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Europe

The price of the Euro

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Across the European Union, expensive propaganda campaigns are being organised to convince the population that the common European currency is a good thing. The introduction of the Euro is presented as a technical operation, and to everyone's advantage.

When you go abroad on holiday, you won't have to change money any more. That's about the level of the argument.

This cheap story masks the logic on which the Euro is built: an austerity programme, which is not at all beneficial for the majority of the European population.

Countries that want to join the common currency have to abide by the Treaty of Maastricht (1991) and the Stability Pact of Dublin (1996). These two agreements makes the price of the Euro very high.

A few years of austerity and then...

For years now, all the EU countries have been caught in an almost permanent cycle of cuts and austerity, because the Maastricht Treaty requires among other things that the budget deficits of countries that want to join the common currency be reduced to 3% of Gross Domestic Product (GDP) before 1 January 1998. The five convergence criteria of Maastricht are exclusively about money: not unemployment, social security or ecological norms. In other words, Maastricht style convergence of levels of inflation, interest rates, government debts and deficits will not lead to a decrease of the big gaps between EU members in unemployment and productivity rates or GDP per head.

The cuts are not over. At the end of 1996, EU states had an average budget deficit of 4.4%. [1] Only Luxemburg fulfilled all five of the Maastricht convergence criteria. These figures imply that EU member states will have to cut their expenses by a total of more then 1% of the all-European GDP, by the end of this year. Such an operationcan only be done at the cost of a rise in unemployment and further destruction of social and collective services.

These cuts will also stifle the EU's (already mediocre) economic growth. One of the most cynical aspects of the whole business is that no economist can explain why a common currency can only function with budget deficits below 3%, or why deficits of 4 or 5, or even 6% are such an economic disaster.

...a few more

Those countries that manage to reduce their deficits to 3% and that fulfil the other Maastricht Treaty requirements about total government debt, inflation, interest rates and exchange rates, will still not be finished with austerity packages. The member states are forcing themselves and each other into a permanent state of budgetary anorexia that will not end until well into the next century.

The Stability Pact that was adopted during the Euro Summit in Dublin stipulates that state budgets must be reduced to 'close to balance' or balanced, so that when member states enter a recession, they will have room to manoeuvre. If they do cross the sacred 3% budget deficit limit, financial penalties as high as 0.5 percent of GDP will be imposed.

The proceeds will be divided among the 'good' countries.

These austerity arrangements will continue to strengthen recessionary and deflationary dynamics in the EU after the introduction of the Euro, just as the convergence criteria of the Maastricht Treaty have done since 1992.

Uncontrolable bankers

The European Central Bank (ECB) will take all important monetary decisions totally independently. This powerful new institution will not be controlled, even formally, by governments or parliaments: the Maastricht Treaty explicitly forbids attempts to influence the ECB's policies. The Treaty also decrees that the ECB has one priority at all times: price stability (=low inflation) above all. This reflects the monetarist dogma that low inflation will automatically lead to more growth, and more growth will automatically lead to more employment.

A race to the bottom

There will actually be a great increase in competition between countries inside the Euro zone. The introduction of the Euro means that countries will no longer be able to manipulate interest rates, exchange rates, and budget policies in the pursuit of their economic policy priorities.

The Maastricht and Dublin agreements forbid it. But at the same time, there are no pan-European fiscal, monetary or co-ordination policies for coping with economic shocks or recessions after the Euro is introduced.

Labour, the least mobile production factor, will pay the price, in the form of unemployment, wage cuts, and more flexibilisation. And countries will compete even more than they do now to attract investments. The only tools available will be tax cuts for companies, megalomaniac infrastructure projects, cheapening the welfare state, and reducing ecological regulations. This will be a race to the bottom: to harmonisation at the lowest level.

Dangerous illusions

Social democratic and trade union leaders argue that a common currency will become a means for a re-launch of economic growth. More jobs and social policies, they claim, can no longer be guaranteed on a national level. Therefore we need to accept the Euro, and then work to change the priorities of the EU.

This argument is impossible to maintain, because the neo-liberal logic of the convergence criteria, the stability pact and the future ECB is inextricably woven into the various juridical rules and treaties.

Some social democratic politicians are beginning to become abit nervous as they realise that the European Central Bank will determine to a large extent the margins within which social and economic policies can be financed. The new idea is to propose more 'political control' by Econfin, the EU council of Ministers of Finance and central bankers of the member states. But this would only mean more power for another supranational executive organ: just as undemocratic and uncontrollable as the ECB.

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For all these reasons, we should continue protesting against the introduction of the Euro. Opposition to a common currency is not a principled question, but a social and political choice. In itself a common currency and co-ordination of monetary, fiscal and budgetary policies could have big advantages. But the current project, the Europroject, leads only to more unemployment, increasing social polarisation, and the dismantling of the public sector. The Euro is being used as a crowbar for neo-liberal policies, for more deregulation, flexibilisation and austerity.

Opposing the Euro and the European Monetary Union because of their disastrous social consequences has nothing to do with nationalism or chauvinism. On the contrary, opposition is an essential part of working towards co-ordinated European-wide policies for a shorter work-week without loss of pay, more money for useful work in the public sector (transport, housing, education, health, environmental investments) and taxing of capital flows.

The Maastricht criteria

	Inflation	Interest rates	Deficit	Govt.debt
		(long term)	(% GDP)	(% GDP)
EMU target	2.6	8.8	-3.0	60
Austria	1.8	6.3	-3.9	70
Belgium	1.8	6.5	-3.4	130
Britain	3.0	7.9	-4.1	55
Denmark	1.9	7.2	-1.7	70
Finland	1.5	7.1	-2.6	59
France	2.1	6.3	-4.1	56
Germany	1.2	6.2	-3.8	61
Greece	7.9	14.8	-7.4	112
Ireland	2.2	7.3	-0.9	73
Italy	4.0	9.4	-6.8	124
Luxemburg	1.2	6.3	2.7	6
Netherlands	1.5	6.2	-2.2	79
Portugal	2.9	8.5	-4.0	65
Spain	3.6	8.7	-4.4	70
Sweden	0.8	8.0	-3.8	78

(Source: Annual Report of the Dutch Central Bank, April 1997)

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[1] Estimate released in April 1997 by the European Monetary Institute (EMI), the predecessor of the future European Central Bank (ECB).