Euro to bring far-reaching changes

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The lower house of the German parliament, the Bundestag, voted overwhelmingly at the weekend to approve the replacement of the deutsche mark by the euro, the currency of 11 European nations that will come into effect January 1 next year.

Despite opinion polls in Germany showing 60 percent opposition to the euro, the vote in the Bundestag was 575 votes to 35 in favour of the new currency, as members of the Social Democratic Party joined the Christian Democratic Union in the vote. Chancellor Helmut Kohl hailed it as “the most important decision since German unification” and “one of the most important decisions of the century.”

The next stage in the currency plan will take place on May 2 when the 11 countries involved—Germany, France, Italy, Spain, Ireland, the Netherlands, Austria, Belgium, Finland, Portugal and Luxembourg—decide on the terms under which they will swap their national currencies for the euro.

The euro will then become a formal currency from January 1, 1999 under the administration of a newly-established European Central Bank. The process of currency unification is aimed to be completed by January 1, 2002 when the euro actually begins circulating in participating countries as notes and coin.

The driving force behind the currency unification is the need of European industrial and financial corporations to widen their base of operations in order to compete against their international rivals in the struggle for global markets and profits. The introduction of the euro is expected to reduce transaction costs, incurred when one European currency is exchanged for another, by around $65 billion a year.

The new currency will enable firms to undertake a massive restructuring of their operations with far-reaching consequences for the jobs and working arrangements of millions of workers and for social conditions across the continent.

According to the magazine *BusinessWeek:* “The economic shock waves will shake Europe to its foundations. The reform is likely to unleash an unstoppable market process that will sweep away the structures Old Europe held so dear—national corporations and banks, rigid work rules, generous pension payments.”

Closures and job cuts are already taking place as the euro timetable proceeds. It is estimated that at least one in five workers will be affected by mergers and downsizing and that 5 percent of industrial workers could lose their jobs—in a situation where unemployment in continental Europe already stands at more than 10 percent.

Bank workers will be among the first to be hit. It is estimated that as many as half of the 166,000 bank branches may close, with the loss of tens of thousands of jobs. The same processes will take place in every industry. With the removal of currency barriers, companies will be able to transfer their operations to low-cost regions, where wages and taxes are lower, and cut back plants in other areas. The French tyre manufacture Michelin, for example, is planning to reduce the number of its European distribution centres from 200 to 20.

The new Euro-market will come under the financial domination of the newly created Euro Central Bank (ECB), which will take over the control of monetary policy. While national currencies will remain, the central banks of the member countries will lose their power to set interest rates and currency values.

In the past, governments were able to effect a certain protection of their national economies through the adjustment of currency rates, or the variation of interest rates. That will no longer be possible. In order to attract capital to its region each national government will be forced to slash costs and reduce budget deficits. Cuts in one country or region will be rapidly followed by cuts in other areas as governments and local authorities strive to remain competitive.

Control of financial policies by the ECB will remove the possibility for national governments to undertake any action directed toward alleviating unemployment, leading to concerns that rising joblessness could place the euro under great political strain.

Some of these fears were outlined in a letter from the Italian Nobel Laureate Franco Modigliani to the London-based *Financial Times* in January. Describing himself as a supporter of the economic and monetary union from the very beginning, he explained that he had developed “serious qualms” in the recent period as it appeared that “Europe’s jobless problem could put the single currency in danger.”

With the average level of unemployment in EU countries now standing at a “gigantic” 11 percent compared to the average of 3 percent in the 1960s and early 1970s, he pointed out that the rise in joblessness had coincided with a reduction by one-third of the share of European GDP going to investment since the mid-1970s. It was necessary to tackle this problem, but the very structure of the new financial system made this impossible.

“Nothing in the Maastricht Treaty or in the agreements reached during the European summit meetings addresses this problem. Rather the reverse. The participants seem to have accepted the concept, repeated ad nauseam during the recent Luxembourg summit, that the level of unemployment is not a responsibility of the Union, but a task to be accompanied by each country separately.

“At the same time they have taken away from the member countries all the tools of demand management. Fixed exchange rates and full capital mobility prevent central banks from setting interest rates. Narrow budget limits, as foreseen by the so-called ‘stability’ pact, make fiscal policy impossible. The European Commission has no resources to spend on Union-wide investment projects and the European Central Bank is enjoined to aim exclusively at price stability.” (*Financial Times*, January 16, 1998)

But pleas by social reformists, no matter how eminent, for measures to alleviate unemployment or for a halt in cuts in social services are certain to fall on deaf ears in the ECB. This is because not the least important consideration in the creation of the euro is the attempt by the dominant sections of the European bourgeoisie to fashion an international reserve currency capable of challenging the global supremacy of the US dollar in international financial markets.

When the euro comes into operation on January 1, the 11-nation EMU bloc will outstrip the US as the world’s largest exporter and importer, and with the planned expansion to 15 members by 2002, the EMU region will become the world’s largest bloc.

Banks and financial institutions are eagerly awaiting the possibilities of profits from a single euro capital market. At present the combined GDP of the 11 nations is $6.4 trillion, compared with $8.1 trillion for the US. The eurozone government bond market is around $1.9 trillion, roughly as big as the US Treasury market. While the stock markets have a combined capitalisation only one-third that of the US, the corporate bond market is expected to quadruple in size over the next few years. If Britain joins the EMU, then, with the addition of the London financial market, the European bloc will start to rival the US.

However, this potential will only become an actuality provided the euro is seen as a “strong” currency in international markets, and that will only occur if money supply is kept tight, budget deficits reduced, and inflation kept in line with the US and Japan.

The introduction of the euro will not bring about improved economic conditions for the vast majority of the peoples of Europe. Nor will it provide security against the dangers of war which have torn the continent apart twice this century. On the contrary, the single currency means a worsening of living standards on the one hand and an increase in political tensions on the other—as national rivalries within Europe intensify and as the conflicts between the European bloc and its international rivals, the US and Japan, deepen.

The goal of European unification and the harmonious development of economic and social life cannot be realised as long as the process is controlled by the bourgeoisie. It will only be achieved through the conquest of power by the working class and the establishment of the Socialist United States of Europe.