Economic and Social Committee

The euro: how the socio-occupational groups view it

Economic and Social Committee

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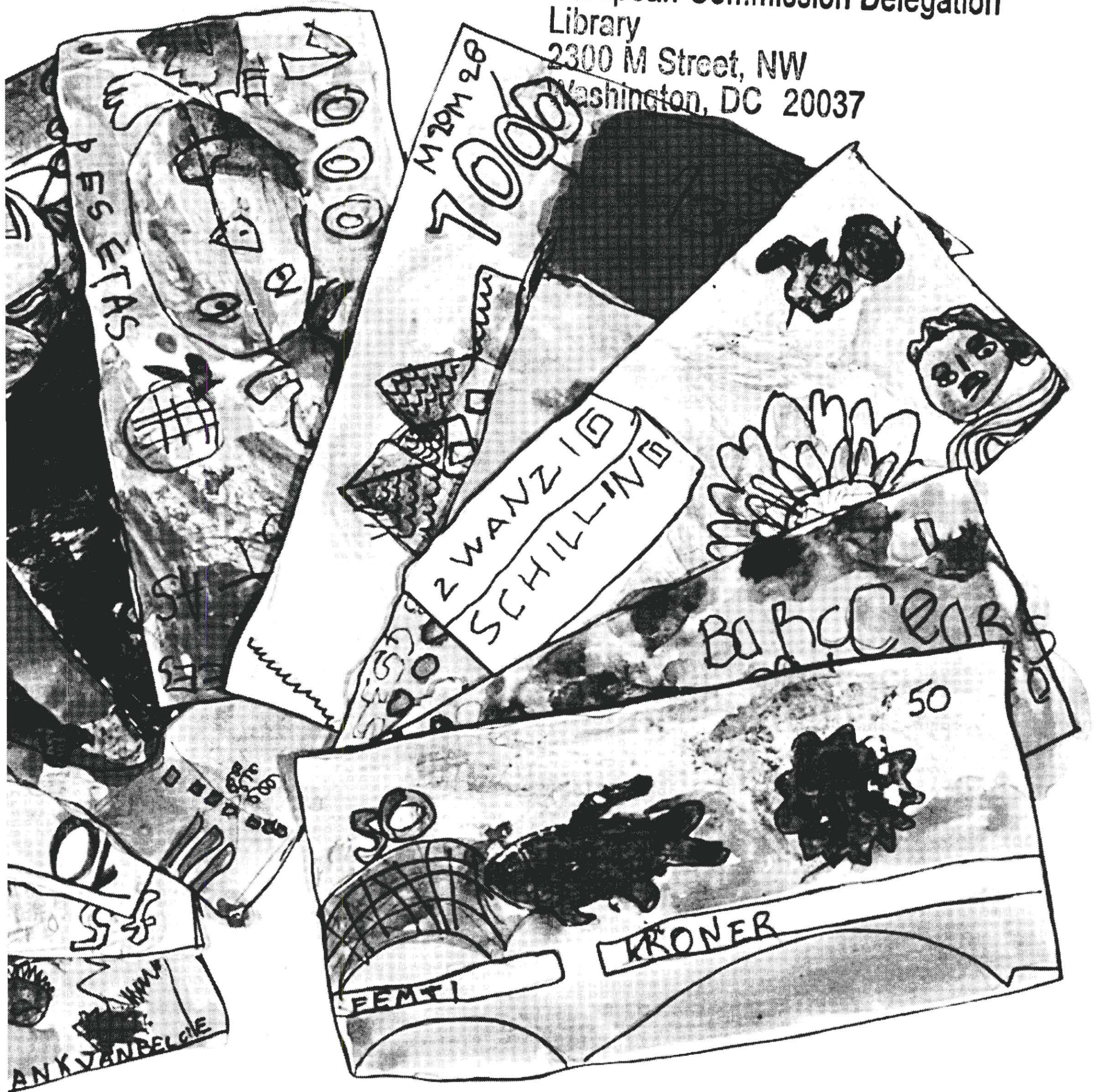

The euro: how the socio-occupational groups view it

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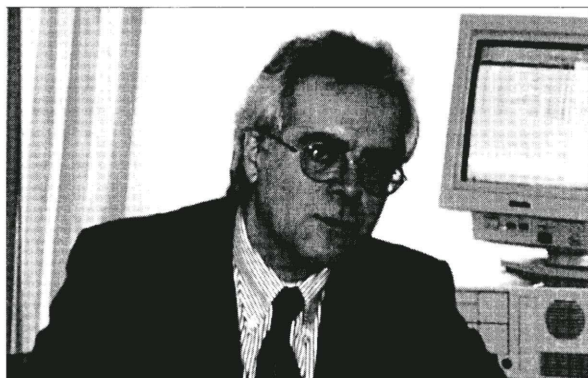
Foreword by the president of the Economic and Social Committee, Tom Jenkins



Tom Jenkins

On 1 January 1999 Europe will begin the third and final stage of economic and monetary union; the exchange rates of the participating states' currencies will be irrevocably fixed, and, three years later, the countries of Europe will introduce a single currency. The very effort to meet the criteria for participating in EMU has changed the European economic and financial landscape. The EU Member States have achieved a remarkable degree of stability which seemed scarcely possible just a few years ago.

Europe's nation states have decided to adopt a currency which they are no longer able to create themselves. The introduction of a single currency in Europe thus goes far beyond the realm of economics. It will make the process of European unification irreversible, forging closer ties between the societies of the various Member States. European monetary union will have implications for a great many areas of politics, the economy and everyday life. It will place new demands not just on politicians, economists and business, but on every single one of us.

The representatives of Europe's socio-economic groupings who make up the Economic and Social Committee have already been confronting this challenge for a number of years. They welcome monetary union as providing the strategic answer to the global challenges which Europe is now facing.

The permanent study group on the single currency, set up by the ESC as early as 1994, was responsible for preparing the ground for a series of Committee opinions on matters relating to the implementation of

monetary union, including the practical aspects of the introduction of a single currency, the machinery, the legal framework and the economic and social implications. These opinions are primarily addressed to the institutions and organizations involved in the implementation of EMU, but they are also intended to provide a basis for discussion for all the socio-economic groupings in the Member States. There is still a great general need for information. For this reason, and in order to stimulate public debate on the introduction of the euro and to reduce uncertainty, the ESC is publishing this brochure setting out many of the opinions which it has issued.

Europe is increasingly having to compete with other regions which have made considerable progress in bringing their economies up to strength and becoming competitive. In this international climate of competition, Europe will only be able to sustain its position if it is willing to speak with one voice in the field of economic policy. We will no longer be able to afford to take economic policy decisions independently from one another. Monetary union promises to bring great economic and political opportunities with relatively little risk. It will safeguard and boost growth and employment in the European internal market. The establishment of monetary union will also provide the impetus for a truly European economic and employment policy, thereby helping to preserve and build on the prosperity already achieved. This economic impetus will be of benefit to all Europeans in the long term.

* * *

As part of the PRINCE programme the Economic and Social Committee has organized conferences on the introduction of the euro, in collaboration with the EC Commission and the European Parliament. In Portugal and Spain consumer associations participated in the organization of the conferences, whilst in Italy and the UK trade unions acted as partners.

This process will, of course, continue in other Member States from now until when EMU becomes permanent.

Foreword by the president of the Section for Economic, Financial and Monetary Questions, Göke Frerichs

Göke Frerichs

Europe needs Monetary Union. The euro will herald the completion of the Internal Market and Europe will become a stable, uniform economic area. The increasing globalization of international markets exacerbates the risk that monetary fragmentation could create undesirable disruption calculated to hamper growth, employment and prosperity in Europe. On the international economic and financial markets, a stable euro will have much greater clout than national European currencies have today. It will be capable of ironing out or cushioning the adverse repercussions of massive capital inflows or outflows on the economy, on inflation and interest rate trends, and on employment.

The advantages of monetary union therefore outweigh the risks for businesses, workers and consumers. Every citizen, i.e. every worker, businessman, self employed person, consumer, tourist or investor can directly reap the benefits.

The abolition of exchange rate fluctuations will remove a significant obstacle to trade and investment in the European economic area. For small and medium sized businesses in particular, which in recent years have been more successful in job creation than large undertakings, irritating, expensive currency risk guarantee costs will disappear, mak-

ing more funds available for investment. Planning for investment and intra European trade will also be safer. Monetary union and the single market will combine to improve the distribution of labour and to boost productivity in Europe; this in turn will create additional potential for growth and employment. The single currency will make it easier to compare prices throughout the Union and to create an area with total price transparency.

Close economic policy coordination is a prerequisite for solving employment problems in Europe. All previous attempts on the basis of purely national fiscal policy have failed. Monetary union will compel Europe to coordinate its economic policy closely and will be an important catalyst for a genuine European economic and employment policy. The level of economic convergence which EU Member States have achieved in the run up to monetary union is extremely encouraging, especially since only a few years ago, many experts were sceptical about the feasibility of achieving convergence on such a scale.

The EMU area will become the world's largest economic force in terms of GDP and external trade. Monetary union will give Europe an economic boost whose impact will be felt far beyond the boundaries of our continent.

Foreword by the president of the Permanent Study Group on the Introduction of the Single Currency, Jorge Stecher Navarra

Jorge Stecher Navarra

The study group that I have been proud to chair for more than two years has been working intensively on preparing opinions in an effort to cooperate with the European Commission on the transition towards the single currency. Now we can say that as of 1 January 1999, the euro will be the sole legal tender in the European Union and that national notes and coins in circulation will be expressed as rounded fractions of the new European currency. Legal provisions have also been drawn up to ensure that contracts established in national currencies will be valid in euros. To ensure continuity in the main financial markets, other non-European countries have also accepted these provisions. All of this means that monetary union will not be a purely European phenomenon, but rather an historic development in the world monetary system.

Up to now, world currencies have offered no real alternative to the dollar. In future, and against the backdrop of the globalization of the capital markets, this will no longer be the case. The euro will replace the dollar as the invoicing currency of many transactions in international trade, as the reserve currency of central banks and as the preferred currency of world-wide investors. In the near future, it is not unlikely that there will be three spheres of influence made up of the dollar, the yen and the euro, as the euro will undoubtedly attract the countries of central and eastern Europe, the Middle East and North Africa. All of this could mean greater stability for the global economy and financial markets, ensuring that the European Union is an equal player in the globalized world economy.

The increasing competition between banks and financial systems in general will lead to more effective use of available resources and will boost investment. As a result, new jobs will be generated.

Lastly, it must be said that the euro, supported by a European Union with healthy finances, low inflation, low interest rates and an independent central bank, will deserve the confidence of the markets and will be a stable and strong currency.

OPINION
of the Economic and Social Committee on the *"Market implications of the legislation and regulations required for the transition to the single currency"*

Rapporteur: Umberto BURANI (Italie - Employers)

Opinion adopted on 31 October 1996

Foreword

1.1. As the dates laid down by the Treaty for the completion of EMU approach, preparatory work is forging ahead in a number of areas requiring action by the European authorities. In accordance with the programme marked out by the Green Paper on the practical arrangements for the introduction of the single currency[1], the Commission - in agreement with the European Monetary Institute (EMI) - is preparing a draft **Council Regulation** establishing the **legal infrastructure for the use of the Euro**. The Commission's work should be completed by the end of 1996.

1.2. The present Committee Opinion follows on from the Opinion adopted in October 1995 on the Green Paper on the practical arrangements for the introduction of the single currency[2] and the own-initiative Opinion adopted in September 1996 on the Impact of Economic and Monetary Union: economic and social aspects of convergence and measures to increase awareness of the single currency[3] . Quite apart from formal considerations, the Economic and Social Committee considers it to be its function and duty to collaborate with the drawing up of draft legislation which should not only meet the need to create a sound legal framework for the single currency, but is also **responsive to market requirements**. Above all, the transition must be kept as straightforward as possible, free of bureaucratic and procedural obstacles and, as far as possible, compatible with the usages and customs of each market.

1.3. No official documents have yet been published by either the Commission or the EMI. The views expressed by the Committee therefore refer to the working and discussion papers which are progressively emerging in various quar-

1 COM(95) 333 of 31 May 1995

2 OJ No. C 18 of 22 January 1996, p. 112

3 CES 1089/96 of 26 September 1996

ters. The latest Commission document on which these comments are based is dated 27 July; subsequent changes have been taken into consideration subject to the working time available and the constraints of ESC procedure.

2. General comments

2.1. The **legal basis** of the Regulation is not yet clear. It is in the Committee's view important that the rules should come into force within the time limits set and should apply to all the Member States, whether or not participating in EMU.

2.2. The Committee is pleased to note that many of the **proposals made in its Opinion of October 1995** have been taken up in the Commission's preliminary work; it notes, on the other hand, that certain aspects of considerable importance - which will be recalled in the present Opinion - do not appear to have been taken into consideration.

2.3. One of the aspects highlighted by the Committee concerned **contracts** drawn up between residents of Single Currency countries and residents of derogation countries and between residents of Single Currency countries, and residents of derogation countries and between residents of Single Currency countries and residents of third countries which are governed by the legislation of derogation or third countries[4]. Such contracts include **issues of securities** and **rates of return on fixed-interest securities**, particularly when quoted on the stock exchanges of third countries. The Committee had asked the Commission and the IME "to establish official contacts in order to obtain assurances that in connection with observance of contractual rules the introduction of the Single Currency will not lead to any disturbances on European and third-country markets".

2.4. The Committee is pleased to note that this suggestion has been accepted, at least as far as the **securities and monetary markets are concerned.** Commission contacts with the International Primary Market Association (IPMA) and the International Swaps and Derivatives Association (ISDA) are preparing the ground for the forthcoming decision to officially accept **conversion from the ECU to the Euro at a one-for-one rate.** Further steps, probably in relation to third country governments and/or the World Trade Organization (WTO), will also be necessary to ensure continuity of contracts concluded with residents of third countries.

2.5. Clearly, **no national or European legislation can have** extra-territorial scope. It is nevertheless essential for economic operators dealing with third countries to have the certainty that both the ready acceptance of the Euro and the **validity** and **continuity of contracts will be guaranteed.** It should be noted in this respect that while international law recognizes the right of countries to change the value and denomination of their currency, the automatic recognition of the right - applicable **erga omnes** - to legislate on conversion rates between different currencies is less clear.

4 Op.cit. (footnote 2), paragraphs 7.4., 7.5. and 7.6. Contracts between residents of Single Currency countries and derogation countries should not cause such problems, since the Council Regulation will clearly be valid for all EU countries without distinction.

3. Replacing the ECU and national currencies with the Euro

3.1. The Regulation will confirm the decisions already taken by the Council: with effect from 1 **January 1999, the Euro will become the currency of the participating Member States**, and the **national currencies** with their subdivisions will become **fractions** of the single currency, at conversion rates to be determined. The Euro currency unit will be subdivided into hundredths. This arrangement permits automatic equivalence between the Euro and the participating currencies. Other provisions, which have already been made known and require no particular comment, concern:

- the choice of the Euro as the **unit of account** of the European Central Bank (ECB) and of the participating currencies;
- replacement of **reference** (explicit or implicit) **to the ECU** by reference to the Euro in all **legal instruments**[5], it remaining confirmed that the conversion rate will be Euro 1 for ECU 1.

3.2. With respect to **continuity of contracts**, the Council Regulation endorses the principle that introducing the Euro cannot have the effect of modifying the terms of contracts, or of entitling one of the parties to change them or to withdraw from the contract.

4. Provisions applicable during the transitional period

4.1. The Regulation introduces the concept of a "transitional period", corresponding to the Green Paper's "Phase B", or "the third stage" in the words of the Treaty[6]; this would in practice be the three year period between the date of effective commencement of EMU (1 January 1999) until the day before the date of the final switch to the single currency (31 December 2001).

4.2. Under one approach which had begun to emerge, but now appears to have been abandoned, the third stage **could be shorter** if circumstances permit. The Committee considered this possibility - already discussed in the Green Paper - and expressed its **firm opposition**[7] **to any variation in the established programmes.** The length of the various stages should be decided by the Council by 30 June 1998 at the latest; the decision should also establish that it **will not be subject to subsequent modification.** The market needs

5 Particularly worthy of note is the intention to define the concept of "legal instrument": laws, regulations, administrative decisions, court rulings, contracts, payment instruments other than banknotes and coins, and other instruments with legal effect.

6 Article 109J(4)

7 Op.cit. (footnote 2), paragraphs 5.1.2. and 5.3.2.

certainty in order to programme the numerous, complex and costly changes which will become necessary.

4.3. The reasons for considering the possibility of reducing the length of the third stage are clear. This period was dictated by the time required for the central banks to put new banknotes and coins into circulation. It would appear that deadlines could be shortened if the central banks are able to speed up their preparations. The market could possibly adjust to a short period (although this is pure conjecture), but only on the condition that once its duration has been decided, no further changes are possible.

4.4. One of the more noteworthy transitional provisions is that the Euro will be subdivided, in accordance with the conversion rates, into national currency units, which will retain the present subdivisions. The monetary laws of the individual countries will remain in force, in tandem with the provisions of the Council Regulation. These rules require no particular comment.

4.5. The *"no compulsion, no prohibition"* rule

4.5.1. The Green Paper indicated that the use of the Euro for current market purposes during the transitional period should be **optional**. The Committee stressed that this principle should be adopted without exception, highlighting that "every contracting party [should be given] the option to accept payment in currency other than national currency". It was accepted by the Madrid Council that the market should be free to decide, summed up in the expression *"no obligation, no prohibition"*. No document or communication appears to question this.

4.5.2. The Regulation would, at first sight, appear to be based on this view. The basic rule establishes that legal instruments stipulating the use of the national currency or the Euro must **effectively be executed in the currency selected in advance**, except where agreed otherwise by the contracting parties. In other words, it will **be up to the parties** to decide in which currency the contract will be executed. The Committee fully supports this measure, which it had itself called for.

4.5.3. As it currently stands, the draft Regulation provides for a **derogation: any debt payable by a credit for account of the creditor**, and expressed in Euro or a national currency, may be discharged in either of the two currencies, at the debtor's choice. The creditor will receive payment in the currency of his own account, with conversion at the fixed rates.

4.5.4. This "**derogation**" is clearly of such a scope as to become the **guiding rule**. Although absurd, the derogation would concern, if anything, **only cash transactions**: in effect it is irrelevant, since as there are as yet no Euro banknotes, these transactions can only be settled in a national currency. The *"no compulsion, no prohibition"* principle is in practice abandoned in favour of the **opposite principle**: *"choice for the debtor, compulsion for the creditor"*.

4.5.5. If the above principle is finally adopted, the dispute which will arise in the event that the **creditor is unable to accept a payment in Euros** will have to be settled by the courts. One example would be that of retailers and service providers, confronted with a request to settle credit card payments in Euros effected with a credit to the seller's account. If their terminals and payment

facilities were not yet in a position to deal with the new currency, or to operate in two currencies, such transactions would become impossible.

4.5.6. In general terms, the option extended to creditors means, from the outset, an **obligation** upon companies and in particular the banking and financial sector to **carry out innumerable conversions or to practice double-entry accounting throughout the period**, something the Green Paper itself considered technically and economically inadvisable.

4.5.7. The **underlying reasons for the rule** in question are perfectly valid; it is only the wording which appears clumsy and should be **redrafted**. It has been realized, in examining the actual situation - ascertained by the Commission in the course of its numerous meetings with businesses - that the market can only adjust to the Single Currency gradually; accounting in two currencies is costly and often - especially at the beginning of the period - completely impracticable. The rule is intended to take account of this fact, but its consequences may outstrip its intentions.

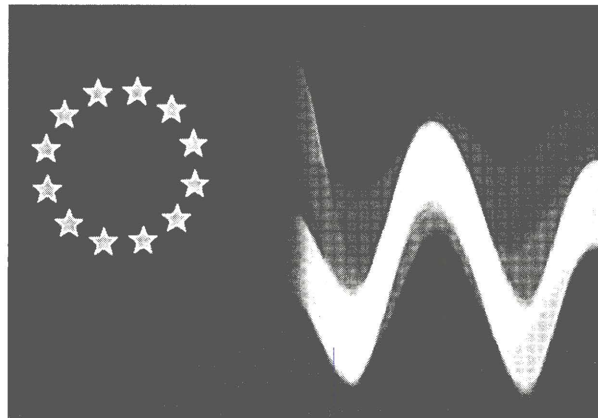
4.5.8. In the light of the above, the Committee suggests **deleting the rule referred to in point 4.5.3 above and replacing it with another providing that monetary debts payable by a credit for account of the creditor may be discharged by the debtor in either Euros or national currency, subject to the agreement of the creditor and of the financial institution where the account is held.** This is the only way for the "no compulsion, no prohibition" principle - which should apply to all operators - to be upheld; it also accords with actual practice.

4.6. The organized markets

4.6.1. The gradual shift to the single currency entails **planning internal technical and organizational measures** on the part of the financial institutions. It should also be borne in mind that the financial sector works in a **closely interdependent** fashion: each institution conducts its relations with the others in accordance with clearly-established rules, which are essential to the sector's operation. The legislation under examination takes account of the concept of "**organized markets**" and lays down the rules needed to avoid disruption during the switch-over from the national to the single currency.

4.6.2. The Regulation understands "**organized markets**" to be markets set up for swaps, clearance or settlement of the financial instruments listed in Section B of the Annex to Directive 93/22/EEC on investment services, and including swaps, clearance and settlement of payment instruments.

4.6.3. It will be in the clear interests of all organized markets to move to the single currency as rapidly as possible, although at the same time, they will have to take account of the capacity of their individual members to adjust to



the new rules in an ordered and, most importantly, coordinated way. With a view to this requirement, the Council Regulation would provide an arrangement whereby the Member States will be able to take appropriate measures to **allow the organized markets to take the necessary decisions** for the changeover from the national to the single currency.

4.6.4. The Committee fully supports this measure which reflects the necessary pragmatism and an acknowledgement of the circumstances in which each **national** organized market operates. This fails to resolve, however, the question of **international** organized markets whose operating base is located in a Member State - not necessarily participating in EMU - but whose members also belong to other Member States, whether or not participating in EMU. The Committee calls for **specific rules to be devised** to cover this aspect.

4.6.5. The Committee believes that:

- the rules adopted by a market regulated by provisions made by the Member State in which it is based apply to **all its members**, *whether or not resident in the European Union;*
- where an organized market is based in a country not participating in EMU, but whose members are based in participating countries, the Member State in question should avoid adopting measures which would hamper voluntary use of the Euro.

4.7. Legal measures to be adopted by the Member States

4.7.1. The Regulation under discussion apparently intends to leave Member States broad **freedom of action** in relation to their own markets. Allowance for national requirements should, however, be tempered by compliance with the **common principles** which are needed for a **harmonized changeover** in the various countries. The Committee endorses this approach, but at the same time would draw attention to the need - already alluded to in paragraph 4.5.2, also to **take explicit account** of cases where national rules might affect institutions or organized markets of other Member States.

4.7.2. One general rule is that national regulations must comply with the **timetable** to be drawn up by the Council. In the Committee's view, this rule is necessary but probably not sufficient: a degree of **coordination** of actions will be essential if excessive **discrepancies in implementing** the measures adopted in each country are to be avoided.

4.7.3. The need for coordination discussed above becomes all the more evident given that the Member States will have to take the necessary measures to **redenominate** government stock in circulation. Moreover, the Member States will have to allow the bodies directing the organized markets to take the decisions necessary for the adoption of the Euro as the unit of account. Here also, excessive discrepancies in **implementation periods** for these measures in different countries and markets could unsettle the markets.

4.7.4. National legal provisions permitting or imposing **netting** or other procedures of similar effect must apply to **money liabilities** expressed in Euros or national currency. Conversion will be carried out on the basis of the parities set. The same applies to the presentation of **company accounts**. These rules conform to Treaty rules and require no special comment.

4.7.5. It has also been confirmed that **national banknotes** and coins will retain their capacity as a **legal means of payment** only within current national boundaries, remaining subject to the national monetary legislation of the country in question. The Committee notes the decision, which is in compliance with the Treaty.

5. Rounding-off when converting

5.1. One basic rule to be laid down by the Regulation is the **number of decimal figures to be used** in converting. The Commission seems to be leaning towards the following conversion rules:

a. the **conversion rates** will be calculated to **six significant figures**, and will not be subject to rounding-off;

b. the **monetary** amounts to be paid or calculated when converting a national currency to Euros will be rounded off to the **nearest hundredth**; for conversion from Euros to national currency, rounding-off will be to the **nearest decimal subdivision or unit**, depending on national practice. If application of the rule results in an exactly half-way figure, the sum will be rounded up to the nearest hundredth or unit, as appropriate.

5.1.1. These rules are simple and follow earlier practice and logic, particularly decimalization of the pound sterling. Various **problems in terms of law and application** arise, some of which are already being examined by the Commission and the EMI.

5.2. It should be explicitly established - however obvious it may be - that in the case of **companies**, especially **financial institutions**, the applicable rule is that **each individual amount** shall be converted using calculations based on **six significant figures and rounded off** in accordance with the procedures set out in paragraph 4.7.1 b. above. In this case, the total of the numerous amounts *in national currency*, converted into Euros, may not correspond *precisely* to the total *in Euros* of the individual amounts converted. Several tens of sample calculations have confirmed the *law of large numbers*: for practical purposes, **the differences are negligible**, with rounding-up or -down **balancing each other.**

5.3. It follows that use of six significant figures followed by rounding-off, in accordance with the rules provided, **entails neither appreciable losses nor gains.** In other words, the conversion rules are "**neutral**" as far as markets and individual operators are concerned. The Committee supports the uniform adoption of these rules for all the Member States.

5.4. It should however be borne in mind that many organized markets may rapidly adopt the Euro as their currency of account while enabling their members to keep the national currency in their dealings with their own business partners. In this case, the **amounts calculated in national currency** will be **converted into Euros** by the organized market and then reconverted into national currency for the purposes of recording payment or clearing transactions. Matters are further complicated when inward and outward sums are in two different currencies, both participating in EMU. If the system is to work, it is essential in the interests of accounting correspondence, that exactly the **same sum** is calculated inwards and

outwards. This correspondence is **practically impossible to secure**, particularly if the sums in question are considerable (see point A of the Appendix).

5.5. The Committee is of the view that **uniform** rules must be adopted to ensure **accounting agreement** of transactions. The organized markets should therefore be left **free to establish rules** in this field; these rules would be valid for all their members. Alternatively, they should be drawn up by the Council Regulation although this solution would not be simple to put into practice since it could not take account of the varying features and wide range of needs of the national and international organized markets.

5.6. A point of considerable importance needs to be made at this juncture: operations using six significant figures and rounding-off operations are readily executed by suitably programmed computers and personal computers (PCs), but not by **desk calculators** with either printers or digital displays, by **cash registers** with built-in conversion programmes, or by **pocket calculators**: the limited number of digits (usually no more than twelve) they can display rules out any calculation. This means that those **operators** not equipped with electronic data processors or PCs will have to **replace their existing equipment**, which cannot be adjusted to the new requirements, **with entirely new equipment**. The same applies to **consumers** wishing to check whether prices correspond with ordinary pocket calculators.

5.7. Replacement of desk calculators, cash registers and pocket calculators with models in line with the new requirements could represent a new, worthwhile market for manufacturers. There is no way of knowing how many such items are in use, but *some tens of millions* seems a reasonable estimate. On the other hand, replacement costs would constitute an **additional cost of switching to the single currency** for the market and for individuals, the total amount of which would be far from negligible.

5.8. The above comments raise problems which the legislator cannot ignore or underestimate. **Consumers**, as well as **retailers and service providers**, need clear, readily implemented and monitored rules, based on criteria of equity for both parties. Adherence to the "six significant figures" rule, with the consequent rounding-off, is clearly not available to all. There is a real risk of provoking **public resistance to the Single Currency** at a time when current and planned campaigns seek to obtain the reverse. The Committee urges careful consideration of these needs and the adoption of rules appropriate to market requirements (see point B of the Appendix).

5.9. The Council Regulation should therefore include a specific reference to **retail trade and services**; acting on the basis of the principle of subsidiarity, the Member States should then devise **appropriate simplified rules for converting** their currencies into Euros.

5.10. A further comment is required concerning **conversion between participating currencies**: under Treaty Article 1091(4), the Council will establish only the conversion rate into Euros for each individual participating currency, but not the rate for converting each of them into each other one. The Regulation provides that this conversion shall be carried out on the basis of an algorithm comprising the conversion of

the original sum into Euros, with at least three decimal figures, and the reconversion of the latter sum into the other national currency. Given that the conversion rates of the national currencies are fixed, why should not the Council itself - or the ECB, by appropriate delegation - set and impose the conversion rates between the various currencies, calculated on the basis of the algorithm mentioned above?

6. Banknotes and coins in Euros

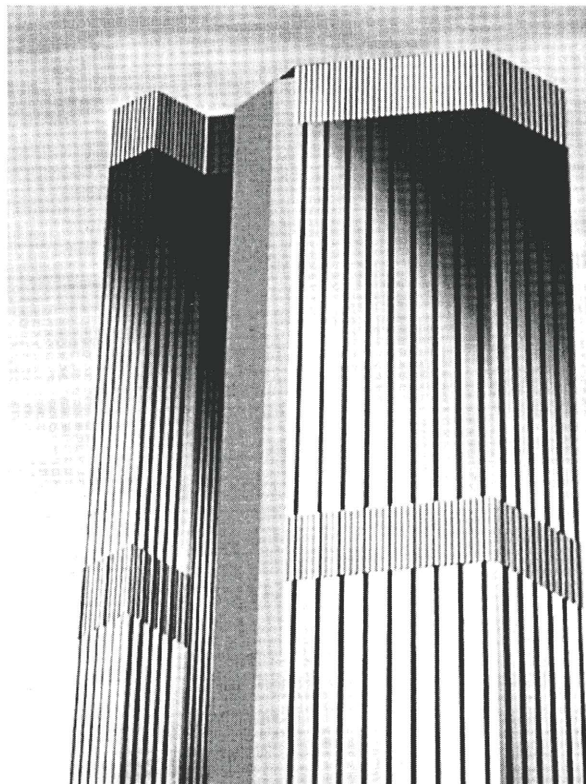
6.1. Legal tender in Euros and national currencies

6.1.1. The Regulation provides that **banknotes in Euros** shall be issued - or rather, put into circulation - **at the end of the transitional period** by the ECB and the central banks of the participating countries. According to the Regulation, these notes should be the only **legal tender** in the countries in question. The same rules would apply to **coins**, subject to the reservation that no-one could be obliged to accept more than fifty coins for any single payment.

6.1.2. The draft Regulation's Final Provisions establish that **national banknotes and coins** would cease to be legal tender **six months after the end of the transitional period**. This period could be made shorter in each Member State through national legislation.

6.1.3. The fact that banknotes and coins in Euros will be legal tender with effect from the end of the transitional period - in fact, **1 January 2002** - and that national banknotes and coins will cease to be legal tender six months later - **30 June 2002** - means that for a **maximum of six months** (or possibly less in some countries) **legal tender will be expressed in two different ways**: the Euro for all participating countries, and the relevant national currency - a subdivision of the Euro, see paragraph 3.1. - valid only in the country of issue.

6.1.4. Although the situation outlined in the previous paragraph is from the legal point of view quite unexceptionable, in practice the public would tend to regard the Euro and the national currency as **two separate legal tender currencies**. There are some precedents: the Scottish pound, the Belgian franc and the Luxembourg franc, but with the difference that these currencies contin-



ue to circulate *without a cut-off date*. In order to avoid disturbance, the market should be clearly informed that the two currencies are of **equal legal value.** There should thus be no rush to central banks and commercial banks during the first days of issue by members of the public wishing to change national currency into Euros *immediately*. All countries have successful experience of exchanging new models of national banknotes and coins for types which are being withdrawn from circulation.

6.2. Forgery and counterfeiting

6.2.1. In accordance with one developing line of thought, the Council Regulation would restrict itself to **obliging the Member States to provide appropriate sanctions against forgery and counterfeiting of banknotes.** The Committee would point out, in this regard, that point 136 of the Green Paper stated that "it would fall to the Commission in conjunction with the ESCB (European System of Central Banks) **to make legislative proposals** [on] the legal protection of banknotes against counterfeiting". Both the Green Paper and, apparently, the Council Regulation, have however omitted to consider that the **placing in circulation** of counterfeit money should also be covered by the law.

6.2.2. It has therefore been seen that the necessary protection of a **shared asset**, the single currency, could not be left to the initiative of the **individual Member States.** Although criminal law is the exclusive preserve of the Member States, equally **the common interest cannot be protected in different ways from country to country. The principle of subsidiarity cannot be invoked here, not even in terms of the criminal law argument.**

6.2.3. The Economic and Social Committee considers it essential that the Commission and Council devise a **legally valid** solution to extend adequate protection to the single currency through measures which all the participating Member States will be obliged to adopt. Purely "national" solutions would not be enough and could even prove counterproductive: countries with "softer" laws would become a haven for counterfeiters and their distributors.

6.2.4. The Committee proposed a solution in its Opinion on the Green Paper (paragraphs 7.10 to 7.14), which it here reiterates: the adoption of an **innovative and politically acceptable approach** by all the Member States. Measures to counter forgery and counterfeiting of the single currency should be considered as an element in the **fight against organized crime**: in effect, the same approach as was adopted with the **money laundering** directive. The Committee highlighted a fact which is well-known to all the police forces of the world: these offences are never committed by isolated individuals. The forgery and counterfeiting (together with circulation) of bank notes - and coins - is a monopoly of **criminal organizations**, almost always international, with impressive resources at their disposal, which are frequently connected with other organizations involved in drug trafficking and money laundering.

6.2.5. The Committee also proposed that the new legislation should be of **comprehensive scope**, and cover **means of payment which substitute or constitute money** (payment cards, pre-paid cards, travellers' cheques, etc.). These means now account for a considerable proportion of the currency in circulation, and their acceptance depends entirely on the *confidence* which the public places in them. They too are helping to give new strength to the international criminal gangs. Although the sanctions for offences against private assets **cannot be the same** as those for offences against public assets, both **types of offence have the same impact on society - namely a growing threat to the common good and a strengthening of organized crime.**

Brussels, 31 October 1996.

The President of the Economic and Social Committee	The Secretary-General of the Economic and Social Committee
Tom Jenkins	Adriano Graziosi

APPENDIX

A. Ref. Paragraph 5.4.

A simple example would be that of a relatively modest amount in Belgian francs.

Assuming that the conversion rate is fixed at Euro 1 = BEF 38.7747, calculation the other way gives BEF 100 = Euro 2.57900. BEF 10 million would be the equivalent of Euro 257,900.00; applying the fixed conversion rate of 38.7747 to this sum produces BEF 9,999,995.10. The difference - BEF 4.90 over 10 million - is minimal but becomes significant given that the sums involved on the monetary and financial markets are enormous. In any case, the important point is accounting correspondence, which demands that the figures tally precisely.

B. Ref. Paragraph 5.8.

This can be illustrated with two examples, based on the notional Belgian franc parity used in point A:

- amounts in BEF to be converted into Euros, five decimal figures (2.57900):

  BEF 1,050 = Euro 27.0795 - rounded up to 27.08

  BEF 2,680 = Euro 69.1172 - rounded up to 69.12

- amounts in BEF to be converted into Euros, two decimal figures rounded up (2.58):

  BEF 1,050 = Euro 27.09

  BEF 2,680 = Euro 69.14

The differences between the amounts rounded up under the two methods range from 0.03% and 0.04%, practically meaningless from the inflationary angle.

OPINION
of the Economic and Social Committee on the
Impact of Economic and Monetary Union: Economic and social aspects of convergence and measures to increase awareness of the single currency

Rapporteur: **Umberto BURANI** (Italie - Employers)
Co-rapporteurs : **Bernard de Bigault du Granrut** (France - Various Interests)
Michael Geuenich (Germany - Workers)

Opinion adopted on 26 September 1996

1. Preliminary comments

1.1. Following a request from the Commission, the Economic and Social Committee, adopted an Opinion on 26 October 1995[1], *on the Green Paper on the practical arrangements for the introduction of the single currency*[2]. The present Opinion should be regarded as complementary to the latter Opinion in which the ESC considered the technical problems of introducing the single currency. In the present ESC will look in greater detail at the consequences of a single currency, going beyond the practical problems of its introduction.

1.2. The ESC welcomes the planned introduction of monetary union in Europe. This has been made clear on a number of occasions. The ESC notes with concern, however, that as the deadline for entry to the third stage of Economic and Monetary Union (EMU) draws closer, more and more questions are being raised by the public. Many Europeans regard renunciation of their national currency as a high price to pay, even if the ultimate objective, which enjoys general support, is closer European integration. The high degree of scepticism in some quarters can be attributed, inter alia, to a continuing lack of publicly available information. Against this background the ESC considers it appropriate to stress once again, at the beginning of this Opinion, the advantages of EMU for the prosperity of Europe's citizens.

1.2.1. The most important aspect of EMU is the disappearance of exchange-

1 OJ C 18, 22.1.1996.

2 COM(95) 333 final, 31.5.1995.

rate fluctuations. This will remove a major barrier to trade and investment in the European Union. In this connection, the ESC endorses the analysis provided in the Commission document[3], "The Impact of Currency Fluctuations on the Internal Market", particularly its conclusion that the single currency, as the indispensable complement to the single market, will:

- eliminate internal currency fluctuations, which are a source of major economic problems;
- make possible greater convergence using the machinery provided for by the EC Treaty.

1.2.2. In addition, the forecast growth in investment should be accompanied by a more efficient and rational distribution of investment and employment in the single market. This would greatly amplify the positive effects on growth and employment of the establishment of the single market.

1.2.3. The disappearance of national currencies will also eliminate the need for expensive rate-fixing and exchange costs, with resultant benefits for the production, trade and services sectors.

1.2.4. The higher level of inegration of the common capital market will make the single currency a more significant counterweight to the US dollar and the yen, and will cause it to grow in importance as a reserve currency. Investors in search of international diversification may be expected to increase the weighting of the "euro" in their portfolios. Higher capital imports will benefit the currency itself and real interest rates. **A stable currency and the associated lower financing costs are important preconditions for more investment, growth and employment.**

1.2.5. From a more general point of view, the combined effect of the introduction of the single currency and the completion of the single market will enable the EU, by the beginning of the 21st Century, to be one of the top three or four economic and political powers at world level. No European state, by itself, could achieve such a position of influence.

1.2.6. The single currency will make it easier to compare prices on goods and factor markets across national frontiers. This does not mean that the price of a homogeneous good will be the same on all European markets. But relative price changes will be more easily discernible. This will guarantee the efficient use of available resources. The EU's prosperity will increase.

1.2.7. It is also expected that the creation of a single currency area will make monetary policy more effective. Initial empirical studies[4] indicate that aggregate monetary demand in Europe is more stable than demand for the national components of the aggregate.

1.3. Thus, EMU will offer far-reaching opportunities. Hasty and ill-prepared implementation, on the other hand, could be dangerous. Once the third stage of EMU enters into force the currency merger will be irreversible. It is therefore important in the run-up to monetary union to discuss all relevant problems and to establish the best possible framework for the common economic area and relations between

3 COM(95) 503 final, 31.10.1995.

4 See M. Falk and N. Funke, The Stability of Money Demand in Germany and in the EMS: Impact of German Unification, in: Weltwirtschaftliches Archiv 131 (3), pp. 470-488.

this area and the citizen. In view of the many questions which the single currency raises, this draft Opinion focuses on a few key issues. The choice of subjects for discussion reflects the social interests represented at the ESC. More detailed consideration is also given to a number of subjects for which closer examination was shown to be desirable in the light of the Opinion on the Green Paper. The following aspects of monetary union are developed in greater detail:

- interpretation and application of the convergence criteria laid down in the EC Treaty (Section 2);
- establishment of conversion rates (Section 3);
- starting date for monetary union (Section 4);
- position of the future European Central Bank (Section 5);
- derogation Member States: economic considerations and monetary cooperation (Section 6);
- consequences of monetary union for the labour market (Section 7);
- measures to be taken in the field of communications (Section 8).

2. The convergence criteria - interpretation and application

2.1. The establishment of a common monetary area is economically desirable if economies which have attained a similar level of development merge. In general, the suitability of a region for participation in a common currency depends on its ability to react flexibly and homogeneously to exogenous shocks. When economies of a similar level of development are merged, countries will enjoy the advantages of a single currency - primarily increased investment, growth and employment. If, however, economies with different levels of development are merged, the disappearance of flexible exchange rates can be disadvantageous. The countries which do not satisfy the real convergence criteria run the risk, as will be seen below, of not being able to keep pace with the others and of losing (export) market shares to economically stronger regions for a time. The result would be more under-employment in the economically weaker regions. The resulting large disparities in regional income structures would carry the risk of social and political tensions in the common monetary area. Large financial transfers would be needed to maintain social peace. As a result of external economic integration, a secondary effect would be that loss of demand in the weaker economies would impact negatively on growth in the central region.

2.2. These considerations are reflected in the EC Treaty. The convergence criteria laid down in Article 109j(1) (see box) will be used to determine which Member States will be among the first to participate in monetary union. In view of the observations made in point 2.1., the ESC thinks that a broad-brush approach to the scope for interpretation allowed by the Treaty would not be without problems.

2.3. The question thus arises as to how the convergence criteria are to be interpreted in practice. Phrases such as "substantially and continuously" and "sufficiently diminishing", used in the EC Treaty, leave a great deal of scope for interpretation. The ESC therefore calls on the Council to clarify the con-

Convergence criteriafor participation in Economic and Monetary Union

- **Price stability**

The average rate of inflation, observed over a period of one year before the examination, may not exceed by more than 1fi percentage points that of, at most, the three best performing Member States in terms of price stability.

- **Public finances**

– The ratio of the government deficit to GDP (deficit ratio) may not exceed 3% unless the ratio has declined substantially and continuously and reached a level that comes close to the reference value, or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value.

– The ratio of government debt to GDP (government debt ratio) may not exceed 60%, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

- **Exchange rate stability**

Participation in the normal EMS fluctuation margins without severe tensions for at least the last two years before the examination. In particular, the Member State may not have devalued its currency's bilateral rate against any other Member State's currency on its own initiative for the same period.

- **Interest rate stability**

Observed over a period of one year before the examination, a Member State must have had an average nominal long-term interest rate (long-term government debt issues) that does not exceed by more than 2 percentage points that of, at most, the three best performing Member States in terms of price stability.

vergence criteria before entry to monetary union. This would have the advantage of giving governments clear targets. It would also prevent excessively lax, political interpretation of the entry criteria. This is a real danger, given that admission to monetary union requires a qualified majority in the European Council (at present 62 out of 87 votes). Thus, countries which will themselves probably not qualify for monetary union, will be required to approve the entry of other Member States.

2.4. The ESC feels that the convergence criteria need to be clarified in a number of respects. Thus, it is not clear from the text of the Treaty whether the price criterion applies to the average, or the worst value of the three most stable currencies. In order to provide a more precise definition the ESC suggests that the price criterion be regarded as fulfilled if the average inflation rate does not exceed by more than 1fi percentage points the GDP-weighted average inflation rate of the three best performing Member States.

2.5. The ESC also sees a need for clarification of the price criterion because of its relationship to the interest criterion. It is hoped that, as a result of the creation of the European single currency area, the participating economies will benefit from permanently lower average EU interest rates. This expectation is primarily justified by the greater depth of the capital market in the future European currency area. The maintenance of lower interest rates is a precondition for higher investment in Europe and hence for boosting employment. The resultant gains in productivity and international competitiveness are expected to fuel higher investment and employment.

2.6. The exchange-rate criterion also needs clarification. On 2 August 1993 the fluctuation margins were widened from +/-2.25% to +/-15%. The new, wider fluctuation margins take account of the massive increase in capital mobility over recent years and the consequent high degree of volatility on the currency markets. The adjustment of the fluctuation margins was also intended to deprive the markets of an easy target for speculative attack. This has proved successful, as shown by the deviation indicator. This indicator shows whether the behaviour of a currency participating in the intervention system is deviating significantly from that of the other participating currencies[5]. With market volatility virtually unchanged, the indicator is showing much less violent fluctuations. And finally, many EMS currencies were able to return to their old fluctuation margins within a short time of the widening of the margins.

2.6.1. At +/-15%, the limits beyond which adjustment of the bilateral central rate is required are so wide that speculation has become a much less significant factor in exchange-rate movements. Fundamentals now play a comparatively more important role. This has made it easier for fundamentally "healthy" currencies to remain within the narrow +/-2.25% fluctuation margin. A currency's ability to remain within a narrow margin around the central rate can be regarded as a criterion for entry to monetary union. The ESC therefore feels that the following approach could be adopted to the mon-

5 See Deutsche Bundesbank, Devisenkursstatistik, May 1995, statistical appendix to monthly report 5, p. 84

itoring of convergence. Whilst formally retaining the enlarged +/-15% fluctuation margins, the exchange-rate criterion should be regarded as fulfilled if, during the two years prior to entry to the third stage of monetary union, no adjustments have been made to a currency's bilateral central rate and if, during the final year before the examination, the currency has remained within a sufficiently narrow fluctuation margin relative to the bilateral central rate. It will be for the Council of Ministers to define the expression "sufficiently narrow" when assessing convergence. The ESC, however, thinks that a value which takes account of (a) actual economic conditions and (b) the principle of observing competitive neutrality should be fixed.

2.7. Clarification of the government deficit and government debt ratio criterion poses the greatest political problem. The wording of the EC Treaty leaves considerable scope for interpretation.

2.7.1. The provisions of Article 104c in respect of government deficits state that Member States shall avoid excessive government deficits.

2.7.2. Paragraph 2 goes on to define the way this policy is to be implemented, as follows:

> " *The Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it shall examine compliance with budgetary discipline on the basis of the following two criteria:*
>
> *a) whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value, unless*
>
> *- either the ratio has declined substantially and continuously and reached a level that comes close to the reference value;*
>
> *- or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value;*
>
> *b) whether the ratio of government debt to gross domestic product exceeds a reference value, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.*
>
> *The reference values are specified in the Protocol on the excessive deficit procedure annexed to this Treaty."*

2.7.3. Protocol No. 5 to the Treaty defines and spells out (Article l) the reference values referred to in Treaty Article 104c(2).

> " *3% for the ratio of the planned or actual government deficit to gross domestic product at market prices;*
>
> *- 60% for the ratio of government debt to gross domestic product at market prices."*

2.7.4. Protocol No 5 defines (Article 2) what is meant by *"government", "deficit", "investment"* and *"debt"* and confirms (Article 3) that governments are responsible for the deficits of *"general government".*

2.7.5. Paragraphs 3 to 14 of Article 104c give details of the procedure for Commission, Council and Parliament monitoring of government deficits. A timetable for the completion of Economic and Monetary Union is given in Article 109e of the EC Treaty. With the exception of paragraphs 1, 9, 11 and

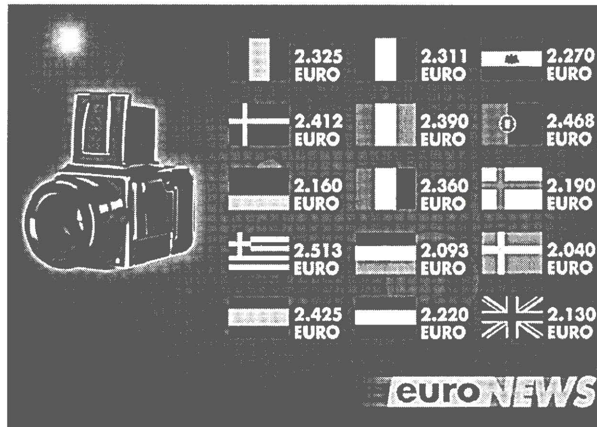
14, Article 104c is applicable from the start of the second phase of completion of EMU.

2.7.6. Consequently, should any Member State fail to comply with the criteria regarding government deficits or debts for purposes of transition to the third phase, the Commission is to prepare a report (Paragraph 3). A committee, provided for in Article 109c, delivers an opinion on this Commission report (Paragraph 4). If the Commission considers that a Member State's deficit is excessive, it addresses an opinion to the Council which shall, under paragraph 6, *"acting by a qualified majority on a recommendation from the Commission, and having considered any observations which the Member State concerned may wish to make, decide after an overall assessment whether an excessive deficit exists."*

2.7.7. A joint reading of these texts shows that it is not absolutely necessary, when determining whether Member States meet the conditions to join the Monetary Union, for the ratio between government deficit and GDP to be under 3%. It is sufficient for:

- the ratio to have declined substantially and continuously and to have reached a level that comes close to the reference value,
- or for the excess over the reference value to be only exceptional and temporary and for the ratio to remain close to the reference value.

2.7.8. The *"substantial and continuous"* nature of the decrease, the proximity to the *"reference value"* and the *"exceptional and temporary excess"* are matters for the Council to appraise (deciding by a qualified majority of its members' votes, weighted in accordance with Article



148(2), excluding the votes of the representative of the Member State concerned). The Council then decides *"after an overall assessment"* (Paragraph 6) whether or not an excessive deficit exists.

2.7.9. The reference to an *"overall assessment"* gives the Council a margin of appraisal which is not defined in any text. The Council should be able to take account of the date on which the Treaty of Maastricht was signed, viz. 7 February 1992 - at which time the economic situation in the signatory States differed significantly from the situation which will prevail on the date when the Council takes its decision. As a result, the values specified in Protocol No. 5, namely a government deficit of 3% and a government debt of 60% of GDP, are not hard and fast limits and the Council has a substantial, sovereign margin of appraisal, deciding by a qualified majority.

2.7.10. At the time the Treaty was drafted, the signatory states clearly realized that the European economy, like the world economy or individual national economies, was in the throes of constant change, determined by factors beyond the Member States' con-

trol. The Member States therefore decided (over six years prior to implementation of these Treaty provisions) against fixed and inflexible convergence criteria as regards reference values. Otherwise the provisions envisaged could well have proved inapplicable.

2.7.11. In the light of the foregoing, it now seems necessary for all parties again to focus on **the goal of these provisions**, namely the introduction of a single currency for the EU Member States. The feasibility of this venture is conditioned far more by the *"real convergence"* of the various economies than by the *"binding"* force of criteria.

2.7.12. In the same context, the ESC would point out that an approach based on Council Decisions certainly **does not mean that the precise overall assessment criteria *can be ignored in the context of efforts to create a "strong" currency*.** On the contrary, it would stress that the goal of convergence must be regarded as an indispensable objective.

2.7.13. The deficit ratio should also be interpreted in like manner. In the ESC's view, this ratio could be said to be *close to the reference value* if it exceeds this value by no more than 1 percentage point. The deficit ratio could be said to have *declined substantially and continuously* if it has fallen for three years in succession. And a deficit could be said to be *exceptional and temporary* if it exceeds the reference value only for the duration of a cyclical downswing. The government debt criterion should be quantified in such a way that the results of earlier convergence monitoring do not have to be revised retrospectively. A case in point is Ireland, which in 1995 was found by the Commission and the Council of Ministers to have made sufficient progress on reducing its government-debt ratio.

2.8. Member States wishing to take part in EMU must pursue a strict convergence policy. The Council will at all events make a political interpretation of the convergence criteria when deciding on whether Member States are to be admitted to the third stage of EMU. Too small a group of Member States would not justify the high costs associated with introduction of a single currency.

2.9. In this connection, the question arises as to whether exclusive concentration on monetary, budgetary and debt criteria makes for an optimum selection process. The ESC feels that, in order to broaden the circle of participants to an economically more viable number, a further examination should be carried out on the basis of appropriate criteria. This should be done, however, only after a rigorous examination on the basis of the criteria laid down in Article 109j(1), and then only with respect to countries which fail to meet one only of the five criteria. This approach could be justified on the grounds that the admission criteria are biased towards monetary and fiscal policy measures. But most of the selection criteria mooted in economic publications relate to real economic variables. And even the EC Treaty calls for the application of other criteria, although the wording is vague. Article 109(j)(1) also refers to "the results of the integration of markets", "the situation and development of the balances of payments on current account", "the development of unit labour costs" and "other price indices" as factors to be taken into account.

2.10. The advantages of a further examination are neatly illustrated by the

case of Belgium. On the basis of the definition set out in the Treaty, Belgium's ratio of government debt to GDP currently stands at 133.5%. Even the most strenuous efforts would be insufficient to bring this ratio close to the Treaty's 60% benchmark by 1997, the year of the convergence examination. Even under the EC Treaty's more flexible requirements that, in order to qualify, a Member State's deficit ratio should be "sufficiently diminishing and approaching the reference value at a satisfactory pace" (Article 104(c)(2)), Belgium could clearly hardly qualify for participation in monetary union from the point of view of the debt criteria.

2.10.1. And yet Belgium is a country which enjoys a high degree of economic stability, as illustrated by the fact that it fulfils the price, interest-rate and exchange-rate criteria set out in the Treaty. Belgium would also qualify for monetary union on the basis of a number of real economic measures. These include continuing large balance of payments surpluses despite a real revaluation of the Belgian franc, the degree of openness of the Belgian economy and the fact that Belgium is a relatively small economy. And finally, Belgium's structure of production - a highly developed services' sector, a strong industrial sector and a small agricultural sector - are comparable with those of many other European countries. This means that terms of trade shocks would have a symmetrical effect and that the exchange-rate adjustment instrument would not be needed.

2.11. An examination focusing exclusively on the convergence criteria will thus not necessarily lead to the selection of the countries most suitable for participation in monetary union.

3. Establishment of the conversion rates to be applied on entry to the third stage of monetary union

3.1. The ESC's discussions on the introduction of the single currency have always been coloured by the concern that the conversion rates to be set for entry to monetary union could be distorted by speculation on the international financial and currency markets. The danger of speculative attacks will be particularly acute during the period when the members of the new currency union have already been decided by the Council but the currencies of the participating countries have not yet been irrevocably linked. The EC Treaty contains no clear provisions on the conversion rates at which entry to the single currency will occur. Article 109(l)(4) does stipulate that the transition to the third stage shall not modify the external value of the ecu. Strictly interpreted, however, this would mean that currency union would have to take place at the market rates valid on the day before conversion. The ESC cannot endorse this approach.

3.2. In order to prevent cost-induced distortions of competition in international trade, the ESC considers it essential to ensure that speculative upheavals do not lead to fundamentally unjustified conversion rates being applied at the beginning of monetary union. This is all the more important in the light of the experience garnered from the exchange-rate mechanism of the EMS, that exchange rates justified in real economic terms are an essential precondition for the success of a currency system. If a country participates in a currency system at an exchange rate which is too high it runs the risk of losing price competitiveness. This would be all

the more problematic on entry to the third stage of monetary union as, with the disappearance of national currencies, such overvaluation could no longer be compensated for by a relatively low level of interest rates. The distorting effects on external trade flows would be permanent and could only be corrected by productivity gains in the countries with overvalued currencies. But as such gains are in the short term nearly always achieved via job losses, the catching-up process would be particularly painful and would lead to a further rise in unemployment in the countries concerned. This would also have a detrimental effect on public acceptance of the common currency.

3.3. One way of eliminating this problem would be to declare average rates established over at least two years to be the conversion rates. The exchange rate must not diverge significantly from the average value over this period, however. The advantage of this approach over the central rates procedure is that the market plays the decisive part in determining fundamentally "correct" exchange rates.

3.4. Another approach would be to use a weighting system which would assign a steadily decreasing weighting to market rates as the irrevocable fixing of exchange rates approached. In order to deprive market operators of targets for speculation it would be a good idea not to publish the weighting system used. In this way currency speculations taking place shortly before monetary union in particular would not affect the conversion rates.

3.5. The models presented here are only some of the possible solutions. The ESC does not consider it particularly important which of them is chosen. What is important is that the responsible European institutions should be aware of the problem and should plan in advance their response in the event of major disturbances on the currency markets. No satisfactory proposals have so far been officially made in this regard. In its study of the transition to the single currency published in November 1995, the European Monetary Institute makes no mention of the problem. The view expressed by the Commission in its above-mentioned Green Paper, that strict application of the convergence criteria will be sufficient to prevent disturbances on the financial and currency markets, is essentially correct. But even then, speculation cannot be entirely excluded. The experience of the EMS has shown this. Again and again fundamentally "healthy" currencies were dragged down in the wake of other currencies. It is also conceivable that currency turmoil might originate outside the EU. Many European currencies come under pressure whenever the US dollar is weak. The most recent example of this occurred at the turn of 1994/1995, when European currencies came under devaluation pressure as a result of the peso crisis. The ESC feels that the Community must be prepared for exogenous shocks of this kind which might coincide with entry to the third stage of monetary union.

4. Starting date for monetary union

4.1. The starting date for the third phase of monetary union is now virtually certain to be 1 January 1999, as provided for by Article 109j (4) of the EC Treaty. The Council must decide "which Member States fulfil the neces-

sary conditions for the adoption of a single currency" by the deadline of 30 June 1998. According to the letter of the Treaty, the single currency should be introduced even if, in the extreme case, only one country satisfies the stated conditions. The spirit of the provisions is obviously quite different.

4.2. Clearly - as has been repeatedly stated - the Treaty is intended to establish a "stable currency", which represents the aggregate of a number of equally stable currencies. The long-term stability of the single currency depends on the prospects for sustainable development in those economies, a factor too frequently accorded secondary importance, if not ignored.

4.3. As indicated in Section 2, the admission criteria provided for by the Treaty are, in many respects, so elastic as to allow scope for that degree of pragmatism which, bearing in mind all relevant factors, might prove necessary when they are applied. Such pragmatism **must not, however, be interpreted either** as laxity or a departure from the established criteria. The goal of creating a strong, stable currency must be given priority in all decision-making.

4.4. GDP growth, which has remained below forecasts in some countries, the problem of managing public finances and employment trends, which are critical almost everywhere, are all now giving rise to concern for the future. This has helped to create doubt in political and economic circles, which is perhaps even greater among the general public, as to whether a significant group of countries can qualify for admission to monetary union by 30 June 1998.

4.5. The Treaty defines the date and procedure to be adopted for the start of monetary union. This fact should automatically dispel any doubts and prompt the Member States to take all necessary steps to meet the specified conditions in the short time remaining before the decision date.

4.6. Efforts aimed solely at ensuring entry to monetary union will not be sufficient. The preconditions for the sustainable, long-term growth referred to in Point 4.2. must also be created. It is becoming imperative to adopt gradual growth policies, whilst avoiding temporary emergency measures and, in particular, social disruption. This approach may be time-consuming and the deadline may be missed. It would, however, be in the interests of any potential adherent, as well as of monetary union as a whole, to opt for delayed admission from a firm foundation rather than for hasty admission with no prospect of stability.

4.7. Nevertheless, the basic question remains: is there still sufficient time to enable a significant number of countries to participate in monetary union? Moreover, what would constitute a "significant number"? The ESC believes that the actual total is not, in itself, relevant; it is more important for the single currency to be created by countries which together account for at least 50% of EU GDP.

4.7.1. In this connection, the following table shows individual national GDP rates and assumes a monetary union which initially includes Germany, Austria, the Benelux countries, France, Ireland and Finland. It is further assumed that the UK and Denmark will use the opt-out clause and that Italy, Spain, Sweden, Portugal and Greece are not in a position to accede. It is obvious that

neither the 50% threshold nor monetary union could be achieved without Germany and France - a fact which now seems to be politically accepted.

5. The position of the future European Central Bank and the interrelationship between national fiscal and European monetary policy

5.1. The EC Treaty defines the legal status of the ECB and its main responsibility in Articles 105 (objectives and tasks of the ESCB) and 107 (ECB's independence of instructions). The first sentence of **Article 105(1) in particular states that "The primary objective of the ESCB shall be to maintain price stability"**. For the Member States, the experience of recent decades justified giving priority to the securing of monetary stability. Thus, countries with a low inflation rate would have relatively low real interest rates and hence a more robust record of investment and job-creation. Economic theory also predicts this, as the efficient allocation of resources via relative price changes is possible only if there is monetary stability. In times of high inflation the price structure is distorted and prices can no longer perform their guiding function, with its positive impact on prosperity. It is not only the goods market which is affected by loss of information as a result of inflation. The positive correlation of price and interest-rate levels, and of price and wage levels, also has a negative impact on factor markets. The result is a misallocation of resources on virtually all markets, and ultimately forgone growth: on the goods market, because producers cannot gear supply to demand; on the capital market, because savings are no longer lent to investors whose projects promise the highest returns; on the labour market, because wage earners can no longer identify the activity with the strongest demand for labour.

5.1.1. The primacy of securing monetary stability does not, however, mean that the ECB is absolved of responsibility for economic policy. The second sentence of Article 105(1) clearly points to the ECB's responsibility, as "without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2", for example a high level of employment.

5.1.2. In view of the requirements arising from this legal framework - primacy of monetary stability, support of economic policy objectives without prejudice to price stability - the ESC calls for improvements to facilitate the ECB's performance of its primary task. The planned shape of monetary union is not likely, the ESC feels, to guarantee non-inflationary provision of money, despite the existence of an issuing bank with the best possible institutional safeguards.

5.1.3. Probably the greatest threat to the maintenance of monetary stability is posed by fiscal policy. One of the remaining unsolved conceptual problems in the way of monetary union is the different situation with regard to powers in respect of fiscal and monetary policy. Whilst the ESCB is the instrument for the implementation of a supranational monetary policy has been created in the shape of the ESCB, fiscal policy will remain in the hands of

Table 1

GDP shares and representativeness of a hypothetical monetary union

	Absolute values (in thousand millions)		Percentages		EMU participants	Combined percentage	
	ECU	PPP	ECU	PPP	(1=yes)	ECU	PPP
B	209.6	196.1	3.2	3.1	1	3.2	3.11
DK	134.8	102.3	2.1	1.6	0	3.2	3.11
D	1,879.2	1,521.5	29.1	23.8	1	32.3	26.8
GR	84.6	109.8	1.3	1.7	0	32.3	26.8
E	424.0	523.4	6.6	8.2	0	32.3	26.8
F	1,181.8	1,089.8	18.3	17.0	1	50.6	43.8
IRL	47.4	53.4	0.7	0.8	1	50.6	43.8
I	811.6	1,019.8	12.6	15.9	0	50.6	43.8
L	10.3	9.1	0.2	0.1	1	50.7	44.0
NL	303.7	272.1	4.7	4.2	1	55.4	48.2
AT	180.6	154.0	2.8	2.4	1	58.2	50.6
P	81.2	117.2	1.3	1.8	0	58.2	50.6
FI	97.3	82.6	1.5	1.3	1	59.7	51.9
SE	167.9	147.3	2.6	2.3	0	59.7	51.9
UK	852.9	1,006.6	13.2	15.7	0	59.7	51.9
EUR 15+	6,466.9	6,405.0	100.0	100.0			

Source: European Economy, No. 60, 1995 PPP = Purchasing Power Parity (constant real prices and real exchange rates)

national governments, which in the light of the subsidiarity principle is to be welcomed. The room for manoeuvre in respect of the allocation of fiscal powers should be used in a decentralized way in order to bring decision-making closer to the citizen.

5.1.4. This separation carries with it, however, the danger of monetary policy endeavours aimed at stability being vitiated by destabilizing fiscal policies in the Member States. In this context the sanction mechanisms provided for in Article 104c of the EC Treaty (monitoring of the budgetary situation in the Member States) have been repeatedly criticized as too weak. First and foremost, sanctions can be imposed only by a two-thirds majority in the Council. If a (qualified) majority of Member States is experiencing structural budget problems therefore, far-reaching decisions are unlikely. It would therefore be advisable to make the sanctions' mechanisms automatic, thus avoiding the need for long drawn-out votes in the Council of Ministers. Moreover, the timescale for the implementation of sanctions is too long. If the procedures laid down in Article 104c are strictly adhered, to ten years could easily pass before effective measures are taken.

5.1.5. The ESC welcomes a number of proposals aimed at increasing fiscal discipline in the Member States. It sees a need for an additional agreement limiting new annual indebtedness to an economically acceptable level and providing for appropriate sanctions in the event of infringement of the stability criteria. The ESC looks with favour on the proposal that interest-free deposits with the ECB be required, in the event of an excessive budget deficit, to be refunded only when the budget situation had been rectified. So as not to impose an additional burden on countries facing fiscal problems, the amounts deposited should not be taken into account in calculating the budget deficit. The ESC feels, however, that such a stability pact should also provide scope for stabilization of demand in times of recession. But this should be expressly limited to the duration of the cyclical downswing.

5.1.6. A voluntary additional agreement between the participating countries committing them to sound budgetary policies would have major advantages. First, it would increase citizens' confidence in the monetary union as, with much stronger stability requirements, the common currency would run less risk of weakness. And secondly, voluntary fiscal policy restraint would allay citizens' fears of the state sector taking an ever greater slice of their incomes. A stability pact would also strengthen the political union as, in addition to monetary policy, a degree of national responsibility for fiscal policy would indirectly be transferred to Community level without any increase in the European central budget.

5.1.7. The ESC calls on the responsible European institutions to take measures to further convergence in economic policy. The reduction of debt-financed state demand will have disinflationary effects. Another welcome effect of a stability pact would be to reduce government recourse to the capital market. This would result in falling real interest rates and, hence, a better climate for private investment, private consumption and, ultimately, employment.

5.2. Nevertheless, the ECB's task of maintaining price stability is not independent of the other factors contribut-

ing to economic convergence, which is the responsibility of the Member States. It is for them to control public expenditure, not only with regard to investment but also in respect of social provisions, public health and pensions. Reducing unemployment should be one of their main objectives alongside the goal of maintaining competitiveness. Inflation should be contained and, when necessary, reduced. A fiscal policy in tune with sustainable growth represents the cornerstone of the entire system.

5.2.1. The foregoing gives rise to the following observation: an independent ECB policy on currency management and the maintenance of price stability would have to be backed up by national economic and social policies. These policies are, however, the responsibility of authorities facing different national situations which can involve a mix of measures that are not necessarily compatible with the goal of convergence.

5.3. Thus, compliance with the convergence criteria - which are sound economic policy principles, quite apart from being requirements of the Treaty - becomes of vital importance for the individual Member States and the Community as a whole. If this principle is accepted, purely "national" policies are clearly no longer acceptable. Economic policies must be based on common guidelines aimed at creating the conditions for admission to the single currency.

5.4. Under the Treaty, the European Central Bank is required to pursue the objective of monetary stability. It is not clear, however, what will be regarded as the highest acceptable inflation rate for the EU. And thus fiscal, wages and monetary policy lack a concrete benchmark, making it difficult for economic operators to know what to expect.

5.4.1. It would seem appropriate to formulate a medium-term inflation target binding for a period of several years. An argument against such an annual target is that exogenous shocks - such as a rise in the price of crude oil - could temporarily lead to a higher rate of inflation. If the future ECB were committed to an annual target, the result might be excessive swings in monetary policy leading to severe dislocations on the factor and goods' markets.

5.4.2. Over the last few years a number of countries have set specific inflation targets. The experience gained by these countries has been positive. Significant progress has generally been made on reducing inflation. The ESC feels that 2% would be a suitable medium-term target at European level. This would be in line with the policy pursued by a number of central banks and thus would signal stability to the markets.

5.5. The EC Treaty neither spells out an inflation target nor specifies the monetary strategy to be pursued in order to underpin the value of money. One of the EMI's main tasks during the second stage of EMU is to draw up a monetary policy plan. This is to be ready by the end of 1996. The ESC therefore wishes to express its views on the subject now.

5.5.1. There are two possible strategies for safeguarding the value of money: either direct use of monetary policy to **control inflation** or adoption of a intermediate target such as control of the money supply. Experience has been acquired in respect of both these methods. The Bank of England, for example, uses control of inflation and the Bun-

desbank uses control of the money supply. Each of these approaches has specific advantages and disadvantages.

5.5.2. Controlling inflation directly involves underpinning the value of the currency by influencing market interest rates. The main problem with this approach is the lack of certainty as to the optimum amount and duration of an interest-rate change. Thus, there is a danger that "the wrong interest rates" and variable time lags will actually accentuate the current cycle. There is also a structural hiatus in the causal relationship between interest rates and the inflation rate. Whilst, in the short term, these two variables are inversely correlated, in the longer term there is a positive correlation.

5.5.3. The biggest problem in using an **intermediate monetary target** is that a clear positive relationship between the money supply and inflation exists only as long as monetary demand remains stable. Recent studies in the United States have shown that, as a result of large-scale financial market innovations, this condition is no longer fulfilled. Numerous studies of the German market, on the other hand, have shown that even after unification monetary demand remains stable.

5.5.4. For the purposes of European-level decisions, it is important to establish whether aggregate monetary demand is sufficient to determine stability. Numerous studies have been carried out on this question. The results so far suggest that monetary demand is more stable in a common monetary area than in national monetary areas[6]. Thus, an intermediate monetary target could also be fixed in the new monetary union. The main advantage of this approach is that an intermediate target gives the financial markets a central guidance value for expectations. If a whole series of often contradictory indicators (growth, business expectations, money supply trends, interest-rate structural trends, etc.) of future inflationary dangers are taken into account in deciding interest policy ("looking at everything"), the basic criteria underpinning monetary policy are no longer perfectly obvious to the market. The resultant uncertainty produces comparatively greater volatility in the financial markets with an uncertain investment climate. Lastly, the use of an intermediate monetary target has the advantage of dispelling the impression that monetary policy is aimed exclusively at price stability. Reference should be made in this context to the requirement, contained in the second sentence of Article 105(1), that the ECB support the general economic policies in the Community.

5.5.5. The ESC is, of course, aware that the use of an intermediate monetary target can also cause problems. In the context of ongoing financial market innovation and ever-increasing capital market movements, failure to meet the money supply target cannot be ruled out. This could pose serious problems for the European Central Bank. If, in the interests of its reputation, it was unduly strict in the pursuit of the money supply objective, it could jeopardize growth. On the other hand, the market could interpret a failure to act as

6 See M. Falk and N. Funke loc. sit. and O. and J.J.M. Kremers and P.D. Lane, Economic and Monetary Integration and the Demand for Money in the EMS, in: IMF Staff Papers 37, pp. 777-805.

a threat to stability. To avoid such problems, it is crucial for overall EU monetary demand to be more stable than that of individual Community regions - possibly through a comparatively low level of currency substitution. Use of an intermediate monetary target seems advisable if this condition is satisfied. The ESC therefore calls on the EMI to intensify its studies of the stability of monetary demand in the future currency area. The results of these studies could provide a basis for the EMI monetary policy plan.

5.6. Maintaining the principle of neutrality with respect to competition must be the prime consideration when effecting currency conversion. This applies to the design of the monetary-policy instruments as well as to the formulation of objectives and strategy. In order to supply the banking system with central bank funds, all commercial banks, regardless of size, must be given direct access to ECB funds. Restricting the future ECB to open market transactions will place smaller financial institutions at a disadvantage. One of the problems is that smaller institutions which do not trade actively on the money markets have difficulty disposing of the surplus funds arising from an over-generous tender allocation. This problem does not arise in the case of refinancing via standing facilities. Under this system, the financial institution decides whether and when it wishes to cover its needs with central bank funds. If close control of the money supply is sought, central bank financing is inevitably subject to quotas; in the interests of a competition-neutral refinancing policy, it should therefore be ensured that the refinancing rate is not significantly below the market interest rate.

6. Derogation Member States: economic considerations and monetary cooperation

6.1. Adoption of the single currency will lead to the creation of two groups of countries within the EU, namely those in a position to join EMU and the remaining countries. There is still some uncertainty as to the identity of the "derogation" countries, and it is not known whether the two Member States (Denmark and UK) which have secured the "opt-out" clause intend to apply it. It is, however, interesting to examine the position of the two different groups of countries and the relations between them.

6.2. The advantages of the single currency for participating countries have been amply described in reports and Opinions of the Commission, Council, Parliament and the Economic and Social Committee itself, as well as in countless statements, speeches and writings. With the exception of the opponents of the single currency, there is now general agreement on the following aspects:

- greater average price stability throughout the EU;
- general reduction in the cost of transactions and rate fixing;
- greater price transparency between countries;
- lower administrative and cash management costs for firms (excluding start-up costs);
- stimulus to growth, competitiveness and employment;
- possibility for the euro to become a reserve currency.

6.2.1. The derogation countries will not enjoy these benefits of the single

currency, finding themselves in a less favourable position with a real risk of the creation of a "two-speed" Europe. Non-participation in EMU must therefore represent a "transitional stage" as defined by the Commission[7]. The shorter this phase is, the less serious will be its impact. The ESC cannot fail to endorse this position. The need for derogation states to participate in EMU without delay will provide a stimulus for their economic re-organization. At the same time, the ESC would warn against facile optimism and over-simplification; the situation in several countries shows no signs of dramatic improvement in the short term and economic re-organization is an objective necessity, regardless of the need for EMU membership.

6.3. The single market has progressed and the EU institutions have done what they could to promote growth. At the same time, unemployment and the need to improve competitiveness continue to be outstanding problems. Neither the current economic situation in Europe nor future forecasts offer encouragement for Structural Fund increases and the general continuation of assistance policies. All these factors suggest that the much-vaunted "solidarity" cannot be embodied in a policy of further subsidies; individual countries must impose a more rigorous discipline and exhibit greater self-reliance than in the past.

6.4. Enlargement of the European Union to cover countries which have applied, or will apply, for membership - though several will presumably not be ready for EMU entry immediately - will constitute a new, serious problem. Together with the new derogation states, derogation countries which have still not joined EMU at the time of enlargement would help to create a significant nucleus of non-participants. It would no longer be a question of a two-speed Europe but of two separate groups, with a different understanding of the term "Europe". The political danger would then overshadow the already serious economic risks.

6.5. In addition to the disadvantages, certain advantages for the derogation countries must be taken into account. They would be able to benefit from the experience of the core group. Even given the most thorough preparation, the introduction of the new currency and the adoption of a single monetary policy by the ECB will not be free of teething problems. It may even prove advantageous to have more time to fulfil the convergence criteria. Abruptly coming into line with the Maastricht objectives without concern for a country's structural peculiarities could result in loss of demand with damaging consequences for the labour market[8]; if structural budget deficits were gradually reduced, however, such effects would be far less likely. Gradual reduction of structural deficits and a corresponding reduction in the government debt ratio should be reflected in a reduction in

7 "Exchange links between the Member States taking part in the third phase of EMU and the other Member States"; Interim report to the European Council, 28 November 1995.

8 Thus a study carried out by the National Institute for Economic and Social Research showed that reducing all the EU Member States' budget deficits to the 3% level required by the Maastricht Treaty by 1999 would lead to the temporary loss of some half a million jobs. Fulfillment of the debt criterion by 2002 could lead to the temporary loss of a further million jobs. Greece would be the hardest hit, with 450,000 lost jobs. See R. Barell, J. Morgan and N. Pain: The Employment Effects of the Maastricht Fiscal Criteria, National Institute for Economic and Social Research Discussion Paper 81.

the risk premium component of interest rates. Yields would also benefit from relatively lower expectations of inflation. The resulting impetus to growth ought, in the medium term, considerably to outweigh the loss of demand resulting from consolidation. Finally, the derogation countries would have access to the instrument of exchange-rate adaptation, which could prove advantageous in the light of different productivity trends.

6.6. In view of the special situation of the derogation countries it will be necessary to make arrangements for monetary relations between both groups of Member States. Any possible agreement should be based on three key requirements: ensuring that the internal market continues to operate smoothly; guaranteeing the greatest possible level of currency stability; and facilitating the transition of the non-participating countries to the single currency in the medium term.

6.7. The ESC advocates an exchange-rate system based on the EMS linking the currencies of the derogation countries to the common currency. With this aim in view, the derogation countries will, however, have to pursue a rigorous anti-inflationary policy and a disciplined fiscal policy. Only on this basis should the future ECB intervene in the market in conjunction with the central banks of the derogation countries to provide necessary exchange-rate support. With increasing success in attaining convergence, the currencies of the derogation countries should be allowed to operate in progressively narrower fluctuation margins around the central Community rate. To qualify for subsequent entry to monetary union, the derogation countries would have every interest to satisfy the exchange-rate criterion in the manner outlined in Point 2.6.1. The advantage of a flexible approach of this kind, the ESC feels, is that narrowing of the fluctuation margins would test in the market the suitability of a currency for entry to the monetary union.

6.8. This approach would not be without dangers for the common currency. As explained in Point 4.4., a strong common currency could make intervention on the foreign exchanges necessary to support weak currencies. The resulting monetary expansion in the monetary union would pose an inflationary threat. Therefore any agreement between the monetary union and the derogation countries must include the instrument of devaluation of the central exchange-rate.

7. Organization of the social dialogue and consequences for the labour market in a European monetary area

7.1. Underlying the planned European Monetary Union is the conviction that it would strengthen the European internal market. This is of particular importance in view of the EU's relatively weak growth and employment trends of the last few years. Rising structural unemployment is one of Europe's most pressing social problems. Since 1980 employment trends in the EU have been distinctly less favourable than in comparable industrialized countries. The average rise in employment in Europe between 1980 and 1994, was some 1.25 percentage points lower than the corresponding figure for the US and approximately 0.85 lower than the figure for Japan and the gap continues

to widen. Moreover, the figure for Japan is considerably depressed by the structural crisis which has persisted since 1990. The EU 1994 unemployment rate of 11.5% was 5.4 percentage points higher than that of the USA and 8.4 percentage points higher than that of Japan. And the prospects for the labour market are not likely to improve rapidly. According to an OECD labour market study[9], EU employment growth in both production-related services and high-technology products (computers, space technology, genetic engineering etc.) was below that of the USA and Japan. In view of these trends, the attention of all political and social leaders must be focused on the realization of the anticipated employment gains from monetary union.

7.2. The EC White Paper and the OECD labour-market study referred to above pinpointed the rising pressure of taxes and levies on wages and declining investment and innovation as the main causes of rising unemployment. Although the widely postulated negative correlation between wage costs and employment trends is not empirically proven, it is undeniable at a time of growing mobility of capital that labour costs - particularly when amplified by fundamentally unjustified exchange-rate movements - are becoming a steadily more important determinant in international competition. On the other hand, in the medium to long term adequate employment growth can clearly be guaranteed only if there is a high level of innovation and investment. Unfortunately, industry's gross investment in fixed assets is growing more slowly in the EU than in comparable world-market competitor countries. Whilst the average rate of growth for the period 1980 to 1994 was 3.3% for the USA and 5.6% for Japan, for the EU it amounted to a meagre 2.0%. Europe is thus running the risk of being decoupled in the future from worldwide growth trends.

7.2.1. The current problems of weak level of growth and rising unemployment will, in the ESC's view, not be solved by postponing the beginning of Monetary Union; what is needed is to implement a policy which reconciles fiscal discipline, economic growth and employment policy objectives, on the basis of the proposals set out in the White Paper on Growth, Competitiveness and Employment - The Challenges and Ways Forward into the 21st Century. EMU must not be implemented solely as a project for achieving stability, in isolation from the overall economic context. It is just as necessary to create jobs which have a promising future and to combat unemployment as it is to create a zone of stability.

7.3. In view of the serious labour-market problems in the EU, the ESC would refer once again to the guidelines for structural reform of the labour markets adopted by the Essen European Council in 1994. These were:

- improving employment opportunities for the labour force by promoting investment in vocational training;
- raising the employment-intensiveness of growth;
- reducing non-wage labour costs;

9 See OECD: The OECD Jobs Study. Facts, Analysis, Strategies, Paris 1994, pp. 19 et seq.

- improving the effectiveness of labour market policy;
- improving measures to help groups which are particularly hard hit by unemployment.

7.3.1. The final communiqué of the Essen Summit called on the Member States to submit programmes for the implementation of these measures. The ESC regrets that, so far, few Member States have complied with this call. The ESC believes that the EU should monitor the implementation of employment-promotion measures. As in the area of fiscal policy, the ESC considers that a case may be made for an additional agreement requiring the Member States to pay an employment levy in the event of non-compliance with jointly adopted labour-market initiatives.

7.4. The solutions set out in Point 7.3. above do not exhaust the range of possible EU employment-initiative measures. For example, the ESC wonders whether structural changes to the taxation system could serve the objective of full employment.

7.5. The beginning of monetary union in Europe will also bring changes in the field of wages policy. The ESC points out that the free collective bargaining between employers and workers successfully practised in many EU Member States must retain its place in European economic life. The increasing integration of labour markets which will accompany monetary union will also require that transnational merger rights be guaranteed.

7.6. For the countries participating in monetary union, the introduction of the single currency will mean the end of the exchange rate as a mechanism for responding to structural problems and

exogenous shocks. If a currency cannot be devalued, the main burden of structural adjustment will fall on wages and prices. Finland provides the most recent European example of this. Its exports fell by approximately 20% after the opening-up of Eastern Europe and the Soviet Union's entry into the Commonwealth of Independent States (CIS). Without the subsequent dramatic devaluation of the markka, the Finnish export industry would scarcely have been able to cope with the new conditions.

7.6.1. External disturbances will have serious consequences for growth and employment as a result of the loss of international price competitiveness. Greater mobility of labour is also necessary in and between individual Member States. To promote this movement, the ESC calls for financial support for measures to facilitate the taking-up of employment in another Member State, for example funding for language courses. It should also be noted that supplementary company pension insurance has consistently proved an obstacle to mobility in the past. The ESC therefore sees a need for at least partial EU harmonization of such pension arrange-

ments. Migratory movements must not, of course, lead to structural discontinuities in labour markets.

7.7. The dawn of a new age in Europe provides an opportunity to reorganize the economic policy decision-making process. The ESC wishes in particular to be involved more directly in the *Broad Economic Policy Guidelines* adopted annually by the Ecofin Council. This would be advisable with a view to the establishment of a future regulatory framework for European wages policy. The ESC is convinced that the special interests represented within it will enable it to make a useful contribution to regulatory questions in a European monetary union. In this context the ESC would reiterate its calls made in the report of 26 April 1995 on The 1996 Intergovernmental Conference and the Role of the Economic and Social Committee.

8. Communication measures

8.1. The only way to dispel any fears over the practical aspects of implementation of the single currency is to organize a flawless communication plan, based on past experience. At the moment only some Member States seem to have provided for a communications budget in the run-up to the introduction of the euro. The key words here are integrity, clarity, transparency, psychology, education.

8.1.1. From 1 January 2002 euro notes and coins will be in circulation alongside existing notes and coins. The transition period will last for no longer than 6 months. For a smooth changeover it is vital that European citizens be properly informed prior to the event.

8.2. Lessons must be drawn from past experience.

8.2.1. French experience with the changeover from the old "germinal" franc to the new "pinay" franc offers many lessons. On 1 January 1960, the old French franc was converted into the new franc with 100 old francs making up the new franc. 35 years on, many French people - including the media - still calculate in the old currency. During 1959, no specific communication measures were taken to prepare for the changeover. At the time of the changeover in 1960, shopkeepers were told to ensure that any price display in new francs was also accompanied by the corresponding amount in the old currency. The year 1961 saw the introduction of the obligation to add "NF" (Nouveaux Francs, or "new francs") to the price, but there was no longer any obligation to display the corresponding amount in old francs.

8.2.1.1. The public had clearly not been sufficiently prepared; in fact, no real information campaign seems to have been envisaged to prepare them for the changeover. Up until January 1960, very little information seems to have been available to explain the changeover and its consequences to consumers. This was, of course, prior to the media boom, and bankers, public authorities and teachers were under no obligation to provide people with a clear message in the run-up to the changeover from old francs to new francs. With hindsight, it seems that the few steps taken to familiarize people with the changeover only served to encourage mental complacency rather than provide practical information. Moreover, the simplicity of the conversion from old francs to new francs also encour-

aged complacency. When the consumer is faced with a complex conversion rate, he soon works out his own value-scale by fixing some reference points in the new currency. On the other hand, when the exchange rate is simple (knock off two zeros), the consumer does not take the trouble to get used to the new value, especially for large sums of money which he may not be used to handling.

8.2.1.2. Since the conversion was simple, the French government of the day no doubt thought it superfluous to provide extra information measures after the changeover. It would now appear that the simplicity of the conversion rate should have made back-up measures all the more necessary.

* **Visual information**

  Advertising hoardings, shop-window displays, newspapers and leaflets could have provided efficient back-up.

* **Radio information**

  In 1960, few homes had TV, so radio would have been the best way to provide further information on the changeover.

* **Information in schools**

  Teachers should have made children and young people aware of the situation. They would have been able to bring the message home to the family: in those days, the family was often more closely-knit.

* **Information via business circles**

  Employers, banks, public administrations, etc. could have been encouraged more to help spread the message.

8.2.2. The British and Irish experience in the changeover to decimal currency was quite different.

8.2.2.1. In 1971, it took the United Kingdom five days to switch to the decimal currency. The two currencies were legal tender simultaneously for five days only. The success of the operation was the fruit of considerable input in information, training and education over a four-year period.

8.2.2.2. Ireland, which changed over to a decimal currency at the same time as the UK, provides an example of a successful communication campaign. An intensive information campaign was conducted to ensure that the public were perfectly prepared for the changeover.

8.2.2.3. In January 1971, a guide to decimal currency was distributed free of charge to every household in the country. It provided brief, basic information for everyday shopping in decimal currency. It dealt with the new coins; writing and pronouncing figures in decimal currency; cheques; banknotes; and dual price display. It included a copy of the price conversion tables for the most common purchases. A large-scale advertising campaign used the press, TV and radio, buses, and billboards in streets throughout the country. The campaign had two main aims: to point out the need to read “Everyone's guide to decimal currency”, and to provide people with very simple information to prepare them for the changeover.

8.2.2.4. TV and radio programmes comprised:

- a number of TV and radio discussions in which members of the government gave information and advice on the various aspects of the changeover;

- a series of short programmes produced by RTE and broadcast on the radio in January 1971;
- a series of three short educational programmes produced by RTE and broadcast on TV. These TV programmes were repeated several times during the three weeks before the changeover to decimal currency.

8.2.2.5. Special measures were taken to help the elderly and the disabled. Various members of women's associations, local thinktanks, etc. were provided with information by government officials. This meant that they in turn could provide basic information on the coming changeover to the various branches of their associations throughout the country.

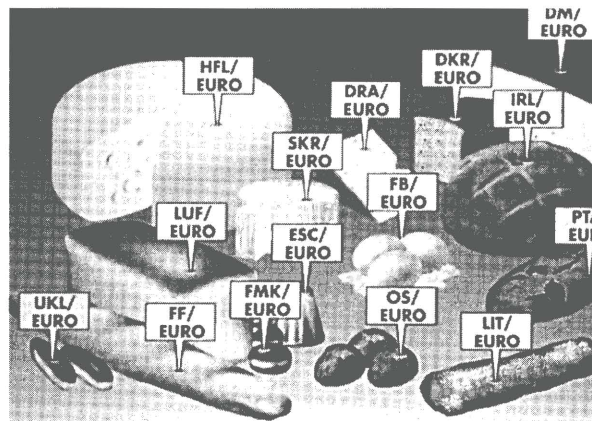
8.2.3. Bearing in mind the above experiences and accompanying analysis, a large-scale information campaign should be organized, specially adapted to the specific needs of the euro, in order to prepare for the changeover. The campaign will also have to be accompanied by back-up measures for a limited time.

8.3. In order to ensure a successful changeover the information campaign should centre on the European citizen (bank staff, administration, employers and employees, consumers, teachers, family unit, etc.), gathering momentum and harnessing the *"trickle-down"* effects of the relationships between the different users of the currency.

8.3.1. An overview of the impact of the introduction of the euro must be provided from the outset. We must first allay all the fears people have concerning any loss of nationality, abandonment of sovereignty, rise in unemployment, price increases, etc. Simple, practical information must therefore be disseminated, unlike the information made available for the referendum on the Maastricht Treaty.

8.3.2. Surveys have generally shown that people have a positive attitude towards the introduction of the single currency, but wish more general information were available. The round table discussions organized by the European Commission on 22-24 January 1996 revealed that old people, housewives and people who have a sedentary lifestyle will be the most difficult sections to convince that the changeover to the euro is both important and necessary. The fact is that these people use currency as a means of payment, but only rarely carry out transactions involving currency exchange, unlike some professional people, for example. Everything thus depends on how far people are involved in financial dealings.

8.3.3. The speed with which people adapt to the new system will depend on the difficulty of the arithmetic in translating national currency into euros. For example, in order to change French francs into euros, the calculation should involve dividing by 7 (approx.). This is



somewhat similar to the calculation involved in converting Belgian francs into French francs. Experience has shown that French people who have lived in Belgium for many years continue to think in the currency they used when they were growing up. The upshot of this is that whilst the conversion from French francs into euros will probably be a simple operation, it might run up against the problem of mental complacency which arose previously. But for each country, conversion will be a specific operation, involving varying degrees of complexity.

8.4. The approach involved will differ according to the degree of frequency of the various purchases. A distinction should be drawn between three types of purchase: frequent, everyday purchases (foodstuffs, newspapers, petrol, etc.); "one-off" purchases (car, house, etc.); and "intermediate" purchases (clothes, furniture, electrical goods, etc.).

8.4.1. For everyday and "one-off" purchases, the changeover to the euro should not pose any major problem. As far as everyday purchases are concerned, the fact that the housewife often buys the same products will make it easier for her to adjust to the new value scale, since she will not have to modify her consumer patterns.

8.4.2. "One-off" purchases occur so infrequently that the consumer does not rely on habit or any reference scale when shopping around. In this respect, the changeover to the single currency will not be dramatic. The consumer will only choose the product on the basis of research carried out at the time, and therefore in the currency which is legal tender at the time of the purchase.

8.4.3. On the other hand, in the case of "intermediate" purchases, the consumer will have a greater tendency to convert, so as to establish a value scale and in order to enable him to call upon consumer experience with a view to facilitating price comparisons and taking advantage of competition.

8.4.4. When the switch to the euro takes place, information campaigns will have to pay special attention to this aspect, and compensate for the infrequency of "intermediate" purchases by providing clear price displays for the products. Thus, the consumer will get used to the new currency thanks to an awareness of the price ranges of the products rather than through direct experience of buying. In all the above cases, checks will have to be carried out to avoid hidden price rises, since the force of competition may not be sufficient to prevent them.

8.5. If long-term preparation is to be effective, it should start now or, at the latest by the year 2000. The date is important psychologically - a new currency for the new millennium. In order to fit in with the schedule set out in the

TIMETABLE FOR THE INFORMATION CAMPAIGN

< - national currency only - >< - euro + national currency - >< - euro only - >

1.1. 2000 **1.1. 2002** **1.7. 2002**

< - preparatory measures - > < - back-up measures - >

Treaty, the communication measures should begin on a large scale one year after the actual launch of Monetary Union (introduction of the euro, fixing of conversion rates) on 1 January 1999.

8.5.1. This would give banks and administrations time to adjust to the new currency. The extra costs ensuing from the obligation to inform should thus be financially acceptable.

8.5.2. The preparatory measures will have to end on 31 December 2001 - on the eve of the introduction of the euro - and be replaced by back-up measures.

8.5.3. This advance information concerns the intermediaries and certain scenarios which should be envisaged.

8.6. Preparation through intermediaries

8.6.1. The information campaign should be carried out by local operators, which are in the best position to deal with business circles and individual citizens, and should be geared to the specific needs of the user (consumer, taxpayer, employee, job-seeker, social security contributor, elector, small business, shopkeeper, etc.). Intermediaries should not be contacted individually; rather, existing inter-relationships should be exploited to the full in order to enhance the effect of the information campaign, by harnessing what could be called the *"trickle-down effect"*.

8.6.2. Thus, the authorities would inform the banks, who would inform the customer, who would inform friends and relatives, and so on.

a. Authorities

Any information or papers from national authorities containing sums expressed in figures must advise the reader of the change. The term "authorities" must include social security departments (with which the user has frequent dealings), the Post Office, tax authorities, the police, the law courts, chambers of commerce and local authorities.

b. Employers and employees

Every firm will have to organize its own staff training programme, paid for partly from its own resources and partly from external funding from the state or the EU. Trade unions can carry out excellent work in the field of communication by means of their training programmes.

c. Distributive trade staff

Special attention should be devoted to this sector. Customers will often ask check-out assistants for help with prices. Consequently, intensive training courses must be provided for them in advance.

d. Bank staff

Bank staff will have to have more intensive training, since they will have to understand the changes in order to be able to carry out their work, and also, more importantly, to explain the process to their customers.

e. Teachers

A special effort must be made in schools, particularly with the youngest pupils who are not yet used to handling money, and for whom the euro will be their first and only national currency. For older pupils, the teacher will have to adapt and step up the examples. When calculating the cost of the "shopping basket", the arithmetic should be expressed in euros.

Generally speaking, an information campaign for schools - from primary school to the sixth-form college - will have to be set up with Community support (along the lines of the LEONARDO programme). Community support could also extend to encouraging schools to make sure that internal financial transactions, such as those involving photocopies, school equipment, snacks, fund raising events for school trips, etc., can only be carried out in euros. The same kind of Community support could also be used to establish a European prize for the best idea for information on the introduction of the euro. Only schools would be allowed to compete and a prize would go to the winning school.

f. Consumer associations

These could act as excellent go-betweens for the public authorities and consumers, providing simple, easy-to-understand information. The more the information reflects daily life, the more the consumer will feel involved. All consumer publications and TV programmes should focus regularly on the switch to the single currency.

g. Travel agencies

Since the introduction of the euro will do away with currency exchange between countries which adopt the single currency, travel agents should be encouraged to help tourists understand the benefits that the introduction of the euro brings to their everyday life.

h. The media

When France held a referendum on the Treaty on European Union, the former European Commission President, Mr Jacques DELORS, felt that it was not the Community's job to provide information and advertising for the new Treaty. Consequently, Maastricht's detractors had no problem in putting forward often false arguments to discredit the Commission's efforts in this area.

Here again, we must learn from the past. The Commission must get involved and provide funding for information on the transition to the euro, even though the ideal communication level must most definitely be as close as possible to the citizen. This Commission action could take different forms, e.g. adopting communications designed to provide encouragement, binding provisions, programmes with targeted funding, etc. Commission intervention is needed not because the Member States shirk their responsibilities, but because only the Commission can provide the necessary coordination.

The success of the switch to the euro depends on coordinated communication between the different Member States. This coordination requires identical communication measures to be introduced simultaneously in the Member States joining the single currency, and also in those with a derogation.

The Commission should enlist the support of the media. It might suggest a national measure to encourage the press to print a countdown to the switch. In the same way, TV game show producers could be encouraged to express prize money in euros.

Still in the field of television, arm-

chair shopping programmes should give prices in both currencies, and make arrangements for rapidly phasing out the national currency, leaving the price in euros only.

Finally, advertisers (TV, hoardings, radio, newspapers) should be encouraged to display prices in euros.

8.6.3. The Economic and Social Committee could constitute a very effective instrument for publicizing a programme for promoting the introduction of the euro, such as that launched by the Commission.

8.7. Preparation through dual price display

8.7.1. Dual price display is considered as one of the possible ways to familiarize consumers with the new currency; it could serve to educate the public. In order to take account of the specific characteristics of national markets, arrangments in respect of dual display should be determined at national level, in accordance with the principle of subsidiarity. Prices should be displayed in both currencies for all everyday transactions.

8.7.2. Dual display of retail prices is designed to ensure that whenever a price is given in national currency, its equivalent in euros should appear beside it. This measure means that for each product, four different values would be displayed on the same label. This is because 1997 will see the entry into force of the Directive on price display by unit sold and by unit of volume or weight. Legibility and feasibility problems may arise here.

8.7.2.1. Since 1 September 1985, the French experience of displaying prices by unit and volume for pre-packed products sold in stores larger than 120m^2 has shown that French consumers became used to reading two prices without any difficulty. Having several prices on the same label should not worry consumers too much, especially since the obligation will be limited to two and a half years.

8.7.2.2. Training will have to be provided for sales staff dealing with the sums involved and cash-handling machines will have to be adapted. As mentioned above, check-out assistants will need prior training in order to be able to answer the various questions customers will most certainly ask them. Cash registers will have to be adapted to provide a receipt in both currencies, at least for the total figure. When adapting them for the dual display requirement, they could be programmed from the outset to issue a receipt giving the price of each article in euros, but the total in both currencies. This would avoid the need to adapt the cash registers several times. Thus, in practice, until 1 January 2002 when the euro comes into circulation, consumers will use national currency to pay prices displayed in national currency and in euros. The advantage of this is that at the end of the dual price display stage on 30 June 2002, cash registers will not have to be radically adjusted once again. It will be sufficient to erase the facility allowing conversion and printing of the total in national currency, and leave the operation in euros only.

8.7.3. It is vital for the consumer to establish a link between income and outgoings if he is to get used to retail prices expressed in euros. Spending power will not be affected by the intro-

duction of the euro, but reassurance must be provided in this respect. Accordingly, binding provisions should be introduced at Community level to ensure that **payslips** mention wages in national currency and euros. This should accompany the introduction of the **dual display of retail prices**.

8.7.4. Special attention should be paid to the dual display of banking services:

- account statements should give the figures for debit and credit in both currencies;
- cheque books: although cheques would still be made out in national currency, they could carry a conversion table on the reverse side;
- documentation in respect of loans should give the amounts in both currencies;
- documentation in respect of securities should give the amounts in both currencies;
- automatic cash dispensers will have to be adjusted to give a receipt showing the amount withdrawn and the equivalent in euros.

8.7.5. From 1 January 2002, cash dispensers will have to be adjusted to dispense euros only, and the receipt should show the equivalent in national currency until 30 June 2002. Persons wishing to withdraw cash in national currency will have to go directly to the bank counter. With effect from 1 September 2002, cash dispensers will only be able to issue receipts showing withdrawals in euros.

8.7.6. As regards the dual display of all documents from the authorities, the term "authorities" should be understood in a broad sense, as was the case in earlier sections of this Opinion. All tax documents (declarations, stamps, fines, etc.) and social security documents should give equivalents in euros.

8.7.7. There are two types of **repercussions** in connection with the introduction of the dual display: technical and financial.

8.7.7.1. First of all, the dual display requirement means that a very large number of machines will have to be adjusted: cash registers, cash dispensers, etc. Special new software will have to be developed for this. However, given the limited "shelf-life" of software, those developed in 1996 will be almost obsolete by 2002. Thus, it is important to gauge the right moment for bringing in the new software to deal with the new data and requirements resulting from the introduction of the euro.

8.7.7.2. The costs involved in implementing the dual display requirement should not be overlooked. These will be connected with the purchase and tailored installation of the software, staff training, and losses due to conversion error (the decimal problem). In order to encourage economic operators to make the necessary preparations for dual display, the public authorities could allow tax relief and tax deductions on the technical investments needed for the switch to the euro. The consumer's share of the changeover costs should be kept to the bare minimum.

8.8. After the switch on 1 January 2002, the preparatory measures outlined above will be replaced by **short-term back-up** measures for a maximum period of six months.

8.8.1. This period will coincide with the date set for circulation of the euro (1 January 2002) and withdrawal of

national currencies (1 July 2002 at the latest). The main change during the back-up period will be reversal of dual price display. During the preparatory period, the price in national currency will be followed by the euro-price, whereas during the back-up period, prices will be displayed in euros first, and then in the national currency for information only. The back-up measures will take over from the preparatory measures and cover the same aspects.

8.8.2. As of 1 January 2002, wages must be paid in euros, but payslips will also show the amount in national currency, for information only. Prize money from betting, lotteries, etc. will have to be paid out in euros.

8.8.3. As regards banking services, cash dispensers will only alow withdrawals in euros. Cheques will have to be made out in euros, but a "round figure" conversion table could be kept on the back of the cheque.

9. Summary

9.1. The ESC welcomes the planned monetary union in Europe which will make a fundamental contribution to bringing about a Europe which is closer to the citizen, more highly respected at international level and in a better position to create jobs and wealth within its boundaries.

9.2. In order to make the convergence monitoring process transparent, the convergence criteria must be applied clearly (see Points 2.4. and 2.7.).

9.3. It is the Council which will finally make a **political assessment** of the achievements of the Member States with a view to deciding whether they are to be admitted to the third stage of EMU. Too small a group of Member States would not justify the high costs associated with introduction of the new currency.

9.4. The ESC recommends that countries which fail to meet only one of the five convergence criteria be examined again on the basis of real convergence criteria.

9.5. Exchange rates should be set at a level which ensures that speculative distortions have no lasting impact during the transition to monetary union.

9.6. The ESC considers it essentially counter-productive to assume that departure from the convergence principles as a result of circumstances beyond government control can be penalized by financial sanctions.

9.7. As regards the **derogation countries**, the ESC would draw particular attention to the adverse consequences of their long-term exclusion from EMU, especially against the background of EU enlargement.

9.8. The ESC would like to see an **inflation target** published in the future single currency area. An intermediate monetary target should be a main plank of the ECB's monetary policy. In order to make money-market control more effective the ESC would like to see a **minimum reserve** requirement applied to deposits with commercial banks, attracting a rate of interest close to the market rate.

9.9. The ESC urges that monetary relations between the core group of Member States participating in the third stage of monetary union and the other Member States be regulated in order to (a) guarantee the continued smooth operation of the internal mar-

ket, (b) ensure a high degree of exchange-rate stability between the single currency and the national currencies and (c) facilitate the non-participating countries' subsequent transition to the single currency.

9.10. With these aims in view, the ESC supports the establishment of an **exchange-rate mechanism** on the lines of the EMS in which the single currency would act as an anchor.

9.11. In view of the high level of structural unemployment in the EU, the ESC calls for the **objective of full employment** to be accorded greater priority in European economic policy.

9.12. The ESC would remind the governments of the Member States of the guidelines for structural reform of the labour markets adopted by the Essen European summit. The ESC regrets that so far few Member States have submitted programmes for the implementation of these measures.

9.13. The ESC points out that the free collective bargaining between employers and workers successfully practised in many EU Member States must retain its place in European economic life.

9.14. The introduction of the euro will require a number of back-up measures to prepare those working in the various sectors involved and the public at large. Both the preparatory measures and the **back-up measures** taken after the introduction of the euro will have to be geared to the target groups. In the ESC's view, we should draw on the French experience (with the introduction of the new franc) and the UK and Irish experience (with the introduction of decimal currency) in order to ensure that citizens are prepared for the changeover in good time.

9.15. If the changeover is to take place under optimal conditions, the first step which needs to be taken is to launch **information campaigns**. Special roles could be played here by administrations, employers and employees, staff in the distributive trades, bank staff, consumer associations and, indeed, by the ESC. The media have a vital role to play; they should be encouraged to issue a countdown to the changeover, in the interests of the general public.

9.16. **Dual display** (national currency followed by the euro in the run-up to 1 January 2002 and the euro followed by national currency post 1 January 2002) in respect of prices, wages and contribution slips - which should also take account of the specific characteristics of national markets - could help consumers to avoid confusion.

Brussels, 26 September 1996.

The President
of the
Economic and Social Committee

Carlos Ferrer

The Acting Secretary-General
of the
Economic and Social Committee

Adriano Graziosi

OPINION
of the Economic and Social Committee on the *Communication from the Commission on the impact of the introduction of the euro on capital markets*

Rapporteur : Robert Pelletier (France - Employeurs)

Opinion adopted on 10 December 1997

The communication submitted for the Committee opinion is the result of the work of a group of experts chaired by Mr **A. Giovannini**. It sets out technical recommendations on the redenomination of the bond, equity and derivative markets and on the market conventions which should be applied to the new euro capital market.

1. General comments

1.1. The importance of market conventions, i.e. self-regulation by professionals, should be stressed. This is why the Commission has wisely decided to rely to a great extent on expert opinion.

1.1.1. The approach adopted by the Commission is in response to the markets' expressed preference for recommendations rather than a regulation. The experts from the various Member States have drawn up a series of technical recommendations summarizing the views of operators on the degree of harmonization needed for the establishment of a euro capital market which will be as liquid and as transparent as possible.

1.2. The approach is pragmatic and progressive and takes account of the different practices, conventions and national standards which still apply in the domestic markets and some of which will necessarily continue after 4 January 1999.

1.2.1. In this respect the Commission is to be congratulated for having conducted numerous consultations with professional organizations representing market operators.

1.3. The consultations carried out by the Economic and Social Committee have in most cases confirmed the line taken by the Commission. This confirms that market operators have an international and common view of the operation of the markets for bonds, fixed-interest, equities, derivatives etc.

1.4. In view of the many technical questions tackled by the Commission's communication and in order to avoid making the opinion too long, the Economic and Social Committee has decided to address only questions to which it can bring "added value". If a problem has not been mentioned, this

implies that the Committee endorses the solution adopted by the Commission.

1.5. The Commission communication clearly explains the very complex processes involved in introducing the euro on capital markets. The Economic and Social Committee congratulates the Commission on having placed this aspect of monetary union in a more general perspective in its recent communication[1] on the practical aspects of introduction of the euro.

1.6. The latter document is a fitting complement to the communication currently under discussion, in that it addresses various legal problems connected with the euro, tax, accounting etc.

2. Specific comments

2.1. The bond market

2.1.1. In December 1995 the Madrid European Council decided that from the start of stage three of EMU all new tradable public debt would be issued in euros. This was a precondition for the adoption of the euro by the financial markets on 4 January 1999. This decision was not in itself sufficient however. The main countries have since announced that they would also convert a significant part of their outstanding debt into euros after this date, thus creating a critical mass likely to guarantee the liquidity of the markets and a benchmark yield curve for euro interest rates. To date France and Belgium have confirmed that they will convert their public debt into euros. Germany adopted a draft law in the Council of Ministers on 24 September 1997 enabling DM 730 bn. to be denominated in euros. This would provide optimum conditions for the operation of the repo and derivative markets, with a solid foundation of euro-denominated securities.

2.1.2. In some Member States however certain issues of government debt made available to the general public will continue to be denominated in the national currency.

2.1.3. In most Member States therefore the liquidity, transparency and efficiency of the government bond market will be enhanced by the quotation and settlement of negotiable debt instruments and bonds in euros. The conversion of negotiable public debt is certain to be followed by that of major corporate bonds. Less liquid and smaller issues will however remain denominated in the national currency until their maturity.

The main conversion methods

2.1.4. The fact that conversion to the euro will not yield a round number will pose considerable problems of adaptation for firms, individuals and markets. It is for example difficult to envisage securities with a nominal value containing two figures after the decimal point. This kind of amount will not make it easier for physical persons to conduct market transactions. Many countries will therefore, after conversion to the nearest cent, have to round up to units of 1 euro, 10 euros or 100 euros.

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1 COM(97) 491, 1 October 1997. See also ESC opinion on this communication (CES 1406/97, 11 December 1997).

2.1.5. The Economic and Social Committee therefore considers that the method of rounding to the nearest cent could be used for the redenomination of negotiable debt; another possibility would be renominalization with the payment of compensation. Both methods have their advantages.

2.1.5.1. National measures should however be taken to prevent bondholders from being penalized in the area of taxation.

2.1.6. **Redenomination on the basis of individual bonds**

A bond with a national currency unit value of 2000 could be redenominated, in the case of France for example, as a bond with a value of euro 312.60, i.e. 2000/6.39795 (conversion factor to five decimal places) rounded to the nearest cent.

One consequence of this operation is that the amount of outstanding debt in euros would not be a whole number.

2.1.7. **Redenomination on the basis of a fixed minimum denomination with cash compensatory payments**

To take a French example again, a bond with a national currency unit value of 2000 is converted into 312 bonds with a nominal value of euro 1, i.e. 2000/6.39795 (conversion factor to five decimal places) with the payment of cash compensation of 60 cents. The result of this operation is that the amount of outstanding debt in euros would be a whole number, which would enhance liquidity and make it easier for the public to understand the conversion.

The securities would then be quoted in multiples of euro 1 (100, 1,000 etc.) and negotiated on the basis of a capital amount in multiples of euro 1.

2.1.8. Whatever method is chosen, it will entail rounding. There are four levels at which the impact of rounding will have to be taken into account:

- individual portfolios
- portfolios at financial institution level
- depositories
- global volume of securities issued.

2.1.9. The preferred method of the group is the bottom-up method. One of the advantages of this method is that there is no change in the value of an issue and that the risk of rounding errors is reduced as each individual holding is converted. Contrary to what the communication suggests, redenomination on the basis of a fixed minimum denomination with cash compensatory payments is a bottom-up method. This analysis should be corrected in the communication.

2.1.10. The three other methods described in the report are as far as we know the least used.

2.1.11. The survey carried out by the European Banking Federation confirms that the Member States are in the process of adopting the detailed methods for the conversion of government debt. It is essential that the Commission collect technical information, the accuracy of which has been confirmed by each of the Member States, and disseminate this widely.

2.2. Market conventions

2.2.1. Market conventions need to be harmonized in order to increase efficiency and transparency.

2.2.2. The main conventions concern:

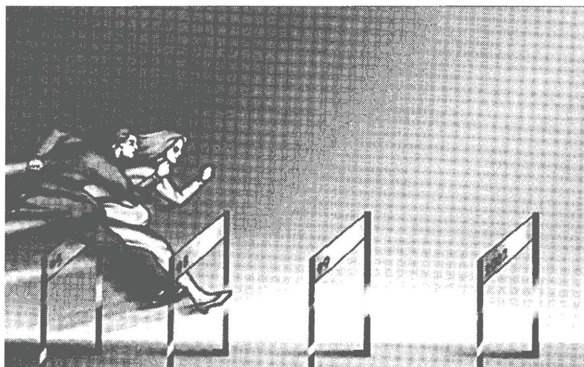
- day counts
- coupon frequency
- business days
- euro settlement basis.

The professional associations representing these markets have defined market conventions which command a broad consensus and which will rapidly become points of reference for the single market.

2.2.3. The recommendations put forward by the communication on these various points are welcome but will, for example in the case of business days, require national legislation. Moreover, the communication rightly points out that harmonization will generate costs and cause delays.

2.3. The equity markets

2.3.1. These markets are more sensitive in that they display greater diversity from one Member State to another than the fixed-interest markets. They concern a large number of small savers who have invested in securities either directly or via collective investment vehicles.



2.3.2. However, the basic assumption is that a single currency will be used for quotations, for legal reasons, but also in the interests of simplicity and public comprehension.

2.3.3. It should be made easier for companies to redenominate their shares in euros. This will no doubt depend more on the development of euro accounting than on quotation in euros. It would however be desirable for the conversion of share capital into euros to be done in as flexible a way as possible. National legislation could be enacted to enable boards of directors to decide, if they so wish, to convert their company's share capital into euros, without the need to convene a general meeting of shareholders.

2.3.4. A company wishing to redenominate its shares in euros has four options:

- to leave shares indefinitely with a par value of unrounded euros;
- to convert the share par value rounding to the nearest cent;
- to change the par value to a round number of euros and have a common nominal value;
- to move to non par value shares.

2.3.4.1. In view of the diversity of the laws governing changes in share capital, a recommendation conferring powers on general meetings of shareholders or boards of directors in this regard would be welcome.

2.3.5. The Economic and Social Committee would like to see the introduc-

tion of non par value shares encouraged. Legislation in this field is in progress in each of the Member States and this should be encouraged.

2.3.6. In its general considerations on the equity markets the Commission rightly notes that "issuers tend to focus mainly on their national share market".

2.3.7. On the other hand, the assertion that "the introduction of the single currency and the disappearance of exchange rate risk in the euro area will not, at least in the short term, modify the existing relation between issuers and their domestic markets" should be qualified.

2.3.8. Independently of the effort to increase competition made via the investment services directive, the consequences should not be underestimated of opening up a large euro market with international issuance standards and tougher requirements on issuers with regard to quotation, lodging of accounts, profitability ratios, advertising of issues; these will have the effect of driving from the market medium-sized companies unable to withstand the competition from large companies in the euro market, thus losing their traditional access to the national market.

2.3.9. The impact of the internationalization of the euro market on conditions for the financing of small and medium-sized European enterprises merits more detailed study by the competent authorities.

2.4. The derivative markets

2.4.1. The main problem here is continuity of contract. The adoption of two Council regulations on the introduction of the euro[2] will help establish a solid legal basis for the start of the third stage. Some countries, e.g. the USA, have legislated in this area.

2.4.2. The Committee welcomes the legal analyses undertaken by the Commission which confirm that by virtue of the "lex monetae" a legal principle recognized on all major financial markets, the continuity of contracts expressed in currencies replaced by the euro should also be guaranteed in non-member countries. This analysis remains however to be confirmed in some smaller countries.

2.4.3. It would be a good idea for the Commission to undertake a large-scale communication campaign to inform non-EU countries as to the real nature of these problems so as to prevent commercial misunderstandings.

2.5. Price sources

2.5.1. Several national panels are in the process of constructing market price indicators. Eventually, with the introduction of the euro, price sources in national currencies will disappear.

2.5.2. The associations representing credit institutions and market operators have created a EURIBOR. Similarly,

2 Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro (adopted on the basis of Article 235 of the Treaty), OJ No L 162 of 19 June 1997.

Proposal for a Council Regulation on the introduction of the euro (approved by the Council on 7 July 1997; the regulation will be adopted on the basis of Article 109l(4) of the Treaty as soon as the decision as to the Member States adopting the euro has been taken) OJ No C 236 of 2 August 1997.

the European Monetary Institute has agreed to calculate a EURIMEAN which would be disseminated via the European Banking Federation. All the professional organizations representing credit institutions are involved in the setting up of panels representative of price sources.

2.5.3. The principle of creating new price sources for the euro zone based on a sample of banks representative of the zone will provide a European benchmark for new contracts from 1999 onwards. It would be a good thing for domestic price sources to disappear in Member States where national law allows this or, if they continue, for them not to be widely publicized. This is a precondition for the creation of a single financial market.

2.5.4.The principle of continuity of contract does not mean that existing price sources should continue to apply after 4 January 1999 providing that there is a new price source close to the old one which can be substituted.

2.6. Reserve requirements[3]

2.6.1. Considerable efforts are being made to ensure that the capital markets are efficient. The imposition of reserve requirements would totally compromise the establishment of a unified euro capital market.

2.6.2. The Economic and Social Committee must point out the risk, if this were done, of business moving to euro markets not subject to reserve requirements. It is particularly worrying that the establishment of a single financial market in euros should be penalized and that for regulatory reasons the euro market should have to develop outside the countries participating in economic and monetary union.

2.7. Tax

2.7.1. The Economic and Social Committee shares the Commission's view that "regardless of the level of harmonization achieved in terms of market conventions and practices there will still be distortions resulting from differences in national tax regimes".

2.7.2. However, the Economic and Social Committee does not consider it possible to wait until the introduction of the euro has created a general awareness of the distortions to seek a solution to a situation which has become unacceptable in terms of competition.

2.7.2.1. Accordingly, the Economic and Social Committee stresses the significance of the measures recently proposed by the Commission which will inter alia produce a code of conduct designed to prevent harmful competition in the area of taxation.

3. Conclusion

3.1. The Economic and Social Committee would like to highlight the quality of the communication referred for its opinion. It hopes that the Commission will in future continue to be guided by the desire to keep abreast of the concerns of market operators, rather than imposing rules which in all likelihood would lag behind the practices of the professionals.

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3 See also opinion of the Economic and Social Committee of 24 March 1993 on minimum reserves in the context of the internal market (rapporteur: Mr Meyer-Horn), OJ No. C 129 (p. 10) of 10 May 1993.

3.1.1. The initiatives taken by the representative professional associations demonstrate their ability to carry out the harmonization of professional rules necessary for the development of a transparent and liquid financial market for the euro.

3.2. The Economic and Social Committee stresses the need to monitor, almost on a day-to-day basis, the development of market practices, which are constantly changing.

3.3. Drawing on its members' know-how, the Economic and Social Committee could provide the Commission with detailed technical assistance on problems related to the introduction of the euro on the markets which remain to be resolved. The Committee would like to be involved throughout the process of introducing the euro.

Brussels, 10 December 1997.

The President of the Economic and Social Committee	The Secretary-General of the Economic and Social Committee
Tom Jenkins	Adriano Graziosi

OPINION
of the Economic and Social Committee
on the
Communication from the Commission
"Practical aspects of the introduction of the euro"

Rapporteur: Umberto BURANI (Italie - Employeurs)

Opinion adopted 11 December 1997

1. Introduction

1.1. The communication in question was presented by the Commission to the Ecofin Council meeting in Luxembourg on 13 October 1997; an updated version will be presented at the Luxembourg Summit on 12-13 December 1997. This document contains information on the **practical preparations implemented**, in the Member States and at EU level, in the run-up to adoption of the euro. It also indicates the **decisions that still have to be taken** within a very tight timespan: basically, by **the end of 1997**.

1.2. This "progress report" on work in preparation for the introduction of the euro establishes a link with the 1995 Green Paper[1] and the decisions taken at the Madrid European Council on 15-16 December 1995. The Economic and Social Committee has issued several opinions[2], both on this subject and a number of specific issues.

1.3. In view of the urgency of drawing up with all speed the opinion

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1 COM(95) 333 final

2 Opinion of 26 October 1995 on the "*Green Paper on the practical arrangements for the introduction of the single currency*" (OJ No. C 18 of 22 January 1996)

Opinion of 28 September 1996 on *"The impact of Economic and Monetary Union: Economic and social aspects of convergence and measures to increase awareness of the single currency"* (OJ No. C 30 of 30 January 1997)

Opinion of 31 October 1996 on the *"Market implications of the legislation and regulations required for the transition to the single currency"* (OJ No. C 56 of 24 February 1997)

Opinion of 29 May 1997 on *"Arrangements for stage three of economic and monetary union: stability and growth pact for ensuring budgetary discipline, reinforced convergence procedures, and a new exchange rate mechanism"* (OJ No. C 287 of 22 September 1997)

Opinion of 10 December 1997 on the Commission Communication *"The impact of the introduction of the euro on capital markets"* (CES 1408/97)

requested by the Commission, the Committee is confining its comments to **aspects which call for future decisions or initiatives** and will leave an appraisal of past or ongoing work until a more suitable juncture.

2. Work programme[3]

2.1. The Commission regards it as "essential" that Member States, **before the end of 1997**, present their own action plans in connection with:

- the transition programme, including statements on accounting, reporting and tax declarations in euro;
- public issuers' intentions on redenomination of existing debt[4];
- the final design of the national faces of euro coins;
- the launch of national communication campaigns;
- national positions on the tax consequences of transition.

2.2. Lastly, the Commission wonders, whether **national or Community measures** would be preferable on a number of practical points; in the latter case, the question is whether to adopt **legislation** or to allow market **self-regulation**, possibly with the adoption of codes of practice. Here again, the study should be completed by the end of 1997.

3. Preparations in progress[5]

3.1. (On the preparations being made by the **national public administration** (point 1.2 of the communication)). The Committee observes that tangible progress has been made on ... communication in almost all countries. The communication mentions that, in line with the "free option" principle, **companies** must be able to choose whether their transactions are to be in euro or in the national currency, at any stage during the transition phase.

3.2. In addition, the Committee would draw the attention of the Commission and the Member States to a measure of **inflexibility** in this rule: once the transition has taken place, it becomes **irreversible**. In other words, after opting for the euro, the company will no longer be able to revert to national currency. The new adoption programmes involved could prove to have certain shortcomings which will necessitate complex, lengthy rectification procedures, and possibly a *temporary* return to the old programmes. The Committee is therefore opposed to **irreversible options**, which can **impede** the process.

3.3. The Communication confirms that all **national administrations** will retain **national currency for their internal accounting** throughout the transition period. The Committee is pleased to see that the recommendation it made in 1995[6] has been acted upon. The potential **cost implications for administrations** of having to accept euro payments from the general public (and presumably having to make euro payments where requested) still have to be assessed.

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3 See the communication's "executive summary"

4 See the Commission Communication "The impact of the introduction of the euro on capital markets" (COM(97) 337 final of 2 July 1997)

5 Chapter 1 of the communication

6 Opinion of 26 October 1995, points 5.3.11. and 6.4.3

4. Accounting and fiscal aspects[7]

4.1. Views differ on the **investments and expenditure** that will have to be shouldered by companies for the transition to the euro. The Committee has already stated its opinion on this point[8], to the effect that **market rules** should facilitate fair apportionment of such costs. In various Member States the trend would seem to be towards a measure of fiscal flexibility taking account of transition costs. This approach is certainly feasible but the Committee would warn against **discrepancies in treatment** between the Member States and, at national level, between the various economic categories. The move to a single currency must not aggravate the taxation differences that already exist in Europe.

5. Practical aspects of concern to currency users[9]

5.1. The Committee considers that users should not have to bear any charges for scriptural conversions arising from the mandatory conversion of accounts by banks at the end of the transitional period and from the conversion of a credit transaction into the currency of the beneficiary account. Banks should also convert national currency in amounts usual for private transactions into euros at no charge. All other scriptural and conversion transactions, and the transparent identification of potential charges arising, should be regulated by voluntary codes of conduct within the sectors concerned. It is recommended that consumers be provided with additional information in the form of national euro-labels to identify charges properly levied.

5.1.1. On **conversion charges** (point 4.3 of the communication) voluntary agreements or codes of practice should be given preference over regulation, but **transparency should be the rule** in all cases of conversion, stating either that the transaction is free of charge or indicating the rates charged.

5.2. In the Committee's view, **1 January 2002** should be **retained** as date for the first issue of euro notes and coins.

5.3. **Dual display** (point 4.2. of the communication). In line with the subsidiarity principle, the Member States should decide for themselves, via legislation, whether the dual display of prices should be mandatory during the co-existence period, or whether the business circles concerning (particularly the retail trade) should, through their organization, make a voluntary commitment to calculate and display the new price correctly at the set conversion rate from the cut-off date. In addition, retailers could be called upon to give their customers every possible assistance in adjusting to the new euro currency and its value, for example, by providing small pocket calculators on shopping trolleys, conversion tables of key prices, etc. During the preceding period, the Committee is opposed to Community legislation, which could well prove ill-adapted to the differing national situations. Market forces would seem a more appropriate means of bringing about the adoption of dual display, where this proves necessary or useful.

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7 Point 3.2 of the communication

8 Opinion of 26 October 1995, points 6.2.4. to 6.2.7.

9 Chapter 4 of the communication

5.3.1. **Legislation** or regulations should focus primarily on **preventing abuse of consumer interests possibly** in the shape of **inaccurate conversion** or deliberate **misuse of the "rounding-off" rules.** The Committee wonders whether this aspect is to be studied in greater depth by the Commission and Member States. It is important that the consumer should be able to check that prices tally, but even more important to ensure that an exact equation is **required** of sellers of goods and services. Offenders acting in bad faith, for instance in cases of deliberate and systematic breaches of the rules, would be guilty of the **crime of fraud.**

5.4. One aspect which the Communication has not broached is the **role of payment or prepaid cards during the transition period.** In its Opinion on the Green Paper, the Committee pointed out that such means of payment incorporate - or will shortly do so - elements and/or details in microprocessor cards so as to **allow payment in one currency or another** and/or to **convert** between currencies. In the latter case, there would be the additional advantage of an **automatic conversion check** on the prices indicated by sellers.

5.4.1. The Committee suggests that the Commission study in greater depth the various aspects involved in the use of cards so as to improve understanding and use with the means at its disposal. Here **the market (and especially consumers) needs to be given guarantees,** through the rapid solution of matters which have been pending for some time, (e.g. the recovery of costs borne by card carriers).

5.5. **Length of the co-existence period (Phase C).** To avoid unnecessary queues at bank counters on the first days after introduction of euro notes and coins and to facilitate a calm, orderly and cost-effective conversion of national currency into euro notes and coins, Phase C must run for a certain minimum period. If Member States allow only a few days for conversion from national currencies to the euro, such undesirable consequences will be unavoidable. Member States should still be empowered to set the length of Phase C under Article 15 of the Council Resolution of 7 July 1997 on the legal framework for introduction of the euro, but the Commission is nevertheless urged to provide assistance to the Member States in keeping each other informed and in discussing the length of Phase C.

6. Communication activities[10]

6.1. The Committee takes note of the action taken in this field by the Commission and the Member States - as well as by organizations of economic players and consumers - both with and without Commission funding. However, from an initial cursory appraisal of the programmes, **two aspects would seem to have been overlooked,** or to have received little attention:

- the fact that the euro will be legal tender alongside national currencies *for a certain period*: hence the call to **avoid needless queues at bank counters** during the initial days of conversion. A smooth changeover - as has always been the case when new notes are substituted for notes to be withdrawn from circulation -

10 Chapter 5 of the communication

is not just an organizational matter; there are also spin-off effects for **conversion costs**, as referred to in point 5.l. above;

- the practical aspects of use of **payment** or **prepaid cards** (see point 5.5. above). Issuers of payment cards, prepaid cards and electronic purses are required to provide objective information on the practical aspects of using their card systems. The Commission should provide additional, neutral information which does not gloss over possible disadvantages.

7. Financial markets[11]

7.1. The Committee has stated its position on this point in its Opinion on the Commission Communication ***"The impact of the introduction of the euro on capital markets"***[12].

11 Chapter 7 of the communication

12 (Currently in preparation)

Brussels, 11 December 1997.

The President of the Economic and Social Committee	The Secretary-General of the Economic and Social Committee
Tom Jenkins	Adriano Graziosi

PRO. MEM.:
Gist of the Opinion of the Economic and Social Committee
Green Paper on the Practical Arrangements for the Introduction of the Single Currency

In 1995, the Committee issued an Opinion on the *Green Paper on the practical arrangements for the introduction of the single currency* (OJ C 39 of 12.02.96) - rapporteurs: Mr Umberto Burani (Italy - Employers), Mr Bernard de Bigault du Granrut (France - Various Interests) and Mr Michael Geuenich (Germany - Workers). As this is not a recent opinion it is not reprinted in full in this booklet. The opinion is, however, summarized below.

Commission proposal

The Green Paper of 31 May does not put forward a definitive scenario for the introduction of the single currency. It simply looks at the technical and legal aspects in the light of a three-stage sequence.

1. **Phase A**: The European Council decides to launch the single currency.
2. **Phase B**: Launch of Economic and Monetary Union, with the exchange rates fixed irrevocably. An increasing number of transactions should be carried out in the new currency (creation of a critical mass, leading to a point of no return).
3. **Phase C**: Final transition to the single currency, which becomes the sole means of payment.

Committee Opinion

Support for the Commission move to implement and facilitate transition to a single currency. Transition should be as speedy as possible, taking account of the market's capacity to adjust smoothly to change, the need to minimize costs, and the extent to which EMU is used to boost job-creating growth.

Pragmatic approach to practical problems: directives and regulations only when strictly necessary.

Need for outline scenario so as to predict the situation of countries granted

exemption, indicating what measures will have to be taken to avoid monetary disruption and particularly the emergence of an unbridgeable gulf between these countries and those that have joined the single currency system.

Need for stringent application, with a political vision, of admissibility criteria; political derogations only possible if they do not endanger the future stability of the single currency.

Enhancement of the role of the European Central Bank.

Support for the "critical mass" solution. The components must be clearly indicated and defined, without repercussion on the markets: the banking sector should operate as an interface between the national currency and single currency as soon as it is in a position to do so and payment systems have been adapted for that purpose.

Adoption of the single currency may disturb the financial, monetary and securities markets. Regardless of assurances to the contrary - hopefully warranted - the authorities are responsible for anticipating possible destabilizing speculation and determining the necessary counter-measures.

Acceptance of the possibility of a gradual market transition to the single currency during phase B, on condition that this is entirely voluntary, that decisions are taken in full knowledge of the costs and benefits, and that competition is not unduly distorted.

The costs of transition to the single currency should be borne and apportioned according to the rules of the market, with intervention only when really necessary.

Need to set up, as soon as possible, a sound legal framework to underpin the single currency. In particular, the non-renegotiability of contracts and the validity of conversion rates on the securities and exchange markets (both European and non-European) must be guaranteed.

Framing of effective legislation against forging and using single currency banknotes in the fight against organized crime, including alternatives or substitutes for money.

Recognition of the role of the public authorities in transition to the single currency, especially with the issue of government bonds immediately after the start of phase B. However, care should be taken during this phase, in relations with the market, to avoid partial or full change-over to the single currency which can cause disruption. This applies particularly to the tax authorities and social security.

Consumer interests must be heeded and protected as part of the overall policy of transition to the single currency. In particular:

The consumer must be made aware of Europe's aim in adopting a single currency, the advantages he stands to gain and the way the transition to the new currency will be organized. Here a joint, coordinated drive, involving the Commission, the Member States and companies, in particular banks, will be necessary.

The consumer must be able to reap the benefits of the single currency at minimum cost. The Commission and the Member States, though refraining as far as possible from imposing regulations, will have to show great vigilance in ensuring that this condition is respected.

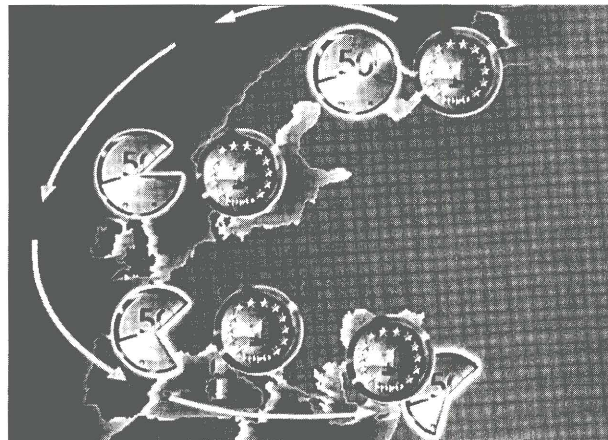
The consumer should be able to familiarize himself with use of the single currency even before it comes into force and check that the conversion rates are strictly applied. The Commission and the consumer associations have pinpointed one single way of achieving this result: dual indication of prices and charges on bills, banking documents and payslips. Businesses object that the mandatory dual pricing requirement can generate additional costs, extra paperwork and organizational complications. While reserving the right to return to this matter, the Committee cannot ignore the justification, in principle, of such arguments. The consumer rights referred to above must be protected but a balance has to be found with the rest of the market, including alternatives which achieve the same results.

Effective training, education and communication strategies are needed.

In the case of training, responsibility will devolve to the Commission, Member States, sectoral organizations and individual companies, in turn. By ensuring coordination, duplication of tasks will be avoided.

Education must be provided in schools of all levels and types, with the single currency taught as a specific subject.

Communication strategy calls for a separate, specialist study, enlisting all available aids. However, as it is likely to be extremely expensive, a careful assessment will be needed of the potential impact in relation to the aids available. The business sector - especially banks - will play a key role in getting the message across to consumers.



Using the "euro" - no more difficult than child's play!

A film made by children with the support of the Economic and Social Committee

The Economic and Social Committee (ESC), Mrs Bonino, Member of the EC Commission and Mrs Guigou, MEP and President of Europartenaires, lent their support to the making of a film (in French) on the use of the euro. The film, entitled "L'euro, c'est comme un jeu d'enfants" ("using the 'euro' - no more difficult than child's play") is a digital animation of the drawings of children aged between 5 and 10, with a commentary by the children themselves. The film was officially launched at the European Parliament in Brussels on Monday, 17 March.

The film was made by the non-profit-making association IEED and is the fruit of an unprecedented teaching experiment. During the school year 1995-1996 a total of 208 children and their 10 teachers from the primary school "Nos Enfants" in Brussels worked on the project of understanding - and being able to explain to adults - the switchover to the ecu, prices in ecu and the value and exchange rate of the ecu.

Amidst a general fear of the introduction of the euro, the children - even the smallest children - manage to explain, using their own words, fresh approach and imagination, this historical event which is considered to be so complex.

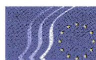
The ESC is pleased to have lent its support to this initiative which backs up its own recommendations with regard to the information campaign which should be launched to promote the euro.

"L'EURO, C'EST COMME UN JEU D'ENFANT"

Un film sur la ***monnaie unique européenne*** *de 208 enfants, de leurs 10 enseignants de l'Ecole "Nos Enfants" à Bruxelles ...*

et de Thierry Vissol, Lucilla Salimei, Ferro Piludu, Christine Carbonnier

Sous le patronage du Comité économique et social



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European Communities - Economic and Social Committee

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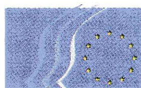

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