

The euro's launch heralds major economic and social conflicts

Chris Talbot, Chris Marsden
21 January 1999

The launch of the euro this month, unifying 11 economies in a common currency zone, creates a market of nearly 300 million people, second in importance only to that of the United States. The world's governments and the financial press have been dominated by one question: "Will the euro challenge the pre-eminence of the dollar?"

The very posing of this question indicates the historic significance of the euro. It represents a major development in the Single European Market established in 1992, the purpose of which is to create the conditions for Europe to compete effectively against the US and Asia.

The euro is the culmination of a project designed to meet the challenge posed by the globalisation of production. The central aim of Europe's governments is to overcome the restrictions imposed by the division of the continent into a patchwork of national economies, with conflicting monetary and fiscal policies, tariffs and other restrictions on trade and investment.

The euro, in one sense, flows logically from the project for European Union ongoing since the end of the Second World War. But its more immediate origins are in the striving by the European governments to formulate an economic and political response to the fundamental shifts within world capitalism during the late 1970s and 1980s.

The 1980s witnessed an integration of Europe's economies far surpassing anything during the previous 30 years. By the end of that decade, fully 60 percent of all European Community trade was within the EC itself, compared with 36 percent in 1958. Between Germany and France, cross border direct investment increased eight-fold, reaching a value of \$2 billion. German firms had 2,000 subsidiaries in France, while France had 1,000 in Germany.

The growing fracturing of the world economy into the rival trade blocs--Japan and the Asia Pacific Rim countries and the formation of the North America Free Trade Agreement--provided added impetus. In 1987, for instance, German direct investment into the EC increased from DM3.8 billion the previous year to DM22.9 billion, a five-fold rise.

Germany functions as the continent's economic powerhouse and the alliance between it and France is the cornerstone of European policy. German reunification in 1989 thus acted as the final spur for the decision to launch the single currency project. A strategic agreement was reached in which, in return for European support of German reunification, Germany accepted the deutsche mark being subsumed into a common European currency and the creation of an independent European central bank as its central pillar.

In 1989 the Madrid EC summit accepted a three-phase plan for the introduction of the euro drafted by Jacques Delors, which was embodied in the Maastricht Treaty of December 1991. This set out "convergence criteria" for bringing Europe's economies and economic policy into line, including limiting government borrowing to 3 percent of GDP. The date for the euro's launch was fixed for January 1, 1998.

Just 10 months after Maastricht was signed, however, it seemed that the euro project had been aborted. Speculation against Europe's weaker

currencies forced the British pound and the Italian lira out of the European Exchange Rate Mechanism on "Black Wednesday", September 1992. A year of turbulence on the currency markets followed, which forced Europe's finance ministers to agree to a wider fluctuation band between the various currencies of plus or minus 15 percent and the euro's launch was put back to January 1999.

Yet despite this tremendous setback, after a consolidation period and the agreement to the far-more stringent Stability Pact at the Dublin EC summit in 1996, the euro is now a reality. All 11 countries--with some fudging--met the criteria on inflation, exchange and interest rates and the government deficit. How this was accomplished epitomises the fundamental political shift that has taken place within Europe.

Creating the conditions for the euro demanded an unprecedented offensive against jobs and living standards. To win the support of the financial markets and secure trade and investment, Europe's governments launched an all-out assault against welfare budgets and wages, and carried out the rationalisation of unprofitable industries. This move away from the social consensus politics that dominated Europe in the post-war years was epitomised by the election of right-wing governments throughout the continent. Poverty reached unheard-of dimensions, while those at the top of society grew evermore wealthy. Even in still relatively prosperous Germany, with a million property millionaires and 25,000 income millionaires, there were 2.7 million people drawing welfare at the end of 1996 (including 1 million children and teenagers). It is estimated that a further 1.7 million are entitled to welfare.

Over time, this created a political backlash that has seen the fall of the vast majority of Europe's right-wing governments. Today social democratic parties and left coalitions dominate the continent. It is to them that the euro owes its final success.

It is no small irony that the project instigated by Kohl and Chirac should be completed under Schroeder and Jospin. It epitomises the extent to which the social democrats and former Stalinist parties now pursue the economic agenda of the right. Rather than make any change in course, they have imposed the attacks demanded by monetary union and brought the project home. The Socialist Party government of Lionel Jospin in France, for example, has carried through a major austerity package and implemented a more extensive privatisation programme than his right-wing predecessors. He plans further cuts in public spending from 54 percent of GDP to around 51 percent and shaving the budget deficit from the present 3 percent agreed under Maastricht to around 1 percent by 2002.

The launch of the euro represents the most fundamental change in international economic and political relations since the collapse of the USSR and, in the words of the *Financial Times*, a "seismic challenge to the dollar--the first real such threat since sterling lost its pre-eminence after the first world war." In Japan the *Mainichi* newspaper headlined with the virtual war-cry, "Topple the Dollar's Dominance!"

For half a century, the dollar has occupied a hegemonic role among the

world's economies, accounting for nearly 60 percent of global capital reserves--four times as much as all of the European currencies. This has meant that, despite being the world's largest debtor nation at \$1.5 trillion, throughout the last decades the US has been able to borrow freely from the rest of the world and run a trade deficit of more than \$200 billion.

In comparison, Europe has a trade surplus with the rest of the world and is owed about \$1 trillion. The euro is thus the dollar's first serious contender as a reserve currency. A major shift into the euro is anticipated. The Merrill Lynch investment house estimates that investors could move as much as \$1 trillion into euros, while central banks may convert as much as \$300 billion. The impact on the US economy could be vast. This year, the Federal Reserve Board was able to quickly lower US interest rates to stimulate the economy and prevent a slide into recession. In future this option will be closed.

Competition between Europe and the United States is bound to intensify and become a major factor in economic instability and growing political tensions. Though Japan has welcomed a measure they see as weakening the dollar, and even discussed currency coordination with Europe, Prime Minister Obuchi also used his visit to Germany to insist that the yen should have an importance equal to that of the dollar and the euro.

The initial response in America to the euro's launch was fairly sanguine. There is a widely held belief that European monetary union will benefit US businesses. Capital will become more mobile and the elimination of currency exchange costs will save companies trading in the euro zone \$65 billion annually. Finance capital will also assume a much bigger role, with the creation of a \$2 trillion bond market in euros together with a potential all-European approach to stock markets. US commentators anticipated a huge growth of profits as a result, epitomised by MIT's Rudi Dornbusch's declaration: "Capital markets are good at kicking butt--and that is exactly what European corporate giants need."

Nevertheless concerns exist. The *Wall Street Journal* stated, "Europe has thrown down the first postwar challenge to the US dollar's dominance of international trade and finance. The advent ... of EMU doesn't just change the world's financial landscape, it could also alter the global balance of power." The *New Republic* of January 25 posed things more forthrightly, writing, "The imposed unification of the currencies of 11 countries is among the most significant challenges to American foreign policy since the end of the Cold War.... The economic union of Europe is, in Paris's eyes, a mere prelude to political union. And the point of political union is to lessen American influence and involvement on the continent, and elsewhere, by means of an eventual attempt to construct a defence and foreign policy that may well be antagonistic to American interests."

One factor that has shaped US opinion is the belief that Europe is too politically divided and dependent on US military might to pose an immediate threat. "We've sorted out four wars for them--World War I, World War II, the Cold War and Bosnia", as one administration official put it. But the European powers are being forced to seek a remedy for this situation.

Growing demands are being voiced for a political leadership in Europe less willing to accept US dictates. One aspect of this has been the Franco-British moves to create a separate European defence force, as well as the generally critical stance Europe took to US actions such as the bombing of Iraq. On January 12 Joschka Fischer, the German foreign minister and deputy chancellor, made an explicit call for economic union to be accompanied by political union. "The introduction of a common currency," declared the leader of the Greens, "is not primarily an economic, but a sovereign, and therefore political act.... We must therefore strengthen the EU's ability for political action, and gear its internal structures to the new tasks."

This does not mean that the historically rooted antagonisms between the European powers will be simply overcome. The road to the euro was finally paved over a period of sluggish growth in the economy. In 1998

growth in GDP for the Euro-11 was 2.8 percent. This is predicted to fall to between 1.6 and 2.6 percent in 1999, according to the *Economist*. Germany is of particular concern. Its unemployment rose by 34,000 last month to 4.16 million. Largely due to the delayed impact of the Asian crisis last year, experts believe there has been a contraction in the economy in the last three months.

A further drift into recession this year will alter the picture in Europe considerably, giving a spur to the ever-fiercer competition for trade and investment. Europe's weaker nations would suffer most. Over the next months EU governments have to agree to the plans for the EU budget from 2000 to 2006. A majority of the 15 EU countries want it frozen at the present level of \$100 billion a year, but Germany wants to cut its \$13 billion contribution by a third. Britain wants to keep its substantial rebate negotiated by Margaret Thatcher, and France wants to keep its huge subsidy to the farmers. Any cut will impact heavily on poorer countries that are reliant on EU subsidies. Spain, Portugal and Greece, the three poorest EU countries, contribute less than 10 percent of the annual budget, but presently receive back 30 percent.

Competition for global markets will continue to have a major impact on the working class. The build-up to the euro has already seen the erosion of welfare benefits and a spate of mergers, as corporations have prepared to reap the benefits of continent-wide operation. World-wide, over 26,000 mergers took place in 1998, worth \$2.4 trillion, a 50 percent increase over 1997. About a quarter of these are cross-border and all have resulted in major job losses. Even more severe attacks must be anticipated, as business utilise the possibility of locating production in the lowest cost European sites to maximise their competitive advantage.

European workers are presently ill prepared to meet this challenge. Compared with the United States, for example, they are far less mobile due to language differences and thus more vulnerable to downward pressure on incomes. Neither will the still relatively more advanced welfare benefits on which millions rely continue to give protection. Reducing the cost of welfare--particularly the privatisation of state pension funds--has become the main consideration of all European countries in order to slash state spending and reduce indirect labour costs for the major corporations. The machinery underpinning the euro is designed to prevent any weakening of the political resolve of member nations to tackle their working classes head on. The independent European Central Bank determines monetary policy. Though member countries in economic difficulties can still raise taxes, they no longer have the option of currency devaluation or lowering interest rates and are strictly limited on what they can borrow.

The consequences of this for social relations are potentially explosive. The *Financial Times* warned on January 13: "We can safely bet the honeymoon period for the euro will be quickly followed by a more turbulent phase as the euro-zone's centre-left politicians are driven by a renewed rise in unemployment to seek a confrontation with the European Central Bank.... And although the restructuring theme remains potentially powerful, it is unlikely that cost-cutting [that is job destroying] mergers will be tolerated by the euro-11 governments, given their unemployment problems, as readily as in the US or the UK.... The euro-zone's bourses can still make progress. But they will be advancing into increasingly dangerous territory."

The conflict portrayed as between Europe's social democratic governments and financial establishments points to a more decisive struggle between big business and the political elite on one side and the working class on the other. Workers throughout Europe confront a decisive political challenge. The old reformist strategies and organisation of the workers movement were all based on the ability to regulate the national economy in order to provide a social safety network, and the possibility of challenging individual corporations through industrial action. Under today's conditions, a new socialist programme is required

with which to challenge globally-organised capital and bring the development of the economy under the control of working people. That is why the euro must be followed in its wake by a serious discussion of perspective and orientation amongst working people.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact