Chapter 13: The New Member States

When examining the possible implications of the EMS for New Member States, it is, at the outset, important to note that no country in the Common Market is under any obligation whatsoever to join the EMS. Thus, in this context neither Greece nor the United Kingdom are members of the System. Consequently, the relevant questions which should be considered when examining the case of new Member States are:

(i) what advantages, if any, could a new Member State hope to obtain in joining the EMS?

(ii) What structural conditions might such countries have to fulfill in order to join?

(iii) Once having joined the EMS, what might be the internal economic policy conditions/constraints which such countries have to accept?

The Possible Advantages of Joining the EMS.

The EMS has proved itself to be a zone of international monetary stability, and, most economists would agree that exchange-rate fluctuations among the participating countries have been much less than they might have been had the System not existed. Thus, a new Member State on joining the EMS would also join this zone of monetary stability.

As an integral part of participation, a country would find its currency supported by its partners. As a counterpart to this, the country concerned would find itself under pressure to support its own currency when fluctuations reached the relevant limits vis-à-vis the ECU.

Whilst a participant undertakes the responsibility to intervene in the exchange markets to support its own currency, it would have access to the rather generous credits of the Community should it face balance-of-payments or similar problems. Furthermore, it is highly probable that the Community would (as was done for Ireland and Italy) organise interest rate subsidies for loans for such countries.

The Structural Factors.

There are two important structural factors which deserve serious consideration by new Member States contemplating membership of the EMS.
One of these factors concerns trade, the other, the economic policy choice of the countries concerned.

At the trade structural level, the factor which has to be examined is the degree to which the economy of a prospective member is an open one and the proportion of its GNP which is traded with the EEC. This is really a most fundamental consideration because of a country's economy is not open and if it is trading only a modest amount of its GNP with other Community Member States, then, there will be little demand for the currencies of the different partners - and consequently - little point in linking them together. This, however, may well change at the end of the transitional phase when a new Member State would (economically and financially) become a full Member. At such a moment, much more of the country's trade may be transacted within the Community itself and it may wish to re-examine the question of its possible participation in the EMS.

The public economic policy choice of a prospective Member State is of critical importance when contemplating possible participation in the EMS. Among all the present members of the System, the common policy element is the control of inflation. This policy choice is absolutely pre-eminent. A country which did not already or could not consider subscribing to this policy choice should not even consider joining the EMS. Such is clearly the position of Greece.

Economic Policy Conditions or Constraints

The preceding paragraph contains the real constraining policy choice for new Member States considering joining the EMS. As the experience of present participants has amply confirmed, the overriding public economic policy choice of participants is the control of inflation. Thus, future participants would, sooner or later, find any other economic policy choices (such as excessive economic expansion, for example) considerably reduced.