU

evidently sensible as a single European market does today'. Not for him that the debate about monetary union is a question 'to be left to bickering economists nor the theological arguments about national sovereignty'.

In a classic paper written in the mid-1950's Nobel-laureate James Meade (1957) posed the fundamental question of the balance of payments problems that would likely arise in a free trade area such as that envisaged in 1992. The practical issue which Meade addressed was the relative efficacy of devaluation versus deflation and consequent unemployment to achieve external and internal balance. He concluded that, in the absence of *political consensus* over policy harmonisation, a flexible exchange rate system was the most appropriate mechanism. The political consensus envisaged by Meade relates specifically to whether individual economies understand and accept the consequences of a common currency. As outlined, earlier, the plethora of Commission directives leading to the Werner and Delors Reports arose precisely from the lack of political consensus on policy harmonisation. Consensus for policy harmonisation is, however, a far less stringent requirement than the representative agent type assumption needed for a common currency.

Meade's analysis rested on the additional premise that the necessary factor mobility did not exist in Western Europe. An opposite view expounded by Scitovsky (1958), who gave qualified support to the notion of a single currency in Europe on the premise that a common currency would stimulate capital mobility and the supranational authority would ensure sufficient labour mobility within the Community.

An alternative thought related line of approach to the issue of monetary integration is provided by the contribution of Mundell (1961) on the theory of optimal currency areas. Mundell's analysis subtly posed the issue of whether a national economy was an appropriate currency area, or alternatively, what constituted the appropriate domain of a currency area. Thus, Canada is a large national entity. It is possible on grounds of factor mobility, and degree of 'openness' as analysed by McKinnon (1963), that New Brunswick in Canada and

Maine in the United States would constitute an optimal currency area, as would Ontario and Michigan. National states themselves may then not conform to optimal currency areas.

Both strands of the literature, following Meade and Mundell, continue to provide the essential framework for considering the political economy issue of monetary union⁵. Mundell concluded that the European common currency issue reduced to ‘whether or not Western Europe can be considered a single region and this is essentially an empirical problem’.

One Market, One Money (1990) offers a comprehensive documentation of the European Commission’s efforts at a serious professional evaluation of the economics of a single European currency. Curiously, however, the approach adopted there is not one of considering whether Europe is indeed an optimal currency. One loses the baby with the bath water, as it were, since the key issue in the optimal currency area approach to monetary union is assumed away by assumption. The Meade/Mundell question of labour mobility and nominal wage rigidity are assumed away in favour of the pious hope of the Heschler-Olhin substitution of labour mobility for capital mobility and free trade. The Commission relegates the usefulness of the theory of optimal currency areas on the grounds that empirical applications of the approach ‘are scarce and hardly conclusive’!

It might be suggested from the foregoing that the optimal currency literature cited earlier is a curiosum of the fifties and sixties and of limited practical significance to the question of monetary union⁶. In an analysis of European monetary union along the lines of optimal currency area approach, Eichengreen (1990a, 1990b), concludes that Europe is less of an optimal currency than is the U.S. on a variety of measures. In particular, he stresses the crucial role of fiscal federalism in the U.S. The often cited virtues of a dollar standard within

⁵ Explicit games theoretic extensions to Meade-Mundell are provided in Hamada (1985)

⁶ The conclusion that empirical applications of the optimal currency approach are scarce, might have motivated the Commission, given its resources and number of studies supported, to redress this deficiency.

the U.S. and the analogous benefits of a single European currency, conveniently ignores the issues of fiscal federalism.

Once one begins to put structure on Scitovsky's notion of a supranational authority the fundamental misnomer of the term monetary union is brought into relief. Monetary union has, perforce, to be accompanied by fiscal federalism within the region. The mechanism and extent of fiscal transfers has to then be spelt out, as was initially attempted by the MacDougall Report for the Commission in 1977. It reported on the large-scale fiscal transfers that would be required to compensate regions and countries in the then smaller Community and in doing so dispelled the notion then that this would be a politically reconcilable issue.

The inter-related nature of monetary union and fiscal federalism poses a myriad of issues. The recent public finance literature on co-operative strategy and credibility, Buiter and Kletzer (1991) Persson and Tabellini (1989) and the political institution/social choice problem under heterogeneous preferences, Aghion and Bolton (1991), helps underline the complexity of achieving a viable and credible solution to monetary and political union. That monetary union and a federalist political union go hand in hand is typically under stressed in public discussions which proceed as if these were two separate goals. Even when political union is discussed, it is in terms of a common defence and foreign affairs policy. However, political union consistent with fiscal federalism goes much beyond the question of NATO versus WEU or who will lead the brigade force. Thus, consider the somewhat misleading impression in the Delors Report (1989) that

‘in the economic field a wide range of decisions would remain the preserve of national and regional authorities’ albeit within ‘an agreed macro-economic and be subject to binding procedures and rules’ (Delors Report, p. 18)

One such rule proposed in discussions is a threshold on the ratio of debt to GNP among participating member countries. The Maastricht EMU protocol on budget deficits proposes a

limit of 60%, (which coincidentally happens to be the current average for the Community) as one of the conditions for entry into EMU. Thus, unless preferences which delivered ratios in excess of 100% for the so call problem countries (Belgium, Ireland, Italy and Greece) were to change dramatically, it is hard to see a mechanism that would readily transfer resources from the 'better behaved countries such as France' as would need to be the case. The alternative, of course, is a substantial retirement of debt via budget surpluses or Community support. The reaction of French farmers to British lamb imports within the current Commission rules is a salutary warning of the task ahead.

The fiscal implications of monetary union go beyond that of transfers or redistribution between member countries. As the growing literature on international capital mobility and tax competition underlines (see inter alia Dixit (1985), Razin and Sadka (1989, Giovannini and Hines (1991)), the binding procedures and rules will inevitably involve more than 'fiscal co-ordination'. The progression from exchange rate policy co-ordination of the 1960's to a single currency will inevitably be matched by a similar counterpart in the fiscal domain. Indeed this is implicit in the German favoured 'golden rule' which limits deficits to capital expenditures in member states. Monetary union then is synonymous with deep political union, a salutary thought given the current break-up of untenable federal structures elsewhere.

It is no often that we are forewarned of real shocks upon the international economic system. The developments and prospects for Eastern Europe and the ultimate unravelling of perestroika in the Soviet Union offers a rich menu of forthcoming challenges upon the world economy, and to individual member countries. From one perspective, it is akin to the opening up of the 'new world', except that in this case, mass immigration into the West, principally Germany, is the real reverse prospect (over 25m from one account). Here, Kohl-Heschler-Olhin has to really work if mass migration is to be mitigated. The beneficial effects of a single currency on capital flows to the rim countries are likely to be severely reduced by the fact of the even partial integration of Eastern Europe into the European market structure. Thus estimates of the capital needs of Eastern Europe are put at around \$135b per year. This,

together with the relatively high levels of human capital endowments which Eastern Europe enjoys, would imply a considerable challenge to the rim countries aspirations for capital from the rest of the Community. It is hardly plausible to assume that such shocks will affect member states symmetrically so as to ensure neutrality on the monetary union issue. Real shocks of this sort call for the even limited shock absorbers that exchange rates offer to regions within the Community⁷.

IV. THE POLITICAL ECONOMY OF A SINGLE CURRENCY

The varying enthusiasm for currency and political union is but a reflection of the heterogeneous nature of member states. The degrees of freedom afforded by individual countries' fiscal and monetary independence and with its sovereignty, is in practice both limited and a mixed blessing.⁸ The benefits of such independence in practice only follow from governments and policy makers exercising due care in the conduct of policies.

Governments though are not equally endowed with the prerequisites for successful economic management. Member countries vary in the effectiveness of their exercise of fiscal and monetary independence. Many who cling to the notion of sovereignty in Britain do so despite their failure to do much with it in the past. Those that anxious for monetary and political integration, as are the Italians, do so for fear of their own institutional set-up. One commonsensical argument in favour of countries adopting fixed exchange rates was always that it paid if one's government were irresponsible.⁹ Alternatively, flexible exchange regimes were preferable for responsible countries wanting to insulate themselves from the irresponsibilities of others, as illustrated by Germany's decision to float in 1971.

⁷ For an excellent discussion on German unification and the impact of Eastern Europe on the southern rim countries see the contributions by Giavazzi and Winters in *Monitoring European Integration: The Impact of Eastern Europe*, C.E.P.R., London, 1990

⁸ Capital mobility and economic interdependencies have greatly reduced the scope for closed-economy views of policy independence.

⁹ Thus, countries such as Argentina and Israel have, from time to time, considered some forms of de jure adoption of the U.S. dollar.

Indeed, the very success of Germany's stable inflation policies and reputation lie at the heart of the success of the ERM. This in turn proves to be the awkward feature for some of the mechanism's partners, principally France and Italy, who would wish to reduce or constrain the pivotal role of Bundesbank. Clearly, the outcomes of competitive central bank performances do not suit everyone. Since, however, this is well understood, one may ask why the Germans have expressed support for what will in effect be a curtailment of their influence on the ERM rudder.

A key to the understanding of the German position lies firstly in the ERM historical performance, and secondly in the welcome reunification of the two Germanys. Consider but one aspect of the ERM. The record of Germany's balance of trade with its Community partners is one of unexceptional positive balance. There is no question but that the consistency of its balance of payments surplus implies that the Deutsche mark has been undervalued vis a vis its partners and the US. The averaging of hard and soft currencies within the ERM has facilitated the undervaluation of the D.mark. The other side of the coin, of course, is inflation averaging. Germany has had to live with a higher inflation rate than would otherwise have been the case. Its monetary policy has been the dominant but not the exclusive force within the ERM. As a result, German preferences for price stability cannot be achieved within the current system.

French enthusiasm, with Italian support, for a single currency reflects the distaste for their relative loss of sovereignty and preference for power sharing. On the other hand, Germany seeks, via monetary union, to eliminate the imported inflation characteristics of the ERM. The objectives of the principal parties then are mutually inconsistent.

Why then has Germany persisted in seeking monetary union? Indeed, it is the only country to have practical experience of the fiscal and monetary implications of union, following from

the reunification of the two German states.¹⁰ The legitimate aspirations of Germany for reunification no doubt conditioned its earlier posturing on European currency unification. The prominence and distraction of the currency debate, aided by the forthright stance of the Thatcher administration towards it, greatly facilitated the remarkable transition to German unification, despite the xenophobic distrust by the British and the French towards it. The consistency and credibility of the German position in future negotiations cannot be taken for granted. At its simplest, the bottom line that is consistent with stable prices in Germany is a fixed zero band exchange rate system, not so much as a transitory mechanism, as proposed in Dornbusch (1991), but as a viable alternative to EMU. This is hardly likely to be a politically viable proposition to put before the higher inflation and already constrained members of the EMS. It could, however, end up as the outcome once the negotiations founder on the technical details, or arrive at a binding compromise that is not credible in the long-run.

Indeed, the Maastricht (draft) treaty on EMU now proposes 'exemption status' to accommodate member states who are unwilling to take any eventual decision on a single currency. The status, though, is not reserved for Britain – any country may exercise the right to exemption. The option will not be lost on Germany, who in the passage of time could be the significant user of the 'exemption status'. Four issues are likely to gain prominence in the intervening period to EMU in 1997. These are Community enlargement, agriculture and GATT, the Eurofed accountability, and fiscal convergence within EMU.

In tandem with German unification, we have experienced the opening up of Eastern Europe which historically has very much been a German sphere of economic influence. It is more a matter of when, than if, these countries, which have struggled for so long to escape to the marketplace, will be allowed to join an extended Community. In this regard, the outcome of the Uruguay round is in an indirect way important to the issue of Community widening.

Were CAP to be reformed out of existence, French interests would alter significantly to allow

¹⁰ Note the extreme difficulties experienced in getting a relatively homogeneous group of citizens to accept the fiscal implications of monetary union

for an earlier entry of Eastern Europe. In any event, the *raison d'être* of the 1958 marriage of convenience between the French and the Germans, would then be dissolved to reveal the differing interests of the former axis partners. Western real politik and U.S. insistence that these countries be allowed to gain entry into a widened Community must eventually prevail.

The agreement between EFTA and the Community to form the European Economic Area in 1993 hastens the progress towards Community widening. Already, Austria and Switzerland, both of who share German economic management, characteristics, have signalled their intention to seek full Community membership. The Nordic dimension, too, will significantly alter the balance of interests in which German influence will predominate. German insistence on greater democracy within political union has to be viewed in this light. Given the inevitable widening, the question arises as to why the Commission has sought to adopt a breathtaking pace on monetary and political union.

One possibility is the myopic urge for the common currency ground rules to be in effect before such entry and on terms conducive to the existing members. Were this to be the case, monetary union would surely suffer the same lingering death as CAP. There is one distinct difference though between CAP and EMU – the former imposes large costs upon non-Community producers whereas the fiscal and macro impacts of the latter would be borne within the Community. The alternative and more plausible German rationale, given the break-up costs involved, is an anticipation of the adoption of operating monetary and fiscal rules to restore a stable German price level (the *de jure* outcome), and failing this the *de facto* replacing of EMS by a Deutsche mark currency grouping.

In this setting, a fundamental issue will be the nature of a European central bank. Currently the natural dominance of Germany within the ERM leaves little room for independent policy for the other partners. But, the very Bundesbank characteristics which give cause for concern would need to be enshrined into any constitutional setup for the proposed European Central Bank (ECB). Hence the dilemma and the varied calls for power sharing within the new

Europe. As a viable monetary union requires a fiscal union in tandem, German interests require that the form of power sharing is one that ensures Bundesbank characteristics. For others, it means a system which would allow for an averaging up of the inflation rate via majority voting in a Eurofed structure whilst fiscal matters are relegated to the question of convergence and entry selection.

The recent historical perspectives on central banks by Gianni Toniolo (1988) and Robert Hetzel (1990) usefully distinguish between 'commitment' and 'autonomy with discretion' in central banking behaviour. The latter characterisation very much fits the Eurofed structure favoured by the French and Italians, whereas commitment has been the hallmark of the Bundesbank's behaviour. A German orientated constitution for the ECB is hardly likely to satisfy those seeking autonomy with discretion.

The fiscal diversity of the Community is a reflection of the preferences and political outcomes in the individual nation states. Fiscal federalism, on the other hand presupposes homogeneity so as to allow for the transfer of resources within an entity. It is hard to see, given the experience of German reunification, how German citizens would willingly transfer resources to their counterparts in Greece. More likely, the burden of adjustment will fall on the weaker countries, which additionally will be required to meet the fiscal bill of health proposed in the EMU protocols.

What then are the prospects that a single currency will emerge at the turn of the century and beyond? One outcome is that the momentum towards EMU, started initially by considerations of CAP, will outweigh the political and economic realities of a single currency. History, as enshrined in almost four decades of CAP is, after all, on the side of such an outcome. Unlike Sir Leon Brittan (1990) however, I conjecture that in a few years time a single currency for wider Europe would seem as self-evidently nonsensical as CAP is today. Coalitions are bound to falter or recontract in the way that cartels usually do and a realigned Europe offers such a prospect. It is doubtful if the design of a politically acceptable EMU

structure which delivered German commitment to price stability would emerge. If so, the prospect of an extended Deutsche mark currency zone with the benefit of German fiscal and monetary policy is a real one. Only time will tell.

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