

Germany's vague plan for European Monetary Fund is a smoke-screen

by David Marsh

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Germany's plan for a European Monetary Fund (EMF) to help out Greece and other errant nations is unworkable and is highly unlikely ever to see the light of day. What is more, we've seen it all before. The outcome of the saga is likely to embarrass Germany and risk alienating further its euro partners which would like Europe's largest economy and biggest creditor nation to do more to help European growth by stoking up Germany's internal demand. This is something that the Germans are highly unlikely to do, given that their main preoccupation (understandably enough from their point of view) is to reduce the public sector debt burden and increase exports to places like China and Brazil that still have a burning ambition to buy German goods. Schäuble said at the weekend an EMF could be part of "stronger coordination" of euro economies – an aim both France and Germany have long supported, although for diametrically opposite reasons. France has wanted coordination to lower the influence of the tough anti-inflation policies traditionally pioneered by the Bundesbank, while Germany has campaigned for this objective precisely to increase the traction of such policies. There is a certain amount of tradition in these tussles. You need to go back more than 30 years and look at The Times newspaper of 8 July 1978 bearing the front page headline "European leaders plan \$50,000m fund to stabilize currencies." The story ran as follows: "All nine leaders of the European Economic Community at their two-day summit meeting in Bremen took a major decision toward establishing greater currency stability in Europe. Finance Ministers have been told to work out detailed rules for operating the new system, which involves creating a \$50,000m European Monetary Fund." The Bundesbank opposed the idea in 1978 on the grounds that it gave undue assistance to weaker countries. The plan was formally agreed by European governments in December 1978 as part of plans for the European Monetary System set up in 1979. Two years later the idea was quietly dropped. A similar fate now looks likely to await the latest reincarnation of the plan. The Bundesbank's 1978 strictures were repeated this week by Jürgen Stark, formerly the Bundesbank's deputy president and state secretary at the German finance ministry, now a member of the executive board of the European Central Bank. Stark had the task in the mid-1990s of engineering the Stability Pact to limit euro members' budget deficits (later called Stability and Growth Pact out of deference to French sensitivities). He says now Europe should forget about the European Monetary Fund and instead concentrate on enforcing the rules for good budgetary behaviour it set more than 10 years ago before the euro started. Stark said in an article in the Handelsblatt newspaper that EMU was a "community of fate" where individual nations had to be bound together by common rules for sound economics. This echoed formulations employed by the Bundesbank at the time of the Maastricht treaty in 1991 - and indeed, earlier, when a plan for European monetary union was enunciated under Luxembourg prime minister Pierre Werner in 1970. Chancellor Angela Merkel said on Monday that an EMF would require a European treaty change – something that no European country wants to envisage in view of difficulties over ratifying the Lisbon treaty in recent years. This effectively rules out any idea of an EMF for the next few years. Theo Waigel, the former finance minister, who used to be Stark's boss, has opposed the plan for an EMF on the grounds that it would entail unnecessary duplication with the International Monetary Fund. He asked why Germany would continue to remain a member of the IMF if responsibility for European lending was to pass to a new body. The interventions by Stark and Waigel are thoroughly predictable. This is only the latest example of the Bundesbank knocking down German government proposals for high-flying European financial projects. It is hardly likely that either Schäuble or Merkel was surprised by these criticisms. The plan for an EMF is a smoke-screen designed to show that Germany is basically sympathetic to the plight of the Greeks and other wayward southern states, but wants to increase pressure on them to take the necessary steps to restructure their budgets without outside help. This is a tall order. We will know in coming months whether it is impossible.