# Tensions rise over European Monetary Union

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As the date approaches for the proposed European Monetary Union (EMU) — January 1, 1999 — political tensions are sharpening on a number of fronts. The attempt to integrate capitalist Europe is deepening antagonisms between the various powers on the continent, as well as between Europe and the United States.

During British Prime Minister Tony Blair's visit to the US last week top bankers, businessmen and politicians, in a series of meetings, alerted him to growing American unease over the progress of EMU. Amongst the worried voices raised were those of Federal Reserve chairman Alan Greenspan and Treasury Minister Robert Rubin, as well as International Monetary Fund managing director Michel Camdessus.

Their principal concern is that a majority of countries in the European Union (EU) are proceeding too quickly with the single currency project. There are complaints that the EU agenda is "too political," and that not enough attention is being paid to the convergence criteria — the criteria that European countries must meet, in terms of reducing budget deficits and imposing other cuts, to qualify for membership in the monetary union. Some European governments are being accused of failing to carry through the necessary structural "reforms" of the labor market and social welfare provisions.

Blair responded to these warnings by dispatching his Economic Secretary Helen Liddell to key US cities, such as New York, Chicago and Boston, in a bid to calm nerves.

By a "political agenda" Clinton administration officials and US businessmen mean the attempt to form a European trade bloc to rival US capitalism. The tone in Washington may be cautious and the terminology deliberately vague, but the US ruling class is caught on the horns of a dilemma. If EMU is a success, it will threaten America's dominance of the world market; if it fails, the economic fall-out could drag the US economy down with it.

Voicing concerns at the former possibility, C. Fred Bergsten, director of the US Institute for International Economics, forecast at the recent World Economic Forum in Davos that global tensions would rise with the introduction of the euro, as the latter would become the world's second most important currency. The result, Bergsten cautioned, would be a substantial portfolio diversification into the euro and away from the dollar. He accused European governments of artificially weakening their currencies in the lead-up to EMU.

Europe's bond markets already rival those in the US, having grown at an unprecedented rate for nearly a decade. The two largest eurobond markets combined — in Germany and Italy — are larger than that in the US ($4,000bn against $3,100bn), although the US still far surpasses Europe in ordinary traded corporate bonds and junk bonds. A spokesman for Moody's Investors Service said, "We expect the (euro-denominated) debt market to achieve approximate parity with the US within seven to 10 years in terms of size, trading volume and liquidity," citing EMU as the primary factor.

Fears about the consequences of EMU's failure are equally justified. The economic precondition for its success is a massive reduction in government spending through the slashing of wages and costly welfare provisions — so-called structural reforms. This program is described in Europe as the "American model."

Britain is widely praised by international big business as the European country that has done most to destroy the living standards of working people and deregulate the economy. A report by the Union of Industrial and Employers Confederations of Europe says that flexible labour practices and low wage costs make Britain one of the most economically successful countries in Europe.

The report complains that the rest of Europe, in particular Germany, Belgium and Spain, has not gone far enough in doing away with “Inflexible labour markets and practices, insufficient wage differentiation, high employment costs, tax and benefits systems which do not provide incentives for individuals to work, as well as inadequate skill levels and structures.”

This is not due to a lack of desire on the part of the ruling classes in these countries. At the same Davos conference, French Labor and Social Affairs Minister Jacques Barrot described the welfare state as “a painkiller, an anaesthetic” against action. “We have to find something new, something different,” he said.

Such comments, however, are always qualified by concerns over the threat posed to social stability. In western Germany, for instance, nearly two million industrial jobs have been lost since 1991, and unemployment stands at 6 million in the country as a whole.

Initial attempts to impose devastating cuts in the welfare state have met widespread resistance, most notably in France. Differences over how to respond to the threat of popular opposition have exacerbated antagonisms between the European powers themselves. The French government has stressed that a new European bank must have a political agenda which takes into account the need to preserve social cohesion. The German regime of Helmut Kohl, on the other hand, is demanding that decisions be made on a strictly economic basis.

Paris believes that Germany’s real economic agenda is to assert its control over Europe’s economic life. The two countries are currently at loggerheads as to who should head the European Central Bank, which is to be located in Frankfurt.

Germany’s drive to get as many countries on board EMU as possible by the 1999 deadline is creating divisions. Many international businesses do not believe Italy and Spain should join the first round because of the weakness of their economies. This is also causing friction within Germany. Last week 155 economics professors sent a letter to the Kohl government appealing for an “orderly postponement” of EMU because of insufficient convergence. Their dissenting voices have found support within the ruling Christian Democrats, from Kurt Biedenkopf, Prime Minister of Saxony, and from Henning Voscherau, a top Social Democratic financial expert.

Britain itself refused to join the first wave of EMU entrants, citing the disparity between the British and European economies. But in Britain also there is growing anxiety over the threat to social stability. Late last year, Dennis Healey, Chancellor of the Exchequer in the 1974-79 Labor government, warned against too fast a move into EMU: “I think it is likely to be a disaster... People are beginning to see that the kind of economic policies, domestic as well as international, being followed by many western countries—together with the changes in the organization of business that produce downsizing of work-forces—will cause a tremendous social backlash in the next ten years... The case against purely financial criteria is that it will mean rising unemployment and deepening social division.”