

INTERIM REPORT IR-98-063/August

EMU: Perceptions and Challenges

Elizabeth Muller (eamuller@ucsd.edu)

Approved by
Gordon J. MacDonald (macdon@iiasa.ac.at)

Contents

| | |
|--|----|
| INTRODUCTION | 1 |
| RECONCILIATION OF THE DIFFERENT PERSPECTIVES | 2 |
| EMU and its historical context: a step toward political unity | 3 |
| Product vs. Process | 4 |
| Different Perceptions of this Risk: EMU as necessity | 5 |
| A Study by country | 6 |
| <u>Germany</u> | 6 |
| <u>Britain</u> | 7 |
| <u>France</u> | 7 |
| European unity and its impact on tradition | 8 |
| THE CURRENT NEED IN EUROPE | 9 |
| A model | 9 |
| The type of model needed -- a vision | 10 |
| No existing model | 10 |
| The reason for a lack of support | 11 |
| The changes that should be made and the aspects that should be preserved | 12 |
| A Culture of Progress | 13 |
| CONCLUSION | 14 |
| BIBLIOGRAPHY | 15 |

About the Author

Elizabeth Muller (eamuller@ucsd.edu) has just finished her third year as a math major at the University of California, San Diego. She spent her junior year abroad in Paris to study literature, politics, sociology and art, as well as of course, French. She was a participant of IIASA's Young Scientists Summer Program, (June – September 1998).

EMU: Perceptions and Challenges

Elizabeth Muller (eamuller@ucsd.edu)

INTRODUCTION

The imminent arrival of the European Monetary Union (EMU) this January is being anticipated with both dread and delight. As the event approaches, experts have written a plethora of articles expressing hundreds of opinions and predictions, but have reached minimal agreement. Some see EMU as the savior of Europe, perhaps the greatest European venture since Napoleon, while others fear it will be an unmitigated debacle that could push Europe into a Third World economy. Of course, nobody knows for sure what is going to happen. But can the disparate conclusions of so many experts be reconciled? Can we learn anything from the disagreement? Who is right? EMU is an action that will have global impact, and will likely cause fundamental change in Europe. But in what form will these changes appear?

Most of the literature published on EMU has focused on what will happen after monetary union takes place and whether it will be beneficial to Europe. This paper will take as its focus another aspect of EMU: the possibility of reconciling the different analyses. I will argue that monetary union is best understood as a process rather than as a product (hence when I refer to EMU I am not only referring to the monetary union itself, but also to all of the changes that may follow as direct consequences). I will suggest that in order to succeed, Europe must develop a comprehensive vision of its future. And finally, I will argue that the most essential ingredient for the success of EMU is the incorporation of new elements that will enable the existing European culture to build on its successes, eliminate its weaknesses, and continue to develop. Together, I will call these elements a "culture of progress." The vision for Europe cannot be taken unchanged from the United States, because of the desire to preserve the unique cultural heritage of Europe, but it can incorporate major aspects of the United States' economic model.

RECONCILIATION OF THE DIFFERENT PERSPECTIVES

The different perspectives on EMU can give us insights into the hopes and the fears of the people involved in the unification process. In turn these hopes and fears must be addressed by proponents of EMU if the process is to succeed. But first, I summarize what appear to be the principal criticisms of European monetary union:

Europe is not an optimal currency area. The countries of Europe are too different to be able to work together. The culture of Europe prevents economic progress. The European Central Bank is too independent. And the citizens of European member countries don't want to lose their independence to a larger pan-European unity.

These criticisms are all serious, and while different experts may focus on different aspects, there is general agreement that EMU does involve real risks and dangers -- although there is less agreement on what these dangers are. Richard Bronk and David Bowers argue that "a one-size fits all monetary policy and the growth and stability pact may make it more difficult to offset other kinds of asymmetric shocks (a shock that affects some regions or countries but not others)."¹ Wolfgang Munchau and Lionel Barber agree, saying, "Lack of flexibility will make it difficult for the EMU zone to react to asymmetric economic shocks."² A Merrill Lynch report has another criticism: "it is our belief that it will actually become more difficult for EMU economies to become synchronized after interest rates converge."³ Martin Feldstein goes so far as to suggest that EMU could lead to war.⁴ David Fairlamb presents a vivid scenario, which I will quote at length:

Monday morning, February 12, 2001. At the Finance Ministry at Bercy, French Finance and Economy Minister Dominique Strauss-Kahn mounts the podium before a mass of reporters and cameramen. The previous day German Chancellor Gerhard Schroder had refused to renegotiate the Growth and Stability pact, which restricts economic and monetary union member states' budget deficits. As a result of Schroder's recalcitrance, Strauss-Kahn tears up a 10-euro note and declares that France is leaving EMU. "It is outrageous and heartless that our single-currency partners would not let us borrow what we need to provide jobs for millions of unemployed," says Strauss-Kahn. "Germany is sacrificing French workers to the god of hard money."

¹ See EMU and Labour Markets, by Richard Bronk and David Bowers, Merrill Lynch, 12 June 1998

² See Everything you ever wanted to know about EMU, by Wolfgang Munchau and Lionel Barber, The Financial Times special on Economic and Monetary Union, adapted from 3 articles that first appeared on 28 May 1997, 15 Sep 1997, and 5 Jan 1998

³ See European Quantitative Viewpoint, Merrill Lynch, 15 July 1998

⁴ See EMU and International Conflict, by Martin Feldstein, Foreign Affairs, Nov/Dec 1997

The markets erupt. Speculation mounts that other EMU members -- Italy, Portugal, Spain -- are bailing out. Traders quickly realize that no rules govern withdrawal from the euro, suggesting that months of political and legal wrangling about the redenomination of France's euro assets lie ahead. Within minutes the euro plunges against the dollar, investors dump French government securities, Italy and Spain cancel forthcoming bond issues, bank shares tumble into free fall...

However, to understand these criticisms it is not enough merely to understand the economic and political issues involved. One must also understand the different backgrounds from which the criticisms come, and the assumptions involved. Furthermore, in order to devise the next step, one must understand the ways in which the concept of unity is understood by those who are behind it.

Hence, in this first section, I will examine the different perspectives of EMU, and the different hopes and fears involved. I will begin with a discussion of the historical context of EMU and the importance of this historical context today. Next I will discuss the possibilities of seeing EMU as a "product" or as a "process." I will talk about the view that monetary union is necessary. And finally, I will discuss the possible ways in which European unity can affect culture and tradition.

A clear-cut definition of Europe is impossible, and hence the "Europe" that I refer to is the Europe that is participating in whatever relevant process. For the purpose of this paper, I will define Europe not as it sits geographically, but as it sits in terms of European unity. The 11 members of EMU are hence the most obvious members.

EMU and its historical context: a step toward political unity

After World War II, several politicians, including Delors and Monnet⁵ of France, and Kohl of Germany, hoped to unite Europe democratically, both economically and politically. Soon, it became apparent that politicians could never agree on how to impose political unity. And so, a theory of integration developed in which unity would develop in smaller ways, perhaps beginning with a common market, but then slowly building up to political unity. There are many possible ways to unite Europe economically, one can argue that all that is really needed for monetary union is to fix the exchange rates. Hayek suggested a system that would allow different currencies to compete with one another, with the eventual dominance of the one or two strongest currencies⁶. Robert Mundell proposed the European Monetary Pool and the EUROPA, defined in gold, with each country having a quota determined by its economic size⁷. Yet for what one might call political reasons, a path was chosen -- EMU, with its single central bank -- that seems to necessitate some eventual political unity.

⁵ See Jean Monnet, the First Statesman of Interdependence by Francois Duchene, W. W. Norton and Company, 1994

⁶ See Denationalization of Money, by F. A. Hayek, The Institute of Economic Affairs, 1976

⁷ See A Plan for a European Currency, by Robert Mundell, Johnson and Swoboda, 1973

Once EMU is in full effect, many people agree that some sort of official European decision making entity will be necessary to regulate the problems that arise. Some political organization will be needed to establish the legitimacy of the Euro. "Euro X" - sometimes called the Council of 11, is an informal forum of finance ministers, designed to help communicate decisions. This forum could in time evolve into what Lionel Barber calls "a political counterweight to the European central bank."⁸

Pressure to regulate "unfair" competition, e.g. one country having a competitive advantage over another, could also lead to some sort of European political unity. For example, the current tax structure in Europe could lead to business moving away from some countries with preference for others. The Commission is already considering harmonization of the tax structures. A unified tax structure could be a first step toward direct taxes paid to the European Union.

International diplomacy could also bring pressure for a more politically united Europe. Countries that are not part of Europe often have difficulty locating the central authority that they need to deal with. If you want to do business with a company you can "call" the CEO, and you know that you are talking to someone in authority -- someone who not only represents the company, but who can implement changes. Likewise, with the United States there are a number of such people that one can call, depending on the situation. But for the EMU, whom do you call? Klaus Hansch clearly states the problem saying, "At the moment, no-one knows who speaks for Europe abroad. Is it the Commission? Is it the Council Presidency, currently almost invisible? Is it the Council Troika?"⁹ Europe needs a united structure to carry its foreign policy.

The cold war created much of the perceived need for European political alliance¹⁰. Today, the cold war is over and yet Europe is stuck with a system, EMU, designed to address the issues of that period. In order to understand where Europe is moving and how loose or how tight this unity should be, it is valuable to re-examine the historical perspective, and eventually to reach a consensus on what is desired today.

Product vs. Process

In a review of the literature, it becomes clear that most analysts treat EMU either as a "product" or as a "process," terms that I will define momentarily. Yet the analysts do not make this distinction themselves; in most cases they do not even seem to be aware of the difference. In this section I will draw attention to this difference, and show how it can account for much of the seeming disagreement about the future of EMU.

When I say that an analyst sees EMU as a "product" I mean that he views the structure for monetary union as already in place, and at this point EMU is an event that will shortly be implemented with inevitable consequences. This view is exceptionally important in light of the rigidities involved in EMU, and the fact that with no united decision making body it will be difficult to make adaptations¹¹. When EMU is looked

⁸ See Will EMU lead to political union?, by Lionel Barber, The Financial Times, 1 May 1998

⁹ See Reasserting the Political Will to Move Europe Forward, Klaus Hansch, Robert Shuman Lecture at the European University Institute in Florence, 27 June 1996

¹⁰ See Reasserting the Political Will to Move Europe Forward, Klaus Hansch, Robert Shuman Lecture at the European University Institute in Florence, 27 June 1996

¹¹ See Maastricht follies, Survey 4 of 8 on European Monetary Union, The Economist, 11 April 1998

upon as a product, it is an easy target for criticism: there are serious problems in the way EMU is being done, and once the Euro is in full effect, these problems will have inevitable negative consequences.

A very different way to view EMU is as a "process." In this view, the current form of EMU is not an end in and of itself, but rather an ideal to be moved toward and through. From this perspective, problems can (and must) be dealt with as they arise. Of course there are risks, but steps can and will be taken to reduce problems that arise. Because they can be dealt with later, future economic risks are not critical.

Much of the critique of EMU (such as the fact that Europe does not constitute an optimal currency area or that there should be more economical convergence before monetary union) makes the implicit assumption that EMU is a product -- one being introduced at the wrong time, and at the wrong pace. In contrast, those who view EMU as a process consider these issues much less critical.

In the process view, it is important to get the process started. Historically, unification has had many barriers. Earlier attempts at monetary union failed because of extenuating external circumstances. In 1962, the European Commission proposed a single currency only to have the system of fixed exchange rates slowly fall apart. The abandonment of the link between gold and the dollar in 1971 put a final end to this possibility¹². Politicians frequently delay an action as a means of assuring that it will never get done. Former Chancellor of Germany, Helmut Schmidt, says, "Any delay means in all likelihood the ultimate abandonment of the currency union project."¹³ Klaus Hansch, in his Robert Schulman Lecture in 1996 goes as far as to say, "Postponement would mean cancellation."¹⁴

The dual nature of EMU as a process and as a product must be considered in the future. Saying that EMU is only a product is far too strict, allowing no means for dealing with new and unforeseen problems. But at the same time, saying those existing problems can be dealt with later is equally dangerous. A useful metaphor of the process view, that of a bicycle, is used by Kurt Bayer of the Austrian Ministry of Finance. A bicycle must keep moving in order not to collapse. However, I will argue that it is not enough for a bicycle just to stay balanced; after all, it is presumably going somewhere. What is the goal of EMU? Where is it headed? I will return to this issue when I discuss the need for a "model."

Different Perceptions of this Risk: EMU as necessity

It is tempting to think that the differences in perception come from a lack of communication. However, when one carefully examines the opinions of the analysts who support EMU, one finds that they are well aware of the risks described by EMU opponents. But along with this awareness, there is another perception: many of these people believe that EMU is *necessary*. To Euro, or not to Euro is simply not a question

¹² See The History of an Idea, Survey 2 of 8 on European Monetary Union, The Economist, 11 April 1998

¹³ Helmut Schmidt, *Die Zeit*, June 13, 1997

¹⁴ See Reasserting the Political Will to Move Europe Forward, Klaus Hansch, Robert Shuman Lecture at the European University Institute in Florence, 27 June 1996

in their minds. They feel that Europe needs monetary union, and so Europe must find a way to make it work. When an action is deemed necessary, a great amount of risk can be accepted in taking this action.

If EMU is seen as a process, then once started, the process must be kept going or it will collapse (just as a bicycle that stops moving will fall over). In this way the concept of necessity is linked with the view of EMU as a process. Once started, it is necessary to keep the process going. It is also possible that there is a goal in mind (a necessary goal), and EMU is a part of the process to reach this goal. The goal may be different for different parties, but in this section I will treat all of the goals deemed "necessary" together as a bloc.

It is important to note that the concept of necessity is not a well-defined concept. One can argue that nothing is ever really necessary. However, many people have concluded that when it comes to EMU, there is no other viable option. No action at all would leave Europe stagnant. Some feel that EMU is necessary if Europe is to compete economically with the rest of the world. It is also considered a necessary predecessor to a European decision making body, which unified could be as powerful as the United States'. Unity is needed to protect European cultures in light of American domination. EMU is considered necessary for building trust between European countries, and possibly for preventing another intra-European war. EMU is considered necessary to the reforms that so many believe are needed in Europe. And EMU is deemed a necessary step in the process working toward political union.

A Study by country

Different countries perceive the question of necessity differently. I will illustrate this for the three most important countries to the European Union: Germany, Great Britain and France.

Germany

Despite Germany's peaceful record since World War II, and its full participation in NATO, other European nations understandably harbor fears of the reunited Germany. Germany faces the task of re-establishing its European membership, and of re-establishing trust. A strong economic link between Germany and the rest of Europe could help establish these. Chancellor Kohl has equated the Euro to a rejection of the German militarist and nationalist past¹⁵. Giving up the beloved and symbolic D-Mark is a sacrifice for the European cause, and a gesture showing that Germany has changed. Thomas Risse argues that "the majority of the German political elite shares Chancellor Kohl's belief that only deeper political and economic union -- symbolized by a single currency -- can anchor Germany firmly in the West and strengthen European institutions to ensure peace in the years ahead."¹⁶ Germany could not conceivably war against countries with which it is so closely allied. Former Chancellor Helmut Schmidt argued in 1996,

¹⁵ See To Euro or Not to Euro? The EMU and Identity Politics in the European Union, by Thomas Risse and others, European University Institute, Working Paper RSC No 98/9, 1998

¹⁶ See To Euro or Not to Euro? The EMU and Identity Politics in the European Union, by Thomas Risse and others, European University Institute, Working Paper RSC No 98/9, 1998

"If the Euro-currency is not realized by January 1, 1999, it will most likely never again be realized;... This would result in the worst crisis of the European integration process -- possibly its end! And Germany would be isolated -- exactly the opposite of the binding which all chancellors from Adenauer to Kohl have pursued as the overarching strategic goal, in the vital German interest!"¹⁷

Of course one could argue that even without EMU Germany is already too closely allied with the rest of Europe to start another world war. However, when talking to the average European citizen on the street, there is still a feeling of skepticism and distrust.

Germany's population however, not sensitive to this political need, feels differently about the necessity of EMU. Economically, German citizens have no need to join EMU. The Deutsche Mark is symbolic of Germany's rebuilt strength, and Germans are reluctant to give it up for the uncertain advantages of the Euro.

Britain

Why might EMU be considered necessary in Britain? There are potential economic benefits that would arise from price transparency and the elimination of intra-European transaction fees, but in recent years Britain has done quite well economically. Robin Cook says in his speech in the House of Commons, June 9 1997,

"At present, we do not know whether there will be a single currency to join in 1999... What is valuable about that debate, and what Britain can usefully help to further, is the gathering consensus that the prime objectives of economic policy should be growth, employment and competitiveness, and that the single currency must be judged on whether or not it will help or hinder those objectives."

It is apparent that Britain is weighing the plusses and the minuses of unity, rather than considering EMU to be a necessity.

Counting against Britain's adherence to EMU, is the argument that Britain, with close alliances to the United States and Canada, would not want to join a separate European political alliance. In politics, Britain frequently is closer to the United States than it is to Europe. Hence, to the extent that it will inevitably lead to a European political union, EMU is unappealing to Britain. And since there is no need for monetary union, the Britons will not join.

France

To the French, the question of identity plays a strong role in the formulation of why EMU is needed¹⁸. French identity is based not only on the idea of being French, but also

¹⁷ Helmut Schmidt, "Die Bundesbank - kein Staat im Staate," *Die Zeit*, Nov 8, 1996

¹⁸ See To Euro or Not to Euro? The EMU and Identity Politics in the European Union, by Thomas Risse and others, European University Institute, Working Paper RSC No 98/9, 1998

on the idea of being strong. France has historically been a strong, even dominant nation. However, since its destruction in World War II, France has begun to sense the collapse of this power. De Gaulle spent much of the 1960s trying to rebuild it. With the end of the cold war, France remained largely on the sidelines of the new, democratic, Eastern European construction. President Mitterrand, insisting on French participation in the construction process, embarrassed himself by attempting to strike deals with leaders in East Berlin and Moscow¹⁹. He did not succeed, and France was forced to accept that it was no longer the great political force that it once was. As a single entity, France simply can not constitute a global political force.

Another "threat" to French identity is the invasion of American popular culture. American music, movies, and fast food restaurants are everywhere in France today, and they are loved by the French youth. Traditionally, the French are proud of their own, high culture, achievements in these areas -- considering their products to be far superior. Nevertheless, American culture is widely perceived as becoming more and more dominant.

The only solution, as the French see it, is European Unity. President Jacques Chirac said in 1992,

"The European Community is also a question of identity. If we want to preserve our values, our way of life, our standards of living, our capacity to count in the world, to defend our interests, to remain carriers of a humanistic message, we are certainly bound to build a united and solid bloc... If France says yes (to EMU), she can better reaffirm in what I believe: French exceptionalism."²⁰

By "exceptionalism" Chirac is referring to the French love of their history and culture, their past power and political influence that made French into the eponymous "lingua Franca." Exceptionalism is central in the French interest in EMU, although it can be argued that similar senses of exceptionalism apply to other countries. The French believe that the only way for them to maintain their identity is to join with the rest of Europe. France could once again become a strong (dominant?) power. A further example of this French need for strength is apparent in the French insistence on a French Central Bank president.

European unity and its impact on tradition

While politicians, economists and businessmen may focus primarily on the economic implications of EMU, it is highly probable that the unification process, of which EMU is an important step, will also have an effect on European culture (beyond the stress of having to deal with new banknotes). Exactly how these changes will manifest is not certain, there are many possibilities. Academics may laugh at many of these concerns, but all of them I have personally heard expressed by European citizens:

¹⁹ See To Euro or Not to Euro? The EMU and Identity Politics in the European Union, by Thomas Risse and others, European University Institute, Working Paper RSC No 98/9, 1998

²⁰ Jacques Chirac, in *Liberation*, September 11, 1992

Retirement will have to be postponed, and in general there will be less care for the elderly. Economic unity will eventually force people to cut back on their leisure and vacation time. Jobs will become less secure, and so the concept of work will be forced to change. There will be more beggars, and more homeless. Mothers will be more likely to work, and this will force their children to become "lock and key kids," who will go home after school and watch television. With the introduction of more advanced technology, European children will give up running around in the fields in favor of the latest computer game. Youths will be more likely to choose universities (and first jobs) away from home, and this will have an impact on traditional family patterns. As people gradually become more mobile, they will no longer be with the friends that they had as children, and hence even the concept of friendship will begin to change. E-mail will come to replace face to face contact.

As I said, these fears may sound silly to some academics, or they may be considered good rather than bad aspects of the unification process. Most of these issues have not been addressed by politicians, they are certainly not easy issues to address. But they are real fears for European citizens, and should be taken into account.

THE CURRENT NEED IN EUROPE

The biggest economic worries in Europe all stem from the same deeply imbedded root: Europe's focus is on preservation rather than on development. A model, or the creation of a vision could allow the focus to shift from the present to the future.

A model

In this section, I will argue that a model does not currently exist for a United Europe, and that the existence of such a model is crucial if unity is to succeed. Not all political moves require a model. In fact, a model, when used as a guide, can easily become more of a hindrance than a help. But EMU involves more than politics. Something is needed to pull together the issues of economics, culture, tradition and values. A loose model, or a vision, could give a means of incorporating all of these aspects into one conception of the future.

A model can be historical, physical, or conceptual (i.e. it can be temporal, spatial or theoretical). An example of a historical model would be the unification of Europe by military force, such as attempted by Napoleon or Hitler. A physical model might be modeling Europe after an existing union, such as that of the United States. A conceptual model might be a theoretical construct, such as communism, socialism, or a free-market economy.

I have found no evidence that Europe has a unified idea of what it is moving toward, or even of what it *wants* to be moving toward. Its general desires, in addition to the general fears, are vague and uncertain. Should the various European nations attempt to reduce their differences? Should Europe attempt major reforms in its economic practices? Should Europe look like the United States?

The type of model needed -- a vision

The biggest problem with having a model is that it presents a target that its enemies can attack. A model demonstrates the weaknesses, as well as the strengths of a new idea. For example, in the United States, Clinton tried to present a model for change in health care (the one payer system) only to have it attacked and doomed to failure. In this case, the existence of a model seemed to hurt rather than to help the process.

The only way that this problem can be avoided is if the model is a general and adaptive, so that it can be modified when it is criticized. For this reason I will use the word "vision" to describe what I believe is lacking. Such a vision must be seen as a process, not as a product, a tool rather than a goal. Furthermore, as European unity does not face the possibility of not being instituted, it does not face the same risk as did Clinton with his model for health care. But without a vision, Europe is more likely to change in unforeseen directions.

A vision must combine the different aspects of European unity. Many new questions need to be addressed. How would additional labor mobility affect the traditional family structure in Europe? Does economic progress necessarily mean a cut back on leisure time? What will these changes mean for the average European citizen? These questions may seem that they are inessential to creating the unification process, but the reason that there is such a lack of support for EMU stems from just such uncertainties. And, as it is the citizens that create a democratic unification process, it is important that the concerns of the citizens are addressed -- the success of the union ultimately depends on popular support.

No existing model

The historical models of European unification (e.g. Charlemagne, Napoleon, Hitler) are not acceptable to modern Europeans. Hence Europeans must look for their model elsewhere -- either to other parts of the world, or to abstract thought.

The United States is an obvious comparison for Europe. The two regions have about the same size economy and population, and certain politicians even go so far as to use the phrase "the United States of Europe." Furthermore, at present, the United States is the only truly successful economic model. The Soviet Union has collapsed, the current Asian economies are hardly role models, and Europe itself is having enormous difficulties. For this reason, there is a tendency to think that Europe should include the United States' economic system into its model.

In fact, many of the criticisms about EMU stem from an implicit assumption that EMU emulates the US. And yet in important aspects, Europe does not resemble the United States. Europe has no single government, no unified tax structure, no universal pension system, no single accounting system, no single language, and to top it off, poor labor mobility. These differences lead to some naive criticisms of European monetary union. Since Europe is not like the United States, how could a single currency succeed? Europe does not want to give up its languages, its traditions, its family structures. Europe does not want to give up its vacation and leisure time. Europe does not *want* to be mobile. And Europe does not want to give technology to its children in a way that it considers a replacement for tradition. Few Europeans want to mimic the Americans. They just want to have the same economic success.

The physical model of the United States is not appropriate for Europe, and there is no existing physical alternative. Hence Europe must look elsewhere in order to find its model.

Some people argue that Europe does have a conceptual model (or vision) of its future. Lionel Barber says, "Those in favour believe EMU will usher in a new era of prosperity build on stable process, enduring fiscal discipline and lower interest rates, leading to higher investment, stronger growth and, ultimately, more jobs."²¹ Klaus Hansch describes the goal as "the necessary modernization of the European economy."²² Basically, all of this can be summed down to economic progress. However, "economic progress" is not a goal that would collectively satisfy Europe -- at least not if it would mean sacrificing the current European lifestyle. Economic progress and competitiveness are not, and can not be, the only goals. There are many other aspects that must be incorporated. Traditions, family, culture and social structures -- all of the things that risk to be affected by EMU. Therefore the possible changes in these areas need to be considered, and likewise they should have a prominent role in the vision of Europe.

The reason for a lack of support

With the lack of a vision, it is fairly easy to understand why everyone is so concerned about what is going to happen in Europe. Nobody knows in what direction European Unity is moving, and this is scary. Is the bicycle headed down a path, or into a quagmire, or off a cliff? European citizens do not know what monetary union will mean to themselves and to their culture. There are such differences of opinion among the experts that it is obvious why ordinary citizens have a difficult time understanding. Will monetary union mean a loss of sovereignty? How will monetary union benefit the population? What will be the downside? With unity, will separate European cultures deteriorate, and will Europe become more homogenous -- like the United States? How will EMU affect the most pressing economic concerns of today, such as unemployment?

The citizens of Europe do not know what to expect. Nobody has collectively addressed the fears, the hopes, and the possibilities of the European future. The only politicians who have even attempted to take the concerns of the citizens into account are the extreme right parties -- such as the National Front in France, which has gained support in part through its criticism of EMU, and through addressing such issues as immigration and loss of culture. Why is it only the extreme right of politics that addresses these issues, and presents a vision of the future? Without a coherent idea of what European Unity means, and how their most important questions will be answered, of course there will be a lack of support for EMU. The populations have no idea of how to weigh the problems and the benefits of unity.

A vision of Europe, presented by the proponents of EMU, could be essential in convincing Europe's citizens that unity is for the best. A vision could help the population see both the good and the bad aspects of the union, and in this way assuage their fears. A vision could help the populations of Europe come to believe that unity

²¹ See The Great Experiment, by Lionel Barber, The Financial Times, 5 Jan 1998

²² See Reasserting the Political Will to Move Europe Forward, Klaus Hansch, Robert Shuman Lecture at the European University Institute in Florence, 27 June 1996

does not necessarily mean a loss of the aspects that Europeans treasure so much in their communities. A vision could help citizens realize that unity does not necessarily mean looking like the United States. When there is a clear picture of what can be achieved, it is easier to move toward such an ideal.

The changes that should be made and the aspects that should be preserved

Politicians and economists argue that the new focus for Europe should be on economic progress and competition²³. To an extent they are correct in their observation that this is where the biggest changes must be made. There is no need to create traditions in Europe -- these exist already.

Nevertheless, to be acceptable to Europeans, any integration process must take into account the intense desire to *preserve* what Europeans consider their historical heritage and culture. In contrast, this has been of little importance in the United States, where a sense of progress and a willingness to abandon the past has allowed rapid economic development. The greater mobility of US workers is only one example of this difference. In fact, the mobility of US workers is undoubtedly related to the fact that the US was built largely by immigrants, who by their very willingness to leave their home countries demonstrates their mobility and willingness to change their culture.

There is an apparent paradox in the European system: Europeans want both to focus on economic progress, and to preserve their culture, but they seem to be unaware of the conflicts between these two. For economic progress, there must be a change in culture, and the Europeans fear this change because they associate it with the displacement of their heritage and its replacement with that of the United States. However, this need not necessarily happen. The Europeans can preserve their heritage, while modifying it to incorporate a culture of progress. There are certain aspects of European life that must doubtlessly be given up in order to compete on the global market, but this does not mean that everything needs to be given up. With a focus on preserving European culture in light of certain economic changes, I believe that a fair amount could be done. Certainly languages, as well as many customs and traditions could be preserved.

Europeans must not make the mistake of thinking that a culture of progress means the adoption of American popular culture. It means adopting the economic ideas that have developed in the US, and incorporating them into European exceptionalism. Technology should be emphasized not as a replacement way of life, but rather as a tool. Technology is not a product, but a process that can be used to achieve both European exceptionalism and economic growth. As such a tool, technology can even be used to emphasize culture. These aspects should be placed into the model for a future Europe.

²³ See Everything you ever wanted to know about EMU, by Wolfgang Munchau and Lionel Barber, The Financial Times special on Economic and Monetary Union, adapted from 3 articles that first appeared on 28 May 1997, 15 Sep 1997, and 5 Jan 1998

A Culture of Progress

Certain aspects of the existing European culture interfere with the progress that is needed if Europe is to stay competitive economically. And economic success is a requisite for maintaining Europe's current lifestyle.

Europe needs a "culture of progress," by which I mean a culture in which new ideas are encouraged, and risks are taken. It means a culture that emphasizes the future at least as much as it cherishes the past. The most successful countries in today's global economy are the countries that, by focusing on progression, have stayed at the forefront of technology. In order to participate in such success, it is not enough to focus on the same things that the rest of the world is focusing on. One must ask what is going to be the focus 10, 20, 50 years from now, and focus on such issues instead. Playing "catch up" will never put an economy into the most competitive sectors.

A culture of progress may seem impossible to impose. And it is true that one cannot force a population to change its values. Nevertheless, there are ways of instituting such a culture of progress. Politicians and governments play a key role. Although the culture of progress in the United States did not include an aspect for the preservation of a complex historical heritage, and therefore cannot be simply transferred to Europe, it does contain essential elements that can be adopted in Europe.

Some of the most successful practices that encourages such progress are the American laws and taxes that encourage venture capital. By encouraging small, new and innovative companies, the American system is in fact encouraging progress and new ideas in a way that is lacking in Europe. This system has worked well in the United States, and has led to American economic advancement that has brought Americans so quickly and so far into the technological age. Europe should learn from this example, and take the idea even further, really placing a large emphasis on the progression of new ideas and new technology.

Another practice, from which Europe could learn, is the emphasis on independent thought and the acceptance of new ideas that prevails in the American university system. The principal goal in a United States' college is often explicitly recognized as teaching students how to think for themselves, how to come up with ideas and how to recognize when these ideas are good. In the American system, non-standard opinions that you can justify become legitimate. The American emphasis is not on history or mastery of rote material. You cannot earn an A (the best possible grade) by giving back to the professor what was taught in class; to get an A requires new and original thought. History is still considered important, but a student graduating from the American university system is likely to be prepared to go out into the world and try new things.

It should be noted that the American University system is not a unified system. Rather the schools are forced to compete with one another for both students and faculty. In this competitive process, the structure that has gained dominance is the emphasis on progress. This is what students want, it is what prepares them for the working world. So another aspect of educational reform that could benefit Europe is a more competitive university system. A competitive system would likewise prepare students for the competitive world of real life, a world that is not fair.

Social security and labor market reforms are also essential to Europe. Social security reform is already on the agenda of all European countries. It is a difficult reform to make, but deemed necessary, efforts are currently underway. Labor market

reform, however, is not in such a position. The populations of Europe do not want to lose the benefits that the current system yields, i.e. job security, high minimum wage and much leisure time (to name a few). The governments of Europe are not looking to make these reforms, but such reforms are essential to creating a culture of progress. Peter Norman argues that realism is needed about EMU, and explains, "Radical labour market reforms are necessary in monetary union is to survive."²⁴

While Europeans may feel themselves to be justified in protecting their historical culture, they must at the same time ask themselves if a shift in balance, with a grater emphasis on progress, might ultimately be the most effective means of preservation. For Example, European universities can continue to emphasize the importance of history, while encouraging reflection, and the building off of these ideas. Work and productivity should be more highly valued, and leisure time, while still important, should be recognized as only a small aspect of life.

CONCLUSION

In just 5 months, the process of EMU will be implemented. It is time to stop arguing whether it is good or bad, and to start looking to the future. Which way will it go? Which way should it go?

Monetary union is not a question of pure economics. The expert opinions of economists and politicians are not enough to create a system that will work for the whole of Europe. There are thousands of articles discussing the economic impacts of EMU. But there are few discussing the cultural changes that will inevitably follow. These cultural changes are of central importance to Europeans, and they must be incorporated into the vision of Europe.

If it is to succeed, European monetary union must be seen as a process, and a vision should be created that fits this process. By creating a vision that incorporates politics, economics and traditional values, Europe could move into the future with a better idea of what to expect, both for the better and for the worse. By looking into the future, Europe has already taken the first step toward developing a culture of progress. This development must be encouraged, and incorporated into the vision.

In the absence of a vision, the outcome of European monetary union cannot be predicted. If EMU arrives, with no changes having taken place in Europe, the result may be disastrous. However, if steps are taken, and if all of the necessary reforms are made, with the European attitude changing as well, then EMU could indeed be one of the greatest achievements of this and the next century. The scale of success depends entirely on the ability of the system to make adaptive changes that preserve the combined goals of exceptionalism and economic growth.

²⁴ See Reality Check, by Peter Norman, The Financial Times, 22 September 1997

BIBLIOGRAPHY

- A Theory of Optimum Currency Areas, by Robert A. Mundell, The American Economic Review, 1961
- The Pros and Cons of EMU, by David Currie, The Economist Intelligence Unit, 1997
- Will the Euro Work? By David Currie, The Economist Intelligence Unit, 1998
- European Monetary Unification, by Barry Eichengreen, MIT Press, 1997
- An 8 part Survey on European Monetary Union, in The Economist, 11 April 1998
- EMU and International Conflict, by Martin Feldstein, Foreign Affairs, Nov/Dec 1997
- EMU and the World Economy, The World Economic Outlook, a Survey by the Staff of the International Monetary Fund, Oct 1997
- EMU, What Can go Wrong, by David Fairlamb, Institutional Investor, April 1998
- EMU and the International Monetary System, by Robert Mundell, Oesterreichische National Bank, 1993
- Denationalisation of Money, by F. A. Hayek, The Institute of Economic Affairs, 1976
- A Plan for a European Currency, by Robert Mundell, Johnson and Swoboda, 1973
- EMU: A Trojan Horse? Richard Bronk and David Bowers, Merrill Lynch & Co., February 1998
- EMU and Labour Markets, Richard Bronk and David Bowers, Merrill Lynch & Co., 12 June 1998
- European Quantitative Viewpoint, Markus E. Barth, Merrill Lynch & Co., 15 July 1998
- The Dollar and the Euro, by Fred Bergsten, Foreign Affairs, July/August 1997
- Europe's Big Lie on Employment, by Alan Reynolds, The International Economy, May/June 1998
- Is There a Safe Passage to EMU? Evidence on Capital Controls and a Proposal by Barry Eichengreen, Andrew K. Rose and Charles Wyplosz, Center for Economic Policy Research, Discussion Paper No. 1061, November 1994
- The Genesis of EMU: A Retrospective View, by Tommaso Padoa-Schioppa, European University Institute, Jean Monnet Chair Paper RSC Np 96/40, 1996
- Reasserting the Political Will to Move Europe Forward, Klaus Hansch, Robert Shuman Lecture at the European University Institute in Florence, 27 June 1996
- Jean Monnet, the First Statesman of Interdependence by Francois Duchene, W. W. Norton and Company, 1994
- Will EMU Lead to Political Union? by Lionel Barber, The Financial Times, 1 May, 1998
- Reality Check, by Peter Norman, The Financial Times, 22 September 1997

Everything you ever wanted to know about EMU, by Wolfgang Munchau and Lionel Barber, The Financial Times special on Economic and Monetary Union, adapted from 3 articles that first appeared on 28 May 1997, 15 Sep 1997, and 5 Jan 1998

The Great Experiment, by Lionel Barber, The Financial Times, 5 Jan 1998

To Euro or Not to Euro? The EMU and Identity Politics in the European Union, by Thomas Risse and others, European University Institute, Working Paper RSC No 98/9, 1998

The Power of Markets: The Real Backdrop to EMU, Herbert M. Allison Jr., A Merrill Lynch conference, London, England, 20 February