

# Curried Emu — the meal that fails to nourish

**Wynne Godley**  
In my view



**M**Y MIND tends to go blank now when Maastricht is mentioned, so I might not have read David Currie's *The Pros and Cons of Emu* if it had not carried the Treasury logo. The document contains a foreword by Gordon Brown stating that it is 'an admirably clear and objective analysis of the issues', and this makes it required reading.

Insofar as he is specific, Currie's 'pros' are nothing more than the standard list of trivial advantages — lower transac-

tions costs and so on — that has been around for years. His 'cons' comprise the loss of various powers to act independently which are, according to Currie, largely illusory in today's globalised world. Either way, Emu is no big deal on this showing.

Yet this list of pros and cons hardly scratches the surface, as Currie implicitly recognises but does not argue out. 'Europe,' he says, 'has embarked on an extraordinary undertaking' with possibly 'momentous' implications for the UK. Emu will, perhaps, enable 'a stronger and more integrated Europe ... to exercise leadership on the global issues facing the world'. This is heady stuff. But how are we supposed to move, in our minds, from the little world of savings on transaction costs to the colossal one of participating in the great sweep of history?

The lacuna I complain of is a familiar one. I have come to dread how, at conferences, the person put up to speak for Emu begins by trotting out Currie's pros and cons and then, under pressure, says that no, the real case for Emu (as all men of the world know) has nothing to do with any of that: the real case is 'political'.

He goes on to say that once the single currency is in place, new political processes and appropriate institutions not

yet on the agenda will grow naturally. Pressed further, he gives the impression that one is being naive to expect anyone to be more specific at this stage.

Currie also thinks that what happens after Emu is a question that can be shelved: 'Adopting the single currency means, by definition, surrendering control over monetary policy, but no further loss of national sovereignty would necessarily be bound to follow. Europe's governments may well choose that course.

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Or they may choose otherwise.' I don't think this covers the ground.

First of all, if a government stops having its own currency, it doesn't just give up 'control over monetary policy' as normally understood; its spending powers also become constrained in an entirely new way. If a government does not have its own central bank on which it can draw cheques freely, its expenditure can be financed only by borrowing in the

open market in competition with businesses, and this may prove excessively expensive or even impossible, particularly under 'conditions of extreme emergency'.

Second, while it will always be open to governments to negotiate a 'further' loss of sovereignty later on, Currie fails to address the fact that new institutions are needed immediately to take up the powers abjured this time round. For instance, if Europe is not to have a full-scale budget

of its own under the new arrangements it will still have, by default, a fiscal stance of its own made up of the individual budgets of component states. The danger, then, is that the budgetary restraint to which governments are individually committed will impart a disinflationary bias that locks Europe as a whole into a depression it is powerless to lift.

A useful comparison can be made with the US. Americans often point out that it

would make no sense if each US state had its own currency, so what is all the fuss about? But the question should be asked the other way round. How would the US make out with no President, no Congress, no federal budget, and no federal institutions apart from the 'Fed' itself, plus a powerful central bureaucracy?

The analogy is useful because the United States does so obviously need a federal budget as well as a federal bank, and the activities of the two authorities have to be co-ordinated. If there is a recession, remedial (expansionary) fiscal policy at the federal level is the only proper response; it is inconceivable that corrective action could be left to component states, which have neither the perspective nor the co-ordinating machinery to do the job. If there is a federal budget there must obviously be a legislative and executive apparatus that executes it and is democratically accountable for it. Moreover, the need for federal institutions extends far beyond economic affairs.

To take the point to extremes, the union itself may come under threat and therefore needs armed forces plus appropriate machinery to deploy them effectively and responsibly. I protest that the next stage in Europe cannot be left to chance and that whether or not we

should go ahead with Emu depends crucially on what new arrangements are to be made.

It is a grim thought that vastly greater power be handed over to a headless monster. Think of the Common Agricultural Policy, which has been far and away the largest European project so far undertaken and, for everyone outside farming, an extraordinary disaster.

Defying every principle of free markets and free trade within Europe as well as between Europe and the rest of the world, the CAP has been enormously expensive in terms of consumer prices and budget contributions; it has seriously damaged the trade of developing and other countries; it has created conditions that foster corruption and has destroyed much of the British countryside (to no purpose) along the way.

Very few people understand how it works and nobody can keep track of it. The costs to Britain have been staggering, but nobody can work out just what they are. Is this the kind of thing that inevitably happens when institutions are given great power without proper accountability?

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