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Polishing the EMU: The Association for the Monetary Union of Europe

> Tonight, I really feel at home among friends. When I became President of the Commission in 1995, the Association was about the only body which supported us in our firm belief that the single currency would become a reality. So it feels like playing a home game.
> *Jacques Santer in a speech to the AMUE Board of Directors in February 1998*

The ERT's Financial Offspring

The Paris-based Association for the Monetary Union of Europe (AMUE) was created in 1987, well before the advent of the Maastricht Treaty and Economic and Monetary Union (EMU). Officially the initiative of former French president Giscard d'Estaing and former German chancellor Helmut Schmidt, in reality the AMUE was founded by five corporations active in the European Roundtable of Industrialists (ERT, see Chapter 3): Fiat, Philips, Rhône-Poulenc, Solvay and Total. Wisse Dekker, then CEO of Philips and ERT chair, and previously one of the key people behind the creation of the Single Market, was the AMUE's first chairman. Currently, seven of the thirty AMUE board members are ERT members or top managers in ERT companies: Viscount Etienne Davignon of Société Générale de Belgique; François-Xavier Ortoli of Total; Fiat's Giovanni Agnelli; Rhône-Poulenc's Jean René Fourtou; André Leysen of Gevaert; Philips' Dudley Eustace and Karl-Hermann Baumann of Siemens. Furthermore, approximately one-third of the companies currently represented in the ERT double as AMUE members.[1] Beyond this sturdy base of Roundtable representatives, the majority of the AMUE's nearly three hundred current members come from the EU's financial and banking sectors.

Despite the obvious overlap, the AMUE does not link itself with the ERT in its publications. However, when asked about the relationship between the two groups, AMUE Secretary-General Bertrand de Maigret explains: 'We decided that the ERT would not work on monetary issues, and that we would. We have friendly links – a kind of division of tasks.'[2] Etienne Davignon, former Industry Commissioner and ERT member and currently president of the AMUE, confirmed the division of tasks, but stressed that 'there is no difference in the findings.'[3]

Minting the Coin

The ERT – obsessed with international competitiveness – was an early and vocal proponent of European Monetary Union. 'Japan has one currency. The US has one currency. How can the Community live with twelve?' it asked in 1991.[4] Thus, AMUE was created as a single-issue task force, to supplement the ERT's own campaign for economic and monetary union in Europe.

The founders of the AMUE decided to limit membership to the corporate and financial services sectors, excluding trade unions, consumer organisations and other interest groups. As AMUE president Davignon put it, 'We don't speak for everybody, we speak for ourselves. It [EMU] could only be effective if it was proposed by the people who were in favour, without the necessity to compromise between themselves.'[5] UNICE, the European employers' confederation, is also a member of the AMUE, and both its current and former presidents, George Jacobs and François Perigot, sit on the Association's board.

Putting EMU on Track

During the first years of its existence, the AMUE had a clearly defined mission: putting EMU squarely on the EU's agenda. For years, many European politicians had dreamt about economic and monetary union between the member states of the European Economic Community. Thus, significant political will for such a project already existed when the AMUE was founded. However, as Commission President Santer gratefully acknowledged in 1998, 'The members of the Association have been a major driving force behind the EMU project. Many of your companies have played a leadership role by clearly advocating the advantages of the single currency for the private sector and society as a whole.'[6] Furthermore, when politicians couldn't agree about whether they should set precise dates for EMU implementation in the Maastricht Treaty, the

AMUE, the ERT and other corporate lobby groups successfully pressed for the inclusion of a well-defined time schedule. According to the AMUE's de Maigret, governments were 'very glad to find the support of industry and the bank community in preparations for the writing of the treaty ... We had discussions on various high levels.'[7]

Davignon also has a rather self-congratulatory perspective on the role of the Association. 'You cannot be vain about this. At the end of the day, a lot of drops make the sea,' he said. 'What is significant is that we were always considered as very useful by the Commission. And also by the various member states, all of which have now set up technical groups dealing with this type of problem. They always ask representatives of the AMUE to be there.'[8] The AMUE can also claim to have increased the support for economic and monetary union within the European business and finance worlds.

Ensuring EMU

Although the Maastricht Treaty had put Economic and Monetary Union firmly on the official political agenda of the European Union, it was only at the 1995 Madrid EU Summit that crucial decisions were made about its practical implementation. The AMUE itself views this meeting as a watershed: 'Before the Madrid Summit, efforts were directed at convincing companies and governments of the benefits of having a single currency ... Efforts after that concentrated on preparing banks and companies for the changeover to the euro.'[9] The AMUE claims to have organised over one thousand conferences and seminars since 1989, more than half of which took place in the period between 1996 and 1998.[10] Often of a technical nature, the meetings involved officials from the Commission and from national states. Efforts were strategically focused on the countries with the strongest EMU phobias: in 1997 and 1998, for example, the Association organised 90 meetings in Germany 'to garner support for the euro from an often sceptical public'.[11] The AMUE claims that almost half of these meetings 'were organised at the request and with the active participation of German Members of Parliament'.[12] In addition to the meetings, the AMUE hired a public relations firm to issue broad-based weekly information bulletins on monetary union to the German and Austrian press.[13]

Yet cooperation between the AMUE and EU institutions goes well beyond joint meetings. In a May 1994 report, for example, the AMUE recommended that the European Commission establish an independent committee to further analyse the changeover to Economic and Monetary Union.[14] In fact, the Commission had already decided to create an 'independent expert committee on the introduction of the euro as the single currency'. What the Commission meant by 'independent' became clear in July 1994 when this committee's composition was announced: three of the twelve experts turned out to be AMUE board members, whereas consumer organisations had only one representative.[15] Based upon this committee's work, the Commission published a Green Paper[16] on the procedures for single currency changeover in May 1995, which was quickly followed by a report from the European Monetary Institute[17] supporting the paper's proposals.[18] The two reports were used to support the European Council decision to launch a speedy introduction of EMU at the December 1995 EU Summit in Madrid.[19]

Besides taking part in official expert groups and helping to formulate the final transition scenario for monetary union, the AMUE has produced academic studies and reports (such as a 1998 report on the stability of EMU)[20] with the aim of countering widespread critique and scepticism. With the financial support of the Commission, the AMUE has written and distributed millions of practical preparation guides.

A further measure of its influence is that the AMUE is often chosen by both the Commission and the European Parliament for public tenders requiring expertise in monetary matters.[21] Indeed, the European Commission frequently consults the group on monetary questions, both formally and informally. 'It is a very confident way of working,' explains AMUE Secretary-General de Maigret. 'They call us, we call them, they see us, we discuss matters. They are quite flexible. I'm not one of those who criticise the Commission administration. They are very open for discussion, at least in the monetary field.'[22] According to Etienne Davignon, governments have always been interested in listening to the AMUE: 'They gladly come to our general assemblies in various countries. Prime ministers usually come to address these, and governors of central banks also attend.'[23]

Unlike other symbiotic processes between businesses and politicians within the EU, groups outside of the business and financial communities have paid no attention to the AMUE/Commission connection. According to Davignon, 'In these issues, industry is much less suspected than in other issues. This is not the lobby for the car industry, or for electronics, or multimedia, or the deregulation of banks or whatever, but the discussion over the improved use of the internal market.'[24]

The Euro is Born

The birth of the euro on 1 January 1999 did not spell the end of the AMUE; on the contrary, the Association seems more ambitious than ever. To ensure that industry and banks are able to reap the predicted benefits of EMU, the AMUE has set up a special benchmarking programme for companies and continues to assist business in its preparations for the euro by organising conferences and distributing information material. Retailers and the tourism industry in particular have been assisted in their transition preparations, and consumers have been smothered in propaganda in order to foster a quick and easy acceptance of the euro. The Association also plans to encourage EMU membership by Denmark, Sweden and the UK, and to inform the Norwegian, Swiss and Central and Eastern European business communities about the promised benefits of the single currency so that companies in those countries can in turn lobby their national governments to join the EMU.

The AMUE's Tentacles Reach Abroad

The Association's latest fascination is with the global dimension of the new currency. It is envisaged that the euro will give Europe a global currency advantage, which will in turn increase European exports. To improve the stability of financial markets, the AMUE has started a dialogue with US and Japanese businesses to prevent excessive fluctuations of euro, dollar and yen exchange rates. At home, the AMUE regards the EMU's birth as a chance to redesign European capital markets. It lobbies for the harmonisation of company law and stock market legislation with the hope of catalysing an enormous growth in European stock markets. In order to translate the economic size of the euro-zone into global political clout, the AMUE wants the EU to speak with one voice in the international arena, and stresses that the euro-zone should have a single representative at G-8 meetings.

The global dreams of the AMUE were reflected in their ninth annual meeting in Frankfurt on 1 July 1998, which featured a razzle-dazzle simultaneous link-up to financial conferences in London, Milan, New York, Paris and Tokyo. Another conference was organised in New York in April 1998, giving several hundred US financiers the opportunity to discuss the euro with EU Economic and Financial Affairs Commissioner Yves-Thibault de Silguy, Alexandre Lamfalussy, the then President of the European Monetary Institute, and US Deputy Secretary of the Treasury Lawrence Summers. But perhaps the crowning example of the AMUE's integration into the global financial world was the timing of its September 1998 meeting in Hong Kong, parallel to the annual meeting of the IMF and the World Bank. From its humble origins as the brainchild of a few corporate CEOs and EU commissioners, the AMUE has quickly risen in the ranks to become a major player in the game of global economic and monetary planning.

Single Market, Single Currency

The AMUE presents economic and monetary union as a logical step towards the completion of the Single Market, which is still not as 'efficient' as industry would like. According to AMUE Secretary-General de Maigret, EMU will bring 'monetary stability and long-term certainty, which will increase productive investment, generate economies of scale and eliminate production costs, which in turn will increase competitiveness, sales, economic growth and employment'.[25] But the AMUE is silent about other euro-zone realities. In fact, the euro is one of the most far-reaching economic experiments of the last decades, and has already caused widespread social and economic upheaval across Europe.

The focus of EMU critique from progressive groups has been the convergence criteria agreed upon in the Maastricht Treaty. These criteria oblige EMU candidate members to bring government debt, inflation rates, budget deficits and long-term interest rates below certain benchmark levels. In most countries, these criteria have been achieved through spectacular budget cuts targeting national social, health and educational programmes, in combination with controls on wages and massive privatisation. Today, European unemployment is significantly higher than it was when the Maastricht Treaty was concluded at the end of 1991. Germany alone has seen over three million new people flocking to the unemployment queues.

The convergence criteria were consolidated and further tightened with the Stability and Growth Pact adopted at the June 1997 EU Council in Amsterdam. Under this agreement, EMU members committed to keeping their national budget deficit below 3 per cent of gross domestic product (GDP). If they are unable to meet these conditions, they face heavy fines. Commissioner de Silguy has gone even further, suggesting an additional decrease in the permitted maximum budget deficit to an average of 1.5 per cent of GDP in 1999.[26] The AMUE remains hopeful despite the social upheaval already caused through these structural adjustments. 'The convergence path to EMU seems to have been a painful purgatory to a better life in EMU. Whether paradise is eternal remains to be seen', it comments in a recent report.[27]

Another point of critique has been the EMU's threat to democracy at the national level. With single monetary policy to be decided by the new European Central Bank (ECB),[28] EU member state governments lose some of their most powerful policy tools for reacting to economic downturn. EMU members may not devalue their currencies, adjust interest rates or temporarily allow budget deficits to revitalise the economy. The EMU will be run from the ECB, an unelected and unaccountable body which will follow the rigid inflation-fighting policies of the German Bundesbank.

The AMUE's response to this democratic gap is not exactly reassuring. The organisation argues that this lack of accountability has been approved by elected heads of state, and that the ECB will need full freedom in order to fulfil its task of guaranteeing price stability.[29] When quizzed on this concern for democratic procedures, Viscount Davignon's response proves unequivocal: 'I find it total rubbish.'[30]

Euro 'Side-effects'

European Monetary Union will give a massive boost to the wave of mergers and acquisitions that has swept Europe in the past years as a result of the single market and increasing economic globalisation. In particular, the banking and insurance sectors have been hard hit by merger mania as companies search for larger markets, cuts in costs, advantages of scale and higher profit margins. Weaker competitors are being bought up or crowded out by the new banking and insurance giants. Recent examples are the take-over of the Belgian bank BBL by the Dutch-based ING Group, and the merger of Zurich and BAT, two large insurance companies. Tens of thousands of jobs are expected to be lost, and analysts predict that up to half of the 166,000 bank branches in the EU will be closed. The impacts will not be limited to the financial services sector: in a conservative estimate, the new wave of mergers and corporate downsizing in the European Union as an effect of the single currency could leave one out of every twenty industrial workers unemployed.[31]

Companies that previously organised their operations on a country-by-country basis increasingly operate on a European level. The euro accelerates this process by removing the last barriers – such as the risk of currency fluctuations – in the Single Market. US corporations have also given a warm welcome to the euro, envisioning golden new opportunities to exploit economies of scale in a newly barrier-free market even larger than their own. As Rob Fried of the US-based electronics/arms producing company Allied Signal explains, operating pan-European provides corporations with huge advantages over smaller companies producing for local markets as it 'eliminates expenses across Europe and leads to economies of scale'.[32]

One striking example is Reebok International, the US-based sportswear producer. In 1995, Reebok had 14 distribution warehouses for its European market; in 1998, only 10 were left. By 1 January 1999, when the euro was born, a single distribution centre remained. Today, the entire continent is provided with Reebok products from this central point in the Netherlands.[33] This trend not only leads to job cuts, but also is responsible for an increase in the ecologically-unsound long-distance transport of goods.

Monetary union is also expected to result in ever-fiercer cross-border competition. The euro will make the instant comparison of prices and productivity within the whole euro-zone possible, increasing the trend of relocations to the most competitive areas. The obvious effect will be to intensify competition between countries and regions to attract investments.[34] To quote a Morgan Stanley economist: 'If you remove currency as a safety valve, governments will be forced to focus on real changes to become more competitive: lower taxes, labour market flexibility, and a more favourable regulatory backdrop for business.'[35]

Over the past decade, almost all EU member states have systematically lowered corporate and other taxes to increase their attractiveness to investors (see Chapter 1). It comes as no surprise that captains of industry welcome this as a highly positive development. 'The market forces unleashed by the euro will be felt not just by corporate managers but also by political leaders,' DaimlerChrysler's Jürgen Schrempp explains. 'Elected officials, facing competition as they try to attract the investments that create jobs, will eventually lower corporate tax rates and streamline regulation.'[36] The competition between euro-zone regions to offer the most favourable investment climate will almost inevitably reduce the chances of progressive policies like a shortened working week, ecological tax reform and other measures which involve the protection of people and the environment.

The EMU is very different from the other large single currency zone it is often compared with: the United States. In the US, geographical mobility is much higher than in the EU, which is characterised by significant differences in languages and cultures. Large-scale intra-EU migration of labour from jobless regions to areas with available jobs is difficult to imagine. And unlike the US federal government, the EU does not have the capacity to provide financial support to states experiencing economic problems and high unemployment. This is a serious flaw, as there is little doubt that the single currency will lead to larger regional disparities within the EU. The fiercer competition between regions over the pool of global investments will have winners and losers, and many observers expect that 'less favoured regions' including parts of Spain, Portugal and Greece will become further marginalised. A more equitable distribution of wealth between EU regions would, however, demand far higher contributions from member states to the EU budget.[37]

The debate in early 1999 on European Central Bank (ECB) policies was perhaps the most disturbing example of how the single currency, in combination with economic deregulation, limits the scope for democratic decision making. Social democratic politicians like former German Finance Minister Oskar Lafontaine argued publicly that the ECB should assist in efforts to create more employment by lowering interest rates. ECB President Wim Duisenberg reacted promptly and with great hostility, stating that the ECB was independent and price stability its main mission. He moreover blamed Lafontaine for the weakening exchange rate of the euro compared with the US dollar, arguing that the finance minister's interference had undermined the confidence of financial markets in the new currency.[38]

Thus not only does the ECB operate beyond democratic control, but even a debate about its policies is taboo due to possible retaliation by the financial markets! Economic analysts rightly compare the single currency to a 'Trojan horse'[39]: a sneaky way to wheel in dramatic structural changes causing painful social impacts with minimum opposition from voters and social movements. The negative effects of the EMU will only be fully recognised when it is too late to stop the havoc it has, and will continue to have wreaked on European societies.