

## Report from Bonn by Rainer Apel

### Downhill from Tokyo to Maastricht

*The European Monetary Union will amplify the effects of the Asian financial and monetary crisis on Germany.*

Not only is resistance against the planned European Monetary Union (EMU) growing inside Germany, but there are also doubts among the elite, especially the economists, whether the project should be kept on schedule. The EMU is set to begin on Jan. 1, 1999, and the final review of the 15 European Union governments at EU headquarters in Brussels, which will decide how many of the 15 will be let into the club, will take place on May 2.

Officially, the government and the parliament are all for it, and want to stick to the timetable. But, in private talks, quite a few politicians are voicing hopes that if there is no way of postponing the EMU starting date, the criteria for participation should at least be watered down. This "inside resistance" current will gain momentum, after the expected decision in Brussels in favor of the EMU and the timetable.

There are others among Germany's elites, who say that the project should be stopped or renegotiated. But because so much political prestige has been invested in the EMU, the Germans prefer that others in Europe take the first step and tell the public that the monetary union "simply will not work." So, in a typically pragmatic way, the German critics of the plan hope that the French will make the first move.

France, however, missed its big chance after the elections in June 1997, when the new government of Prime Minister Lionel Jospin could have taken such a step. There were certain indications that it would act in this direction, but the government was pulled back into the EMU boat, before

ever really getting out of it. As of now, it seems certain that the French will vote for the EMU, which means that it will begin on schedule, with all its strict budget-balancing criteria and restrictions on state borrowings for economic stimulus programs. The EMU will make it even more difficult to fight mass unemployment, because it will leave all the initiative to the "free market," and block public sector undertakings in its member states, to create jobs and stabilize production.

This is bad news for Europe, and for Germany. The good news, is that the resistance against the EMU has finally begun to take notice of the Asian crisis, and to address its repercussions on the German economy.

This is the right approach for all strategies aimed at overturning the EMU at some future time—possibly during the transition period between the Brussels meeting and the formal start of the project. The Asian crisis is now generally not expected to cool down, and there are more and more commentaries in the media, that warn of a deepening depression in Japan and the rest of Asia.

A strong exporting nation like Germany will be hit hard by the contraction of the Asian economies: The "emerging markets" in Asia have, after all, been the main incentive for German exports on a global scale. The only part of Germany's market in Asia which has not been hit hard, is mainland China, because of its ambitious infrastructure investment and development program. In the rest of Asia, German exports are going downhill. The economic straitjacket of the EMU

is suicidal, and some people in Germany, who, for much too long, have had illusions about the nature of the EMU, have finally begun to recognize this. There is the potential for broadening the resistance against the EMU, via a public debate about Asia.

At a press conference in Bonn on March 11, the German Association for the Protection of Savings addressed the Asia crisis in a memorandum on the risks of the EMU. The memorandum warned that the drop in production and consumption in Germany that results from the crisis in Asia, will reduce tax income considerably in 1998 and future years. The government will not have the budget which it had projected. In connection with the budgeting rules of the EMU, the government will have to fill the holes through tax increases, which in turn will spark inflationary price increases, the savings association said. Moreover, a representative of the association told this author on March 17, that it could not be ruled out that German banks will not only have to write off bad loans to Asia, but are headed for serious trouble. This, on top of all the other EMU problems, would ruin the savings of millions of German citizens.

On March 12, in a press conference in Bonn, the German Taxpayers Association voiced similar concerns about the EMU. Leaders of the organization called for a freeze of the EMU timetable for at least three years, to gain time for a review of the entire project.

Both organizations are powerful, having institutional members such as banks, insurance firms, and professional organizations, as well as several hundred thousand individual members. This has to be taken into account, for the upcoming elections for national parliament. The government may vote the EMU in on May 2, but lose the elections on Sept. 27.