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IS THE TRANSITION OF THE NATIONAL CURRENCIES INTO A SINGLE EUROPEAN CURRENCY UNDER THE CONDITIONS OF THE MAASTRICHT TREATY REALISTIC?

SUBMITTED BY DELPHINE CONTOZ
FOR DR. PATRICK BUTLER
ON APRIL 7TH, 1995.
"Europe has been the constant theater of surprising characters, actions, revolutions, more important events and more complicated circumstances than any that the world has ever known. And, perhaps, there never was before a period abounding with more surprising actions and events, than that in which we live" (John Adams to Jonathan Swall, February 1760).

John Adam's description of Europe is as apt today as it was 235 years ago. In 1992, Europe has set the stage for one of the most anticipated economic events of the decade: the final unification of the European Economic Community into a single common market, often referred as the EC. As time goes by, Europe has made progress toward unification, but much remains to be done. One of the most important and potentially most difficult aspects of achieving the goal is monetary unification.

The changeover for the national currencies to the European Currency Unit (ECU) represents a challenge of historical proportions surpassing everything so far done in monetary integration. Facing such important stakes, worries and questioning arise concerning the worth of the risk, the time table, the planning and the implementation of such a changeover. The main question remains: is the transition of national currencies into a single currency under the conditions of the Maastricht Treaty realistic?
Opponents raised questions primarily technical related to the search for a way to link the economies of the member states that have different rates of inflation, living standards, deficits, and interest rates, without exacerbating, instead of resolving, economic hardships. (Bourguinal 1992). For instance, if inappropriate internal exchange rates are selected and locked into by the adoption of a single currency, regional economic problems could be aggravated.

"Preconditions for establishing the common currency would include a greatly strengthened global financial institution, a truly international legislative organization, and a level of international cooperation higher than in the Nineties" says Ralph. C. Bryant, an economist at Brookings Institution.

Although free marketers agree that such enforced restructuring is a necessary -even it is painful- step in forging a "leaner economy to compete on the world market", others disagree, and point out the experience of countries such as Italy, where the adoption of a single currency (albeit over a century ago) has contributed to a widening of the disparities between rich and poor regions, which then encourage workers migration to richer areas, and led to the emergence of racial violence and ethnic tensions.

Worries also concern the loss of monetary sovereignty and the loss of budgetary autonomy. The Delors Plan advocated that each member of the EC would have to accept upper limits on its budget deficit. National central banks will no longer have the power to avoid formal default by printing more currency. Every centime that they spend will have to come from taxation or borrowing, and their ability to borrow will be limited by their ability to get to the means to repay. In addition, for the commitment to fixed exchange rates to be credible to the financial markets, each member of the EC would have to sacrifice a considerable degree of sovereignty over its ability to conduct independent fiscal and monetary policies;
and some European states, like the United Kingdom, are strongly reluctant to do so. Margaret Thatcher, the former Prime Minister of Britain, said that "it is to give up for all time the rights of the Bank of England and Scotland and our treasury to issue our own currency, backed by our own policy, answerable to our own Parliament" (Giddy 1994, 101).

Others, finally, point out the level and the influence of the communication's technology. It has propelled the world toward global economic interdependence, by allowing for worldwide instant currency transactions, and has made managing and manipulating the world's many money systems increasingly easier. (Hoffman 1991). In a world where we can beat French francs into German marks and German marks into Italian lira by issuing a simple command through the phone or the modem, does the EC really need a common currency?

A majority of the economists and other persons involved in the European Monetary Union's process believe that Europe is playing its last chance to resist to US and Japanese pressures and to constitute in the whole economy a third giant necessary to the whole balance. A French-German monetary union and a French-British military defense would give time to Europe to get organized in order to resist the US and Japanese attacks. Then, armed and protected, a young and strong European Republic could be born. (Faugere 1992).

Not only a single European currency has a symbolic importance in a growing community which is becoming increasingly attractive to more and more countries, but proponents also believe it would produce at least three positive effects: lower transaction costs because of the reduced uncertainty about exchange rate changes among the members of the EC; lower interest rates because of the elimination of the bid-ask spread in exchange rates; and enhanced usefulness of money as a mean for transmitting information across different national markets. These effects
would encourage small businesses that lack expertise in dealing with fluctuating exchange rates to enter international markets; increase investment and job creation by cushioning businesses and nations against the uncertainties caused by unpredictable exchange rates; and eliminate fees paid by consumers and businesses whenever currency is converted, consequently promoting worldwide trade. (Hoffman 1991).

Undeterred, EMU enthusiasts also argue that the financial markets' "sudden fit of nerves" is yet another sign that monetary union is urgently needed. "Without a single currency, they claimed that violent movements in European exchange rates without narrow bands is no answer, because the market can easily outgun central banks" (The Economist 1995, 36). Not until monetary union has been achieved can the internal market produce its full effects.

As the relevant personalities point it out, it seems obvious that EC 92 would make no sense if a reinforcement of the European Monetary System (EMS) and the implementation of the European Currency Unit (ECU) with a European Central Bank (ECB) to manage the system, would not occur.

A monetary union has been the EC's long-standing ambition. Beyond the traditional economic pluses associated with lowering trade barriers and with standardization that accompany formation of a common trading block, Europe thinks that a monetary union would enhance the efficiency of capital flows and provide a stable monetary environment throughout the EC. This environment, in combination with removal of other restrictions, should foster increased investment flows. However, despite this long-standing ambition, Western Europe's first success in pursuit of the goal did not come until 1979, when it established the
current European Monetary System (EMS) and a system of stable but flexible exchange rates called the Exchange Rate Mechanism (ERM).

Based on the decision of the 1969 Hague Summit, the Council of Ministers adopted the Werner Plan (named after the former Luxembourg Prime Minister) on March 22, 1971 for the progressive creation of an economic and monetary union. In 1969, the six members of the EEC, as it was then called, formed a quasi-fixed exchange-rate system named the "snake in the tunnel". "This system allowed for a margin of fluctuation of 2.25% around currency parity levels among the members' currencies, which in turn would move in a US dollar tunnel of 4.5%" (Drach, Perin 1992, 133). The UK and Ireland quickly left the snake arrangement. France left as well, but after a somewhat longer stay. These countries were unwilling to coordinate their economy policies with those of the other members of the community, in particular West Germany, whose currency was becoming the "de facto numeraire" in the system. As well, they were unwilling to bear the sole burden of the necessary adjustments that were placed on countries experiencing a balance of payment deficit. "The UK, for example, lost approximately 30% of its internal reserves within a two-months period in 1972 as a result of an attempt by the Bank of England to maintain the value of the pound". With the floating of the US dollar in July 1972, the tunnel was immediately dropped.

After the snake failure, due to inflexibility and weaknesses, the EMS was formally inaugurated in March 1979 for the purpose of creating "a zone of monetary stability in Europe". The EMS was seen as a catalyst for increased integration of the European economies and the creation of a single currency zone to rival the American dollar and the Japanese yen in international markets. (Drache, Perin). It consisted of the nine nations than then comprised the European Community: Belgium, Denmark, France, Ireland, Italy, Luxembourg, The Netherlands, Grand-Britain, and West Germany. Three additional countries then became members:
Greece (which became EC member on January 1, 1981, and joined the EMS the 10 June 1985) and Spain and Portugal (which became EC members on January 1, 1986, and joined the EMS the 16 July 1989). Although Sweden, Finland, and Austria became EC members on January 1, 1995, they are not part of the EMS yet. (The Economist 1993).

Along with the EMS was created the ECU. The ECU's composition, and thus its value, were identical to those of the European Unit of Account (EUA), which had been used in the EEC's accounts since 1975. Following adoption of the ECU in the EMS framework, the ECU replaced the EUA in all EEC use, effective January 1, 1981. (Giddy 1994). The term "ECU" is derived from a French coin which was in circulation as far back as the thirteenth century, and was defined by the Council Regulation of December 18, 1978, as "the sum of specified amounts of the currencies of the member states." More precisely, this "basket-type currency" is "the Community's budget and accounting unit, created by member states depositing 20% of their gold and US dollar reserves with the European Monetary Cooperation Fund (EMCF)" (Jacquet 1989). In exchange for their deposit, each member receives a credit denominated in ECUs, proportional to the size of the economy of the country. The following table shows the composition of the ECU basket in terms of percentage and in terms of the currencies of the member states.
The 1978 Council Resolution requires that the relative weights of the component currencies of the ECU be examined every five years and, if necessary, the specified amounts of the component currencies be revised. In addition, any member state may request a reexamination if the weight of a currency in the ECU has changed at least 25% since the previous revision. In either event, a revision can occur only by unanimous decision of the Council.

Since 1978, the specified amounts of the currencies that make up the ECU have changed twice. First, in September 1984, to incorporate the Greek drachma as required by the treaty of accession of Greece to the EEC and their other European communities; to decrease the amounts of German marks and Dutch guilders included in the ECU; and to increase the amounts of Italian lira and French francs; and secondly in 1989. The entrance of Austria, Sweden and Finland in the bloc on
January 1, 1995, prompted some speculation that the composition of the ECU and the currency weightings within it may be changed; but article 109g flatly rules out any change until the start of stage three of Economic and Monetary union and the creation of a single EU currency. "The only way it could be changed is through a change of the treaty, but it is a very long process and has to be agreed by unanimity" (European Commission 1994).

The ECU plays a vital role in the EMS, in which the central banks of the participating member states support the exchange rates of each other's currencies. At the heart of the EMS is a joint floating exchange rate arrangement called the Exchange Rate Mechanism (ERM), involving eleven of the current fifteen EC members (Greece, Sweden, Finland, and Austria are not presently members). The arrangement is intended to constrain exchange rate movement among European currencies. It is known as the parity grid rule that says that "each currency is supposed to remain fixed against each other currency, within limits" (Giddy 1994, 98). In this context, the ECU is used as "a reference point for the calculation of these parities, as a denominator for the claims and liabilities among the participating central banks and as a reserve and settlement instrument created against gold and dollar deposits by those banks" (Giddy 1994, 112). The ECU is the basis for a measure that provides an early warning of the need for a country's monetary authorities to take steps unilaterally to stabilize its currency. This measure, "the divergence indicator", helps identify strains within the exchange rate mechanism caused by that currency's appreciation or depreciation at a rate faster than that of others in the ERM. The extent to which the individual currency has moved from its central rate against the ECU, relative to its allowed divergence, is regarded as an indicator of how badly the country is deviating from the weighted average of the others. (Rigoureau 1993).
During the European trading day, the participating monetary authorities stand ready to buy or sell unlimited amounts of their home currency in order to keep it within a 2.25% fluctuation margin against the other currencies. Before 1989, out of eight integrated currencies, the Italian lira was the only one that was allowed 6% bands. After 1990, UK entered the ERM and the pound was given 6% bands, like the Spanish peseta, whereas the lira returned to the regular bands of 2.25%. If a country's currency moves beyond 75% of the 2.25% fluctuation margin (or 1.6875) against its ECU central rate (adjusted for the currency's own weight in the ECU), its central bank must either take steps to bring the currency into line or explain to the other members why no corrective actions are appropriate because - with the exception of Greece which is not members of the ERM- "no member may allow its currency to rise more than 2.25% (or 6%) above its central parity rate against the weakest currency in the band, nor fall more than 2.25% below its central parity rate against the strongest currency in the band, without intervening in the currency market" (Giddy 1994, 98).

Apart from intervention, other steps a nation might take include adjusting interest rates or taking other economic measures aimed at eliminating the conditions which led to the currency movement. The hope is that such actions, if taken in a sufficient timely manner, will forestall the need for a realignment and further the cause of policy coordination.

If one -or more currencies- is under too much pressure, the member countries may agree to undertake a realignment and set new parities and therefore a new parity grid, that are regarded as more realistic. Realignments have to be agreed to by all ERM member countries, with final decisions being taken by the finance ministers and central bank governors. "In the interest of stability,
realignments are agreed to only reluctantly; when they do occur, they must be of sufficient magnitude to remove pressure, but not so great as to distort competitive relations among member states" (Giddy 1994, 98). A more extreme measure is to suspend the currency's participation in the ERM, as the English pound sterling and the Italian lira did following a crisis in the ERM in September 1992.

Such a crisis was caused by the divergence of economic policies. "These differences in policies, as well as changes in trade and investment patterns and the comparative strength of each nation's economy, cause the rate of exchange, or price of one currency in terms of another, to change more or less constantly" (Schilling 1992, 2). "As countries pursue different policies, the fixed rates of exchange founndered because they no longer represented true values as established in the marketplace" (Schilling 1992, 2). Divergence of monetary and growth policies in mid-92 led to a partial breakup of the ERM, one that centered around the German central bank's unwillingness to compromise its anti-inflationary stance. Later in 1992, the following Christmas Carol was making the rounds of London's dealing rooms:

"God make ye merry, Bundesbank, 
You cause so much dismay; 
Why don't you give us all a break 
And cut your rates today? 
To save the troubled ERM 
And keep the slump away, 
All because of Frankfurt and Bonn 
Our industry's gone- 
All because of Frankfurt and Bonn"

(Giddy 1994, 100)
The French might have cried a similar lament in the summer 1993 when German anti-inflationary credit policies, coupled with recessionary conditions in France, led speculators to short the French franc and other currencies in the belief that current parities were unattainable. After spending a reported $35 billion to defend the EMS parities, Europe's central bank governors met to resolve the crisis and decided to widen to 15% the intervention bands for all but the mark and the guilder, the two strongest currencies. (Financial Technology International Bulletin 1994). Under the ERM, the more fixed exchange rate system should enable member countries to plan internationally activity with more certainty. However, ERM can only work if the nations pursue coordinated monetary policies.

Such chaos in the ERM, and previous failures to fix exchange rates, such as the Bretton Woods Agreement of 1947, fueled the movement toward a common monetary policy and common currency within the EC. With the ERM in place, the members of the EC in 1986 ratified the Single European Act, which set down a number of objectives including the ambitious goal of establishing a single European trade zone by the end of 1992. It soon became clear that establishing a single market by that date was difficult under the arrangements at that time. Therefore, the EC established a committee, chaired, at that time, by Jacques Delors to study the remaining obstacles.
In June 1988, the European Council appointed the Delors Committee to devise a new plan for an economic and monetary union. Its report, known as the Delors Plan and submitted in April 1989, proposed a three stages approach to accelerate the process, because it was believed that achieving monetary unification will help minimize the problems inherent in establishing a common trade zone. The Plan also "addressed the need for regional policy to prevent economic mismanagement, set constraints on the size of national budget deficits, and established the whole movement as a single process" (Schilling 1992, 3). All of this was done within the context of monetary unification and the development of a new European Central Bank and with a time table designed to bring it about by 1999 in the third and final stage. As Tim Schilling pointed it out, the Delors Plan can be compared with the three stages of a rocket. "The first stage, the main booster, provides impetus and makes the launch successful. The second stage sets the proper course and establishes the proper orbit. The final stage is the mission control, providing for ongoing direction and keeping the prospect from crashing to the ground" (Schilling 1992, 4).

The Delors Plan's first stage (1990-1993) consists of continued movement toward the basic objectives of EC 1992. It includes the further convergence of trade; rules to establish more uniform standards and prices, and to regulate production of goods and services; and a framework to further develop the weaker member nations by building infrastructure and to encourage investment diversification. It also involves strengthening economic coordination, bringing all EC members' currencies into exchange rate mechanism of the European Monetary System, and lifting restrictions on internal EC capital flows. (European 1991).
Stage two (1994-1996) is a transitional period which involves increased economic convergence (in terms of inflation, fiscal policy, interest rates and exchange rate stability) and creation of a transitional European monetary authority. Despite the opposition from the German Central Bank, the Bundesbank, and from the British government, a politically, functionally and personally independent bank was seen as being the best assurance to achieve the monetary goal of safeguarding price stability.

Named the European Monetary Institute (EMI), the unified central bank is often referred to, both in Europe and in the US, as Eurofed. The Eurofed's primary legal basis is Article 109g of the Maastricht Treaty and the protocol on the Statue of the EMI that is annexed to it. (Barnard 1994). The EMI will be located in Frankfurt but, for the time being, many of its activities will be conducted from Basle, the home of the main institution to which the EMI is successor, the Committee of EC Central Bank Governors. The Treaty charges the EMI with: strengthening the cooperation among the national central banks; strengthening the coordination of monetary policies with the aim of ensuring price stability; monitoring the functioning of the European Monetary System; preparing for the third stage of EMU; holding consultations on issues falling within the competence of central banks and affecting the stability of financial institutions and markets; taking over the tasks of the European Monetary Cooperation Fund; and facilitating the use of the ECU and overseeing its development. While fulfilling these duties, Eurofed would retain political, administrative and economic independence from the national and community legislatures. (BEQ 1994). The existing central banks of the member nations are to be Eurofed's functioning arm. The leaders of each of the national central banks will participate in the coordination of a common monetary policy. Within their national boundaries, the national central banks will be responsible for implementing the common policy, as well as for bank regulation.
and supervision, and the provision of financial services. In this way, the national central banks are similar to the twelve regional Federal Reserve banks in the United States, a resemblance that will grow stronger as the Eurofed becomes more centralized in the Plan's third stage. (Goodhart 1993).

A first opportunity to set a date for the transition to stage three will come in 1996. By the end of that year, the heads of state and government will establish, by qualified majority voting, whether a majority of the member states fulfills the economic criteria for the adoption of a single currency, and whether it is appropriate for the EC to enter the third stage. If so, a date will be set for the beginning of stage three, exchange rate will be irrevocably fixed, monetary powers will be transferred from national central banks to a European Central Bank, and a single currency will be created.

Countries that do not meet the criteria would obtain an exemption from the treaty and may join later as they are judged to fulfill the economic conditions. Countries with an exemption will not be represented in the policy making bodies of the European Central Bank (ECB). If most countries do not fulfill the economic criteria by the end of 1997, stage three will automatically begin on January 1, 1999. This means that those that meet the economic conditions will be permitted to form a monetary union, while other countries will obtain a derogation. This provision applies to all countries with the exception of the United Kingdom, which was reluctant to form a monetary union by creating new EC institutions. To avoid a veto on the entire treaty, a compromise was reached allowing the UK and Denmark to decide, even if they fulfill the necessary criteria, to participate or not, and when they want in the economic and monetary union.
The pace of the European financial integration process greatly influences the growth and the role of the ECU on private markets. Over the past ten years, a private ECU market has grown up alongside the official ECU market in a considerable manner.

Activity in the European Currency Unit market started to pick up in the late 1980s when borrowers and investors began to entertain the idea that the ECU could become Europe's single currency. Although there is not yet a central bank which issues ECU bank notes, the ECU is increasingly recognized in the international financial markets as a freely convertible currency. (Lanchner 1993). It is used within the European banking system, for denoting international debt and for other commercial transactions. "It is used as a currency for loans, for interbank lending and lending to individuals, for settlements between multinational companies and in foreign trade, as well as occasionally, albeit on a limited scale, for cheque transactions or savings accounts" (European Commission 1994). "To facilitate the growth of the ECU for private commercial transactions, certain European banks have also established a clearing mechanism for the ECU, thus enabling the transfer of the ECU without necessarily having to make separate transactions in each of the component currencies" (Morgan 1993, 3).

There has also been an array of innovative financial products created to further enhance the use of the ECU. These products include European currency unit denominated deposits, loans, swaps, bonds, futures, options and numerous variations of these themes. Many financial institutions, primarily in the Benelux countries, Britain, France, Denmark and Italy, make both spot and forward markets in the ECU against the US dollar and other currencies.
These exchange rates are published in most European daily financial publications and through several new services. There have also been institutions that have come into existence such as the Mutual European Currency Unit Settlement Association for clearing transactions. (Lowry 1993, 22).

The ECU's most important function is as a currency for denoting loans and for interbank monetary transactions. On the international bond market it is now one of the top five currencies, joining the US dollar, the Japanese yen, the German mark and the English pound. The total amount of ECU bond issues launched in 1994 is ECU 20.508 billion including Greek ECU linked bonds. Two EC institutions, the Commission and the European Investment Bank, have played a major role in this connection by denoting their own loans in ECUs. (European Commission). Investors and borrowers in Japan and the United States have also come to appreciate the ECU. It is no longer an European currency; it has become an international one.

The ECU is attractive for investors because it represents a low transaction cost, it is easy to use, and stable. An investigation conducted in 1994 of the risk-return parameters of the ECU compared to that of minimum-variance, homemade currency baskets, suggested that the "ECU is dominated by in-sample minimum-variance baskets, but compared favorably with low-risk, out-of-sample currency baskets" (Johnson 1994, 51).

Because it is a basket-type currency, the ECU is an average and thus evens out the fluctuations affecting individual currencies and reflected in exchange rates and interest rates. After declining by 2% in September 1992 because of the Danish rejection of the Maastricht treaty in June, the ECU has returned to investor favor. If the currency's value continues its recovery, as it might well do if sterling and perhaps the lira regain some of their value, the ECU's best use might be as a
borrowing medium, so as to have debts in it to finance non-interest-bearing receivable. (Lanchner 1993).

Despite the distinction made between the official use of the ECU by the central banks participating in the EMS and its use on private markets, a link exists in the shape of the common definition. And these two areas will increasingly merge together as member states' governments become more committed to promoting private use of the ECU, and as the goal of achieving EMU in full, gains in credibility, and comes closer to realization.
The agreement on EMU may come to be seen as a major event in the economic history of Europe. An European monetary constitution with the goal of price stability would not only shape the economic fortunes of the EC member states, but would also exercise a worldwide influence. It is likely to serve as an economic policy guidepost for the emerging market economies of Central and Eastern Europe which expect to tie themselves more closely to the EC. However, whereas the Maastricht Treaty anticipates positive consequences, the EMU's creation and application is a very complex task, both technically and politically, that requires a high degree of convergence of economic policies and performance. Although the deadline is fixed in four years from now, in 1999, such conditions cannot be accomplished from a day to another, and the European authorities already seem to be behind schedule.
Slowly but surely, the building blocks of EMU are falling into place. Despite major oppositions, the chances of a joint European currency are, in fact, better than ever. Preparations for introducing the ECU outlined in the Maastricht Treaty are proceeding full speed ahead.

In Frankfurt, a working group is designing new ECU notes. Various European Union ministers of finance, who are in charge of the new currency, have directed their mints to create the new coins and bills and set up plans for exchanging them for existing currencies" (World Press Review 1994, 37). The ministers of finance plan to introduce three bicoloured coins of: one ECU, half of an ECU, and two ECUS. The two ECU coin would have a 27 minimeter diameter, with an external gold ring and a silver core. This model, like the 10 French franc coin or the 500 lira coin is supposed to make counterfeiting more difficult. The one ECU coin would have opposite color, and the half of ECU coin would be totally silver. As for the symbol which will figure on the European Currency Unit, no recommendation was yet formulated. (La Presse 1995).

"On November 15, 1994, the European Monetary Institute (EMI), the European Union's Central Bank-in-waiting, moved into its new premises in Frankfurt" (The Economist 1994, 91). Its most important job is to encourage economic convergence among the EU's member states, but it is also responsible for forging a common payment system and promoting the use of the ECU. "These tasks may seem mundane, but attention to detail is crucial now that EMU is climbing back up Western Europe's political agenda" (The Economist 1994, 91).

The Delors Plan fixed two dates for the achievement of the EMU. The earliest is 1997 and the deadline is 1999. The European Commission thinks that with a little bit of extra effort, the move to stage three of EMU in 1997 has become a realistic proposition due to the emerging economic recovery. In order for stage three to begin in 1997, a majority of the EEC countries must meet the requirements on
debts, inflation, interest rates, and currency stability by the end of 1996. The EC encourages this possibility in its Annual report for 1995, stating that "if additional efforts are made along the lines agreed in the Broad Economic Policy Guideline of 1993 and 1994, there is a realistic chance of achieving the goal of having a majority of member states fulfilling the convergence criteria by 1996-97".

Under the Maastricht Treaty, a country applying for EMU should meet the five following conditions: the country should have stable exchange rate (respecting the ERM’s fluctuation bands) for at least two years forehand; its long-term interest rates should be within two percentage points of the average of the best three performers; its inflation rate should be within one and an half point of the average of the best three performers; its government deficit should be limited to 3% of Gross National Product (GDP); and its public debt should not exceed 60% of GDP. (The Economist 1995).

In October 1994, the Commission ruled that only Luxembourg and Ireland met the criteria so far. Having taking advantage of escape clauses to bail out of the currency union, Britain and Denmark will not vote when the poll is conducted in 1996. However -and according to the European Commission- seven countries: Belgium, France, Ireland, Germany, Luxembourg, the Netherlands and Spain could make up the majority necessary to adopt the ECU. The European Commission pressed for a statement on the wide 15% fluctuation bands (which replace the 2.25% bands after the ERM crisis in 1992-93), to keep hopes alive that the 1997 date for EMU could be met. "So far, the wider bands have prevented large exchange rate depreciation and excessive intervention with potentially inflationary consequences", Mr Theo Waigel, the German finance minister said. (Barber 1994, 16). Therefore, in the light of this experience and in the current circumstances, the EMI council considered it advisable to maintain the present
arrangements. However, Mr. Waigel refused to say whether the 15% bands would continue until a decision is made on whether to move to a single currency, or whether ministers would support a progressive narrowing of the bands. Jacques Santer, the incoming European Commission president, told the daily El Pais he would work to achieve the third phase of monetary union in 1997, as laid down in the treaty of Maastricht, arguing that it was important not to weaken the provisions of the Treaty. "If we do not make it by then, there is still 1999. By then, we all have to get there. This is essential. If by the end of the century, we have not achieve the single currency, we will have failed", he said. (European Commission 1994). However, and despite the efforts already made for the process, the probability of achieving EMU by 1997 is very low.

The ECU is on this way, but many things remain to be done before it can be introduced as a single currency. At the European Commission in Brussels, Economics Commissioner Henning Christophersen has set up a group of technicians to deal with problems of banks, stores, insurance companies, and vending-machine owners. The recalculation of loans and investments, the reevaluation of commercial paper, the reprogramming of software in cash machines have also to be taking care of before the introduction of the ECU. The transition to a single European currency will be fraught with technical and implementation difficulties which appear to have been almost ignored by people like the French president, Francois Mitterand, who, in an address to the European parliament on January 17, 1995, talked about the possibility of Economic and Monetary Union as early as 1997.
For other people, like Alexandre Lamfalussy, head of the European Monetary institute, the wait-to-be Europe's central bank, such a speedy transition is hardly likely. Hans Tietmeyer, the president of the German Bundesbank, agrees and has repeated his doubts about seeing a single currency introduced before the end of the century. In an interview he gave the German daily "Suddeutsche Zeitung", Hans Tietmeyer stated his conviction that it would still be possible to pay in marks by the year 2000. "Monetary union or no monetary union, national currencies are not likely to disappear until well into the next century" (European commission 1994).

A recent report by the Association for the Monetary Union of Europe, chaired by Barclays Bank's Malcom Levitt, reports that initial estimates by some of Europe's largest banks suggest that the process of reviewing and adapting all relevant programs, systems and procedures could take up to five years" (The Banker 1994). The commission in charge of defining the shape of the future European currency also estimates that it is already "way too late" to devise all the coins if the currency had to be introduced in 1997; and most likely, it is already too late for 1999.

That timetable looked optimistic even during the Maastricht negotiations four years ago. In 1992, the pound and the lira were forced out of the exchange-rate-mechanism, which almost shattered a year later as the pain of keeping interest rates high in the wake of German unification became almost intolerable. Salvation was obtained only by widening the bands within which currency were allowed to fluctuate. (Humpheys 1993). But even now, the mechanism looks at risk, and this time for reasons that are at least political as they are economic.

While the D-mark has become a safe haven, seemingly unaffected by the strike by Germany's largest union, IG Metall, other currencies are weakening with every touch of political pressure. The French franc falls as Edouard Balladur, the prime minister, slides down the opinion-poll ratings. The peseta tumbles as scandals
come ever closer to Spain's embattled prime minister, Felipe Gonzalez. The lira is being undermined because the government of Lamberto Dini is too weak to oversee fundamental economic reform. The pound falls because John Major's government is surviving too many crises for comfort. Some supporters of EMU argue that minor political squalls do not matter. "They move currency markets only because such markets exist. Once EMU does away with the markets, the economic consequences of political jitters will disappear too" (The Economist 1995). But even if that were true, economic problems would remain.

Although the European Commission believes that seven countries will meet the criteria by 1997, Luxembourg is today the only one up to the target. France will find it hard to cut its government deficit (expected to be 5% of GDP in 1995) to the 3% target laid in the Treaty. From an economic point of view, deficits could be lower, but it would reopen the whole discussion if this percentage was explicitly changed now. The Maastricht criteria were negotiated in a period of high growth and long discussions took place on this percentage, with 3% representing a compromise. Even Germany, because of its public debt, might not satisfy all the criteria by 1997. The OECD expects The Netherlands and Belgium, both of whose currencies are closely linked to the German mark, to have debt ratios of 81.4% and 134% in 1996. And Italy and Greece are also expected to have public debt burdens more than double the Maastricht limits. That means the 1997 target is impossible, whatever official protestations expressed by Jacques Santer are, and however much work is being done at the European Monetary Institute; and for a 1999 start, the latest date envisaged by Maastricht, preparation has to start immediately.
Realizing how far the countries are from the required level, the question of relaxing the conditions arises. France and other countries have argued that criteria concerning government deficits and, especially, the ratio of government debt to GDP, should be interpreted flexibly. "Even though the government debt of countries involved in EMU is supposed to be lower than 60% of their GDP, they say that it should be possible to include any country that has a credible plan to hit the target" (The Economist 1995, 49). Belgium, which already has currency union with Luxembourg and does not want to be cut off from Holland and Germany, its partners in the emerging D-mark block, is relying on a flexible interpretation of the Maastricht criteria. That means, in the words of the Treaty, that its government deficit will have "declined substantially and continuously and reached a level that comes close to the reference value" and that its public debt will be "sufficiently diminishing and approaching the reference value at a satisfactory pace". (The Economist 1995). It is possible, even likely, that Belgium will soon be doing all these things, but if concessions are made to Belgium, why not also make them to Spain or Portugal?

Hans Tietmeyer, president of the Bundesbank, is worried about such sloppiness and has insisted that no special treatment should occur. He is not willing to tolerate looser monetary policy in Germany under EMU than he now runs with the D-mark. (Walters 1994). In addition, the Commission clearly stated that there can be no negotiation on the criteria. "It would erode the whole EMU process if this were otherwise, and nothing should be added or subtracted" (European Commission 1994). Special treatment might also penalized concerned countries which would probably find their currency singled out for attack. "The growing
spread between the yields of German government bonds and those of Sweden, Spain, and Italy, and the weakness of the lira and peseta, are signs that the markets will pounce upon half-hearted attempts at economic reform" (Thygesen 1994, 7).

The transition to a single currency involves a number of possible scenarios: firstly, a "big-bang" where the ECU immediately replaced the national currency or means of payment; secondly, a dual-currency approach where the ECU co-exists with national currency in the case of some forms of payment; and finally variations and combinations of the above: a "big-bang" for inter-banks only, while customers may choose which currency to use.

Three think-tanks -the Association for the Monetary Union of Europe (AMUE), whose members include companies and banks, the ECU Banking Association, and a study group set up by the European commission under the chairmanship of Lees Maas, a director of ING, a Dutch financial services group-"all reckon that a 'big-bang' is the best and cheapest solution" (The Economist 1994, 91). However, they also agree that this ideal solution may be too complex to work. The expert group stated in its report of January 20, 1995, that "the possibility of a 'big-bang', or instantaneous introduction of all the elements that will go to make up a single European currency is most unlikely on the first day of stage three of EMU, even if this date will be first January 1999" (Expert group 1994). It is also impossible to remove all national currencies in one day or weekend and, indeed, undesirable to do so; this would be too difficult to the public because it is a huge operation. (European Commission 1995). Also, because the characteristics of future coins and bank notes have not be fully decided yet, "the 'big-bang' option may be logistically impossible for many years because of the
logistical issues associated with the replacement of a huge volume of notes and coins and the many machines, in several sectors which handle them" (Banker, 1994).

The Maastricht Treaty which lays down a time table for EMU, does not insist on a "big-bang", but on "the rapid introduction of the ECU as the single currency" after the completion of monetary union which could take place between 1997 and 1999. In its report, the expert group stated that" the time between the start of monetary policy operation in ECU and the physical introduction of ECU notes and coins should be as short as possible to reduce the cost by avoiding dual accounting or transitional systems, and to reduce the danger of public confusion and the associated negative effects on credibility and acceptability of the single currency". If the transition were too slow, some of the gains of EMU would take longer to realize. Worst, speculators could test commitment to the system by sniping against individual currency.

Memories of the near break-up of Europe's exchange rate mechanism in both September 1992 and August 1993 still haunts Europe's policy-makers. 'To prevent speculating attacks during a period of parallel currencies, Tommaso Padoa Schioppa, a deputy director of Italy central bank, says that the proposed EU central bank must have sole control over monetary policy. It must also be ready to exchange unlimited amounts of one member currency for another at the fixed exchange rate.

The alternative of a dual-currency transition requires the duplication of payment processing, accounting, settlement and cash holding and possibly dual pricing in shops although it provides a gradual familiarization period. This would consequently increase the cost of the changeover. "AMUE reckons that a large European bank would have to fork out some 100 million to 150 million ECUS
($120 million to $185 million) over five years to rejig its computer system, retrain staff and prepare for new notes and coins before a 'big-bang' transition" (The Economist 1994, 91). A parallel currency system could increase that cost by 50%; and heavy burden would fall on small firms and shopkeepers, who would need dual accounting system.

The solution seems therefore to be a compromise between the "big-bang" and dual currency. In preliminary report to the European Commission, Mr. Maas' group suggests a brief six months transition period between the start of EMU and the introduction of the ECU. The ECU Banking Association also prefers an intermediate way between the "big-bang" and the parallel currency approach. The AMUE envisages variety of scenarios, including one involving a "big-bang" for non-cash transactions - electronic payments, checks and the like - with a transition period for notes and coins. The commission proposed a two period plan. In stage IIIa, the ECB would begin to operate monetary policy in ECU, and internal accounting systems of banks will therefore have to be redenominated into ECU. This already is a kind of "big-bang" because the locking of exchange rate between currencies meeting the economic conversion criteria would be done overnight; and an exchange rate mechanism would continue to exist for those EU countries not participating and dominated by a heavy anchor, the ECU.

Stage IIIb will be the period of co-existence of national currencies and the ECU. Banks and other financial institutions would still use national currency for dealing with individual customers but ECU for transactions on the financial market. This should be as short as possible (no more than six months), although long enough to
allow people to become accustomed to the ECU. The older currencies will then be changed for new bank notes and coins, and the old ones will be melted or destroyed. (The European Commission).

Phasing in the third stage would have the advantage of offering the requisite monetary stability while allowing citizens some time to get used to the single currency. Similarly, the banks, which are extremely concerned about the practical difficulties involved in the third stage, would be reassured by this formula, that obviously supposes that the individual EU currencies would be made legal tender in all other countries of the union in the early stages.

The changeover for national currencies to the single currency represents a challenge of historical proportions surpassing everything so far done in monetary integration. Unfortunately, there are few precedent situations to draw on. British decimalisation in 1971 and German monetary unification in 1990 provide some important lessons. One is the importance of advanced planning. The British government announced its intention to decimalise five years before it did so, and set the precise state at which the switch will take place three years in advance. Public authorities and the private sector should start an on-going dialogue on the timing of the physical introduction of these new European monetary units and the point at which the European central bank will start using this new unit for monetary policy purposes to prepare people's minds to the changeover.

Decimalisation also highlighted the importance of educating people about a new currency. "Before the change, every British household got a booklet with conversation tables from the state; children were taught about decimalisation in schools and banks issued a joint guide to their customers" (The Economist 1994, 91). Because the key tests for the success of the introduction of the single
currency will be its acceptance by ordinary citizens as the natural currency for Europeans, a substantial program of education and explanation, touching every citizen of the monetary union will be required as soon as it is decided which countries will move ahead to stage three. The planning of such a campaign may even have to start earlier.

This new currency unit will become the European union expression of economic progress, of price stability, and its successful integration and management will rank amongst the union's greatest achievements. But a change of this magnitude must have full support of citizens and businesses in participating states; and right now, the objective is far from being reached.

Public opinion in the main European economies of France, Germany and the UK remains divided. According to an opinion poll carried out for the Financial Times, support for political and monetary union in Europe is even lower among Germans than Britons. "Nearly two-thirds of adults in each of the two countries want a referendum on a single European currency" (Marsh 1994, 2). "Only 33% of Britons and 24% of Germans support a single currency, while 27% of British voters and just 23% of Germans say they favor closer political links among European Union members" (Marsh 1994, 2). A total of 28% of British respondents said their region has suffered as a result of EU membership, against 14% who say it has benefited. The equivalent in Germany are 15% and 17% respectively. German chancellor Helmut Kohl (in this election year) knows how his people feel, which is why he has been saying little about the ECU. Strong opposition in Germany to the single currency is caused above all by Germans'
anxieties that a future European money might be less stable than the mark. "There will be no ECU until the pan-European currency is as solid as German's own", Kohl said. (World Press Review 1994). After having consulted 1,919 respondents in the UK and 2,455 in German, the poll and most comprehensive survey ever made of British and German attitudes to European integration, demonstrated that 64% of Britons and 65% of Germans favored a referendum on whether the EU should adopt a single currency. Commenting on this alternative, Jacques Santer, the Luxembourg prime minister and president designate of the European Commission, pointed out the legal complexity of holding referendums on a single currency and the fact that the Maastricht Treaty had already been ratified. What would happen if the people said "no"?

Persuading European to part with their national currency will be a hard task. "While Germans need to be convinced that the ECU will be at least as strong as the German mark, folk in weak currency countries must be reassured that the switch to the ECU does not involve a hidden devaluation of their currency" (The Economist 1994, 91). However, it was felt that non participating currency will be at a disadvantage, being perceived as weaker currencies whereas the ECU is designed to be perceived as strong. This perception may affect the behavior of investor in all countries. There may be a greater reluctance, even on the part of residents in those non-participating currency. In addition, the business community in non-participating countries may well shift towards using the ECU as its currency for international transactions.

In 1999, according to the Treaty, a majority will no longer be needed for the introduction of the ECU. By then, every nation that has fulfilled the required criteria must begin using the currency. Though it might be very unpopular to do so, Germany's politicians will have to come to terms with the end of the mark.
"There is no longer any way to get out or go back. Bonn would have to break the treaty to do so, and that would be the end of the EU" (WPR 1994, 37).

As they will experience not inconsiderable change in their daily activities and bear an inevitable expense, they must therefore be convinced that the changeover will be successful because it has been well planned, balancing ease of change with minimal costs. There is a clear-cut need for the private sector to be adequately prepared for its ramifications, so it is therefore of vital importance for awareness to be raised amongst consumers, using effective information campaigns including eliminating conversion costs and making cross-border price comparisons easier. The European Commission already planned face to face meetings during the French presidency with consumers, relevant businesses and relevant organizations in order to gain the support of the general public.

There should be as well a close cooperation between the European and national authorities, not only with one another, but also with all economic agents in the private sector, such as banks, manufacturers, retailers, everyone handling large volumes of money such as transport and telephone authority and with the executive functions of government such as taxation and social security administration.

The introduction of the single currency cannot be implemented by public authorities without the early participation of everyone involved in making, receiving, processing, accounting, and finally settling payments, in particular banks, companies in every sector of economic life, and the general public.
But at present, only few banks or companies have given sane thoughts to the changes they need to implement, and those which have begun to study this far are unclear about the time table and precise scenario they face. This implicates the risk that different companies and sectors may plan for the stage three on the basis of different and even contradictory assumptions which could therefore produce chaos. Unless the private sector is certain about the precise deadline of the introduction of the single currency and the scenario it faces, companies will be reluctant to commit the necessary resources, thereby lengthening the gap between the start of stage three and the introduction of a single currency.

For this reason, consultative bodies should be established at European and national level drawing together all parties concerned, provided with the necessary human and financial resources, to build on the work undertaken in this report, in order to identify and plan for the changes which need to be undertaken, especially the identification of the most efficient and speedy means of introducing the single currency. The creation in May 1994 of an official independent study group by the European Commission is already a positive answer to this suggestion. The so-called Expert Group, presided by Mr. Maas (executive member of the board of ING Group and former chairman of the Monetary Committee), presents the practical problems linked to introducing the single currency for the different sectors of the economy: industry, commerce and business, the government and public sector, the banking and financial sector, and individual consumers.

To ensure a smooth, efficient and effective introduction of the single currency, a solution must be identified and chosen as soon as possible so that planning and implementation of the necessary changes can be initiated. Also, clear political decisions should be taken and the necessary legislation should be put in place in good time so that all concerned have a common understanding of the time table
and scenarios which they must planned. The late announcement of a long or undetermined period of adaptation to the single currency would discourage efforts and increase the risk of not finalizing EMU.
Many issues need to be recognized and studied to prepare immediately and ensure the successful implementation of the ECU. Although no precise solution has been planned and organized for the changeover yet, the single currency remains a priority objective, since the benefits of the change to European cross-border trade and economic growth will be permanent. They will be greater than the once-for-all cost of the change, while the cost of doing nothing would be much higher. But despite its future advantages, the transition from national currencies to ECU will not be an easy task.

The European Commission sees the development of the use of the private ECU in the period leading up to economic and monetary union as the best way to deal with the future challenge of EMU itself. However, two types of legal problems could hamper the use of the private ECU. One relates to the nature of the ECU and national currency laws, such as the fact that no sovereign state issues ECUS and the ECU is not considered a legal tender. And the other one concerns areas outside the monetary field, such as laws preventing contracting parties in EC member states from denominating and paying their undertakings and obligations in ECUS.

Therefore, in order to obtain a large and spontaneous use of the ECU in the transitional phase, additional measures will have to be adopted by the Economic European Community and the member states' governments. Some of these measures would be to give the ECU a legal status equal or comparable to the one that national currencies enjoy; to authorize EEC residents to pay their taxes in ECU; and to perform all the Community's operations in ECU, including the salaries payments.
With such measures, the ECU would be gradually accepted and supported as the European Currency Unit by the several sectors of the market. This would considerably ease the process of changeover, and permit a smooth and successful transition to the single currency. In this way, the Economic Monetary Union will be completed, and the long-standing ambition of a Single Common Market will be finally achieved.


- Mondialisation et Regionalisation : un defi pour l' Europe, Henri Bourguinial, Edition Economica, 1992. Henri Bourguinial explains deeply the pros and the cons of the accomplishment of EMU. The transition to a single currency is a phenomenal challenge for the European authorities. Considering the magnitude of the process, people wonders about the risks and consequences of such a project. Technical problems are discussed as well as loss of monetary sovereignty and loss of budgetary autonomy. Discussions on the consequences on the unemployment rate also take place. Chapter 11 emphasizes the role of the ECU in the EMS and in the financial market, and compares this currency to the German Mark.


- Monde- Europe : repères et orientations pour les Français 1993-1997, Pascal Lamy, Edition Dunod, Paris, 1993. Pascal Lamy describes the present European situation and the situation of tomorrow. A detailed agenda of the EMU's process is also available. The case of France is discussed based on its economic and financial conditions; and then compared to some other European countries. Although the economy is picking up -at a very slow pace- France is still penalized by the previous chaos of the crisis. But motivated to participate in the EMU and to meet the criteria by 1997, the government pursues convergent monetary, economic and political policy.

- L' Europe du commerce : encore a faire, deja depassee, Annie Rigoureau, Michele Kerrad, Edition Economica, 1993. The EMS has been in place since 1979 and had worked since then to achieve an economic union. Many improvements have been reached since that date, but many things remain to be done to reach the goals. One of the most important limit is to obtain policies' convergence from nations that have different interest rates, inflation, deficits, public debt and even different
cultures. The long transition period between 1997 & 1999 will be characterized by a reinforcement of restrictive policies to satisfy the fixed criteria and to avoid creating doubt in the agents' minds operating in the financial markets. Considering the large divergence of the member states' economies, it is believed that Europe could only succeed if the conditions to qualify for EMU are relaxed.

   A definition of the European Monetary Institute (EMI) is given and its role is explained. The EMI will be in Frankfurt and will be modeled on the German Bundesbank, meaning that it will have the priority target of keeping the value of the currency stable. It is suggested that the EMI should start immediately with targeting on the basis of a money supply target, because it is indispensable that this new central bank have an idea of how strongly the money stock should grow, and especially, of how far the monetary basis should be extended.
   The article estimates the time needed to make the required changes for the ECU's introduction in the market. The European Union's transition to a single currency will require substantial changes to payment, account and settlement systems of bank and companies. The different scenarios of the changeover are presented and the solution of a combination is advised. Precise deadline of the introduction of the single currency should be made public as soon as possible to prepare consumers' minds and allow the various business sectors to get organized.
   The article questions the possibility of having EMU by 1997. A recent report by the association for the Monetary Union of Europe reports that initial estimates by some of Europe's largest banks suggest that the process of reviewing and adapting all relevant
programs, systems, and procedures could take up to five years. The author discusses practical preparations for the single currency including the possible scenarios of the changeover. They are three alternatives: a "Big-Bang" a dual currency approach or a combination of these two. Recommendations on each of the precedents are given.


  The author explains What has been done so far for the preparation of EMU but emphasizes what remains to be done. A research by Harris Research shows that only 47% of the European's countries will be likely to use a single currency by the year 2000. The author insists on the necessary public awareness and support, the difficulty of this task, and the urgent need of promotional campaigns. The message for policy-maker is that unless binding political decisions are made well in advance, the transition to a single currency will be costly and chaotic.


  The article summarizes the situation of the European Economic Community and demonstrates that EMU will not be able to begin in 1997 due to economic and political problems. The Deutschemark's renewed rise is wreaking havoc with Europe's best-laid plans. Different arguments, for and against monetary union are presented as well as a summary of the member state's economic situations.

- Barber, Lionel, "Finance ministers keep EU currency plan alive", The European, December 6, 1994, pp:1-16.


  Eric Dumas describes the increasing use of the private ECU. The growth of the market for bonds denominated in ECU is greatly influenced by the pace of the European financial integration process. The number and size of ECU issued grew rapidly in the early 90's as more market makers became active in both the primary and secondary market. The Danish rejection of the Maastricht proposal in 1992 slowed down the
activity, but it is expected to go up again because of the popularity of future contracts on ECU bonds, the increasingly attractive structure of rates, and the growing number of products available in the ECU market.


The ERM's weaknesses are explained. The partial collapse of the Exchange Rate Mechanism (ERM) in September 1992 revealed the limited capacity of the Bundesbank to support the system's weak currencies. It also underscored the need for a pan-European institution that will look after the interests of all ERM countries. It seems that the turbulence of the Mechanism is likely to undermine the market for ECU.


The author explains why the ECU is attractive to investors. Three main reasons are discussed: Low cost transaction, easy-to-use currency basket, and low risk due to the currency stability.


The official European Currency unit -the ECU- used within the European currency system is defined and the private ECU is introduced. The private ECU is contained in commercial contracts and, in general, its definition follows that of the official ECU. The European Commission sees the development of the use of the private ECU in the period leading up to economic and monetary union, as the best way to deal with the future challenge of EMU itself.


David Marsh presents the most comprehensive survey ever made of British and German attitudes to European integration. The Poll shows that strong opposition to the single currency exist in Europe, especially in Germany and in the UK. The possibility of a referendum and the consequent reactions of Jacques Santer, the incoming president of the European Commission, are discussed.


- Morgan, Peter, 'A currency that business can use", Director, September 1993, p:3.


Many U.S and some European observers of the changing fortunes of the efforts to achieve an advanced degree of integration in the European Community are puzzled by the ambition to create an economic and monetary union in the EC, extending to the introduction of a common currency and a European Central Bank (ECB) to run a joint monetary policy. Some focus on what they regard as questionable economic of such move, while others suggest that EMU can only be justified in political terms. But in the latter case, the strategy is seen as very risky because monetary unification would then run well ahead of political union, reversing the order of integration in existing large federal states.


The reluctance of the Germans to the single currency is discussed. They worry that the ECU will not be as strong as the D-mark. The solution of fixing the core country's currencies to the D-mark is believed to be the only alternative to convince the markets to move towards the final stage of EMU.

The author believes that a Deutschemark Europe will be present for a long time because it would not allow his symbol of its stability and success to be replaced by any ECU.


The Expert Group gives all the basic information concerning the implementation of the EMU. It estimates what is to be done to have a smooth transition to the ECU, how long it will take, and how much it will cost. Because the group does not want to underestimate the provision of the Treaty, it talks about the possibility of seeing a single currency by 1997, but it strongly emphasizes the urgent need for preparation. The Expert Group also explains how important the public acceptance is. It proposes to organize various campaigns in all the various sectors in the market to promote the image of the future European currency.
PROPOSAL
FOR
THE THESIS

IS THE TRANSITION OF THE NATIONAL CURRENCIES INTO A SINGLE
EUROPEAN CURRENCY UNDER THE CONDITIONS OF THE MAASTRICHT
TREATY REALISTIC?

Submitted by Delphine Contoz
on February 6th, 1995
for Dr. Butler
Picture this: At the foreign exchange counter at Miami International Airport, you cash in dollars for traveler's checks and a pocketful of coins and bills, both denominated in European Currency Units, or ecus. With this money, you breakfast on coffee and croissants in Paris, purchase stamps and postcards in Rome, and settle your hotel bill in Amsterdam.

Although the ecu has not yet replaced the traditional currencies of the twelve nations of the EC, it is not a fantasy.

Implemented in 1979 by the European Monetary System (EMS), "the ecu is the Community's budget and accounting unit, created by member states depositing 20% of their gold and US dollar reserves with the European Monetary Cooperation Fund". (Bourguinal, 232). For the moment, the ecu is used primarily for financial transactions and for keeping accounts among the EC's member countries; but the progressive integration of a single market intensifies the need for one European currency that would be used throughout the EC - not in addition to, but instead of the national currencies- and that would be accepted globally.

"Easy to say, but not so easy to do"! Having a common currency implies a common monetary policy with a central bank to produce and control the money supply. Linking the economies of twelve countries that have different rates of inflation, living standards, deficits, interest rates, political policies and cultures seems to be unreachable. However, the economists who studied the problem believe that it is a necessity for the success of, what they call, Europe 92. They argue that a unified monetary system would eliminate inefficiency and the expense of exchange transaction, contribute to economic and price stability by removing uncertainties about variations in exchange rates, and increase Europe's ability to compete against the United States and Japan.
Other economists also argue that the transition to full European Monetary Union (EMU) will be costly. Replacing the twelve -soon to become more- individual currencies with a single European currency unit (ECU) will require considerable adjustments by banks and an education program for their customers. "The ECU Banking Association report highlights both the implications of the changeover and the uncertainties about its timing." (Banker, September 1994).

I picked the subject "ECU" for personal interest. Being a French citizen makes me part of the future of Europe. Whether they would be successful or not, the events taking place in Europe will influence my own life as well as many others' life. The implementation of the ecu as a common currency is planned to happen in the last stage of the European and Monetary Union Treaty and will mark the accomplishment of what has been called Europe 92. I believe those events are of a great importance, because they will have an incredible international impact, not only on the European nations, but also on the rest of the world. From the third stage of the EMU could evolve a new superpower with a strong currency, which will ultimately restore the balance in the world market.

This paper will tend to explain the role and the use of the ecu as well as the polemics and the consequences of its implementation. It is aimed to any person who wants to do business or invest in Europe, so that he/she could forecast the pitfalls and the opportunities that such events would provide.

My sources come primarily from secondary research. In order to have diversified opinions and more information, I gathered books and articles from both France and the United States. I believe this thesis will greatly improve my knowledge about the European Monetary system, as well as it will show me the complexity of the politically, financially and economically interrelated world.
The publishing company that I chose is *Foreign Service Journal* located in Department WM 2101 East street NW Washington DC 20037. It is a monthly magazine for foreign services, personal and others interests in foreign affairs and related subjects, and it publishes three months after acceptance.