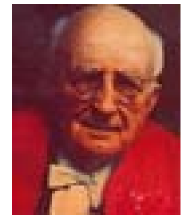

The Euro: A Seminar on the New Common Currency

-Edited by Joaquín Roy and Aimee Kanner

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The European Union at the University of Miami

European Union studies were initiated at the University of Miami's Graduate School of International Studies as a scholarly response to the end of the Cold War in the late 1980s, and since then have developed into a strong discipline supported by the professors and students who dedicate much time and effort to develop research topics, publish articles and books, and participate in European Union related activities both at home and abroad. As a result of these efforts, external actors have also contributed to the growth and development of European Union studies at the University of Miami. First, in the Spring of 2001, the European Commission awarded Professor Joaquín Roy a Jean Monnet Chair, one of the first four granted to professors in the United States. The award was given for his efforts in developing courses on the European Union and his scholarly publications in the field. Second, the European Commission awarded a European Union Center (one of the 15 in the United States) to a consortium formed by the University of Miami and Florida International University. The Center's mission is to teach, research, and sponsor activities to promote awareness of the European Union.

The Jean Monnet Chair also founded (thanks to private donations, a subsidy from the Government of Spain, and the endorsement of the Salvador de Madariaga Foundation) the "Salvador de Madariaga" Iberian Studies Institute (as an expansion of the former Iberian Studies Institute) for the study of Spain in the European Union and its relations with Latin America, as well as the "Robert Schuman" European Union Research Institute (thanks to the endorsement of the Jean Monnet Foundation and the Robert Schuman Foundation, in Paris) for the study of European Union institutions and policies, and the role of France in the European Union.

This working paper series is one of many endeavors undertaken to enhance European Union studies at the University of Miami – others include seminars, hosting EU officials, reports and monitors, courses on the European Union, and cultural events. For additional information on European Union studies at the University of Miami, the Jean Monnet Chair, the "Salvador de Madariaga" Iberian Studies Institute, the "Robert Schuman" European Union Research Institute and the Miami European Union Center, their activities and publications, please contact Joaquín Roy at the Miami European Union Center:

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Miami European Union Center
Miami, Florida
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PART I

INTRODUCTION

FIRST REVIEW OF THE OPERATIONS FOR THE INTRODUCTION OF THE EURO[+]

-Pedro Solbes[*]

Nearly ten years after the signing of the Treaty of Maastricht, the euro is in our pockets and in the hearts of our fellow citizens. The operations for the introduction of the euro carried out in these first two weeks have developed extraordinarily well, surpassing our most optimistic forecasts. Europeans have demonstrated enthusiasm and responsibility and all those involved in the changeover have shown resolve and determination.

The launching of the euro on 1 January 2002 is the culmination of a project on which we have worked for many years. The public may tend to think that Europe is built at a slow pace. From a historical perspective, however, its speed is surprising. The Member States needed ten centuries to achieve monetary unification in each of their territories, but the Community has arrived at the single currency in a period of just over 40 years.

I should like to pay tribute here to the men and women who have made the success of this project possible. There are many of them, and this morning some of them have been mentioned. I am not going to repeat their names, which are in everyone's mind. But the project, if I may express it in this way, has not only fathers, it also has mothers and I should like to single them out in one specific person, Christa Rantzio Platz, who personifies the involvement with and the commitment to the euro of this Parliament and of its Committee on Economic and Monetary Affairs. We have worked closely together until now and I hope that we can continue to do so in order to take further steps in the task ahead of us.

This is why I would like to stress that the introduction of euro notes and coins is not just the culmination of a project. It is also the start of a new era in the history of the building of Europe. The physical reality of the euro gives us the opportunity to make further progress in the process of European integration, which I shall mention later on.

I should refer now briefly to the most decisive aspects of these first days of the changeover:

[+] Address to European Parliament in Strasbourg on January 16, 2002.

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1. Acceptance of the euro by the public

First, I would like to emphasize Europeans' enthusiasm for their new currency. Without doubts, this has been a key factor for the success of the operation. European citizens have been quick to make the euro part of their everyday lives.

Before 1 January, the sale of starter kits was already a success. As from 1 January, consumers began to make massive use of the notes. From the first days, volumes of withdrawals from cash machines were very high. Large numbers of people visited their banks in the first week of January, up to the point where in some countries the volume of bank withdrawals or exchanges was higher than the volume of cash machine operations.

Another indicator of the single currency's success with the public is the rapid increase in the use of the euro for payments. As early as 2 January, the first business day, it was already 20%. As of today, it can be said that at least nine out of every ten payments are already made in euros, i.e. it is being used for more than ninety per cent of transactions only two weeks after its introduction.

2. The conversion of ATMs

The conversion of ATMs has been rapid throughout the euro zone. Two years ago, the Commission and the ECB approached the banks to change their plans and convert their machines virtually immediately. This action was successful. On average, 80% of machines had been converted on 1 January. The average went up to 90% on 2 January and to 97% on 3 January. On 4 January virtually all cash dispensers were already supplying only euros.

3. The situation in the retail sector

Most people concentrated on getting rid of their national currencies and getting change in euros, thus showing their desire to use nothing but the euro as soon as possible. Most retailers respected the undertaking to return change in euros, which meant that the stock of old currencies could be rapidly withdrawn.

The acceleration of payments in euros, combined with the exceptional measures adopted by the majority of retailers, prevented long queues in the shops. Saturday 5 January was a crucial day in this respect. The test was conclusive and in all the participating countries queues were normal. And this situation did not change with the start of the sales.

However, the first week of January was extremely complicated in the retail sector: first, the front-loading of shops was insufficient or ran up against logistical problems in some countries, and second, many consumers used shopping as an opportunity to get rid of large-denomination national currency notes. In most of the participating countries this caused problems for the supply of small notes, which were solved in different ways.

4. Prices

As regards the behavior of prices, a subject to which the Commission drew the attention of the Member States and of all those involved in the changeover in the months leading up to 1 January, I can tell you that according to the reports we have received from the responsible authorities, there is no evidence of significant price increases as a result of the euro changeover, except from some isolated episodes.

What is more, in some cases prices were rounded down, even though it is true that in other cases, on a one-off basis, they may have been rounded up. Overall, I repeat, there is no evidence of a significant rise in prices.

In conclusion, in the Commission's opinion the picture of these first two weeks is very positive. The largest-ever currency changeover operation took place virtually without a hitch. It is a huge triumph for the Union and a demonstration of the high quality of the meticulous preparations. The efforts of all those involved in the transition to the euro - the Eurosystem, the national governments, the Commission, the private operators, and all citizens - have borne fruit.

This success of the introduction of the euro is the end of a chapter, but not the end of the story. We must now reap the fruits of this success by strengthening and deepening economic policy coordination and carrying out the structural reforms necessary to increase growth and employment in our Union.

5. Main challenges for the European Union's economic policy

The same energy and ambition, which have been behind the realization of the euro must now be applied to achieving the coordination of economic policies capable of bringing about an increase in growth and employment.

In the short term, the euro zone's stability framework has made it possible to respond in a balanced and appropriate way to the current slowdown. The clear improvement in budget balances has provided a margin, which makes it possible to cushion the impact of the small deterioration in budget deficits due to the world economic slowdown. In 2002 we hope to be able to return to satisfactory growth, which will contribute to the world economic recovery. The success of the introduction of euro notes and coins will help this recovery by stimulating consumer and business confidence.

In the medium term, the European Union in Lisbon set itself clear objectives with regard to increasing growth potential and employment creation. In order to achieve these objectives it is important to maintain the momentum to carry out the necessary reforms which enable the rate of employment and productivity to be raised. For this year, the Commission is proposing three priority areas: 1) employment policies, and in particular active labor market policies; 2) economic reforms to increase competence, integration and investment in the network industries; 3) investing in knowledge in order to increase competitiveness and employment.

The greater interdependence of the economies of the Member States and in particular of the euro-zone countries calls for closer and more effective economic policy coordination. In this context, I believe that coordination will have to be strengthened on the basis of:

- an analysis of the economic situation and the policy mix from a clear euro-zone perspective, with statistical instruments which are now undergoing improvement;

- a greater openness in reaching agreement on appropriate policies within the framework of common rules which would guide the determination of economic policy; - to provide the other Member States and the Commission with information on the major economic policy measures which each country is to adopt in the near future and which may have repercussions on the others, in order to be able to benefit from their opinion by means of a "peer review" process.

To move forward means complying with our obligations, those of the Treaty and of the Growth and Stability Pact, and facing new challenges. The Commission will devote its efforts and work to meet those challenges, and we hope that we can count on your cooperation and support.

THE EURO IS HERE TO STAY

-Aimee Kanner*

Despite the relatively low level of attention the euro has received in the United States since its physical introduction at the beginning of the year, the Euro Seminar held at the Biltmore Hotel on Friday, January 25, 2002, was a marked success. EU experts and officials in Miami recognize the importance of the euro to the United States, and more specifically to the State of Florida, and undertook a project to make more people in the area aware of this innovative common currency. The Miami European Union Center, along with the Consulates General and Chambers of Commerce of Spain, Italy, France, Germany, and the United Kingdom sponsored this informative event, bringing together experts from many fields to share their specific knowledge with the general public.

Walking along South Beach during these winter months, a variety of European languages are heard from tourists who have come to get a respite from the cold. But Florida's ties to the continent reach much further as Hugh Simon, Undersecretary of State for International Affairs, pointed out during the seminar. Florida's relations with Europe include but are not limited to trade, investment, academic, cultural, professional, and familial, and the European countries represent the largest conglomerate of foreign investment in Florida. Obviously, the introduction of the euro will have *some* impact on the State of Florida. According to Undersecretary Simon, the euro can serve as a powerful political and conceptual tool for further European unity, a goal that would hopefully promote greater European trade and investment in Florida.

Regardless of the costs and benefits of the euro to the United States and the State of Florida, however, the euro is here to stay. Simply put, the member states of the euro zone do not have plans for the re-implementation of national currencies. Furthermore, as Attorney Raquel Rodriguez of Greenberg Traurig, P.A. suggested during her presentation, there is no legal means for the "euro" countries to withdraw from the common currency. It should now start to become even clearer what an astounding step these twelve euro countries have taken not only towards greater European integration but also in promoting the European Union's presence throughout the world.

The introduction of the euro has not been an easy task. Since the decision was made to adopt a single currency in Maastricht in 1991, many actors and resources came together to make what could have been a logistical and security nightmare, an almost flawless reality. As Victor Balestra of the Espiritu Santo Bank explained, those

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responsible for the physical introduction of the euro were able to get 70% of euro notes and 80% of euro coins distributed to banks by January 1, 2002, and the 70% of euro notes put into circulation through ATM machines was made possible by changing the majority of these machines in a matter of weeks to be able to distribute euros rather than national currencies. The work involved seems to have produced a positive result as only four weeks after the physical introduction of the new currency over 90% of all commercial transactions are conducted in euros. The use of the euro for commercial transactions will not only benefit the euro zone countries, as Thorsten Ruelle of the Dresdner Bank so astutely explained, but also those that hold large amounts of commercial loans in euros, such as the Latin American countries. The ability of Latin American countries to make progress in international financial markets is certainly a welcome possibility in light of the recent events in Argentina. Certainly, as the euro begins to circulate more and more in the international arena, countries throughout the world will benefit in their financial relations with the euro zone countries.

While the achievements of the euro zone certainly are impressive, the introduction of the euro is merely the beginning of a process of further integration on the continent, not the end of a project. Both Santiago Gómez-Reino of the European Commission and North-South Center and Beatriz Danguillecourt of the University of Miami stressed this point during their presentations. Dr. Danguillecourt suggested that the euro may serve as a tool for a deeper European integration in political and security issues as well.

During the Euro Seminar, the importance of this new currency, and the impact it will have not only in the State of Florida and the United States but throughout the world was made readily apparent. Looking back at the relative disinterest of the Untied States to the introduction of the euro, it should not come as a surprise, however. It was not until the final months of the year 2001, when the physical currency became imminent, that the euro zone citizens began to realize the magnitude of the currency change. It will also take time before U.S. companies and individuals become accustomed to the new currency and all it has to offer. Rest assured, however, that once Americans understand that the euro is not competing with the dollar, and once dealing with a single currency becomes a common practice and the benefits become apparent, the euro will also be greatly appreciated on this side of the Atlantic.

PERSPECTIVES ON EU-FLORIDA COOPERATION IN THE WAKE OF THE EURO

-Hugh Simon*

I am very pleased to be with you this morning on behalf of the State of Florida. This assemblage of thinkers, leaders and supporters of the Florida – Europe relationship is impressive. It is a clear demonstration of the qualities and capacities that are located here and of our region's commitment to the future. Florida is a state that is an economic powerhouse with a Gross State Product of $450 billion annually. It is an international actor, with an annual merchandise trade of $74 billion, and nearly $13 billion of that trade in 2000 was with the European Union. Florida's ties with Europe – euro countries and others – are broad, strong and ever expanding. Our relationship runs the gamut from trade (just mentioned), investment (Europe is by far the largest conglomerate of foreign investment in Florida), to academic, cultural, professional and family ties. It is expressed through forty sister city relationships with European cities and our University Linkage Institutes with France and Eastern Europe.

How does this strange new currency, the euro, look from Florida? I think that Floridians see the euro through various lenses.

The euro has a compelling, simple, attractive, original design. The significance of this unprecedented introduction of a currency causes us to reflect on our own U.S. dollar. The dollar is said to result from a simplified, rapid way of writing the "PS", representing Spanish *Piastres* or Pesos. Why adopt the peso symbol? It was the strong alternative to having to adopt something resembling the English pound at a time of revolutionary fervor in 1785. The name dollar is a derivative of the coin in usage in the 18th century in what is now the Czech Republic. In 1519 a silver mine near the town of Joachimstal (literally "Joachim's valley," from the German *Tal*, meaning valley) began minting a silver coin called, unimaginatively, the *Joachimstaler*. The coin, which was circulated widely, became better known by its clipped form, the *taler*. In Dutch and Low German, the initial consonant softened to become *daler*. American English adopted this form, eventually changing its spelling to the modern "dollar". The Continental Congress felt, too, that the dollar represented a medium of exchange identified not with value, but independence.

The introduction of the euro is significant to Floridians in terms of its implications for tourism. Floridians must now deal with European tourists who expect to change euros into dollars in South Beach and Disney World. Conversely, Floridian tourists in Europe may well find it easier to use a single currency in most of the countries they visit. It is something to become accustomed to, but not a major issue for Floridians. We certainly hope that the flow of tourists will begin to resume its former proportions.

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Floridians will watch to see how the euro helps strengthen the entire European economy, which at the moment remains a statistical compilation of national economies. In a recent report the OECD concludes that the long term success of the euro depends on how effectively Europe moves forward with structural reforms and removes obstacles to the free flow of goods, services, capital and workers. We have seen how the European Union has taken some important steps in the last year, including the successful launch of the euro into everyday life. However, competitiveness problems that weaken the system and hold back growth persist, as European leaders have acknowledged. The European Union's single market is still under construction. Protected industries are yet to be opened fully to competition, and Europe's product and labor markets are still highly regulated. Many experts feel that Europe needs to come to grips with regulatory issues that could impede investment and growth as well as creating international distortions.

Florida looks at agriculture biotech as an example. Our perspectives differ, but it is important not to overlook the potential for increased growth and food security. Biotech writ large can be to this decade what IT was to 1990's. It holds out the promise of positive benefits in agriculture, health, and environment. Floridians would like the European Union to resume approvals for biotech applications but under different proposed regulations. Washington has provided substantial comments to the European Union and has offered some possible remedies.

The United States and Florida have differences with the European Union but also an obligation to work together on agriculture biotech. It is important for the European Union to move forward, open up, and be careful that the precautionary principle is not distorted into a protective mechanism. We are fortunate to have a set of broad, mature relationships that permit positive solutions on these matters. Florida is a central point of approach to Latin America and the Caribbean. Florida welcomes the euro area's investment in the state, oriented not only toward the U.S. market, but also abroad, toward the South. As the euro gains in strength and hemispheric markets become even more accustomed to its use, Florida-based euro zone activities will prosper.

Aware that 64% of the world's reserves are in dollars while 18% are in euros, Floridians are concerned with the relative value of the euro to the dollar. The euro's foreign-exchange rate was $1.17 when it was launched in 1999, and is worth about ninety American cents today. The euro's fall against the dollar has not been a bad thing for Europe (except in terms of "prestige"), since it supported exports and growth in the euro area. The euro will respond partially to the U.S. economy this year. If we are to follow the sometimes enigmatic Allen Greenspan, the U.S. economy is beginning to show signs of recovering from recession, and a rapid reduction in unsold goods may produce a "significant" boost to growth. "There have been signs recently that some of the forces that have been restraining the economy over the past year are starting to diminish and that activity is beginning to firm," Greenspan told the Senate Budget Committee this week. "With production running well below sales, the potential positive effect on income and spending of the inevitable cessation of inventory liquidation could be significant." This means an increase in U.S. imports and an accompanying gradual downward pressure on the dollar that results when the trade balance remains significantly unfavorable. If American – Floridian - goods continue to be expensive for Europeans, this may, in the medium term contribute to a severe enough trade imbalance that the dollar begins to be less attractive, and the euro will consequently rise.

Floridians believe that Europe will continue to move towards unity, spurred by use of the euro. It is a powerful political and conceptual tool for unity. Florida will welcome growing unity in Europe, believing that increased European confidence will contribute to healthy international cooperation and expanded international trade and investment.

Florida looks forward to dealing with Europe through all of the many relationships and mechanisms. Of course, we always feel fortunate to have large numbers of Europeans living in retirement in Florida. We look forward to expanding and strengthening our sister-city relationships and welcoming new trade and investment missions. We will vigorously promote cultural and academic exchanges and even perhaps explore the possibility of whether officials from Florida can be exchanged with officials from a state, province or land level government in Europe. Thus, we Floridians can say that we heartily welcome the advent of the euro.

PART II

HISTORY AND PERSPECTIVES

THE EURO: MEMORIES OF A PROJECT AND CURRENT REFLECTIONS

-Santiago Gómez-Reino*

The introduction of the euro as the single currency of the European Union was achieved the first day of this year, and only four weeks later very little national currencies remain in circulation. At the end of February, these national currencies will be history.

The introduction of the euro finalizes a chapter of the Economic and Monetary Union but it is not the end of a work that started 50 years ago, and can affect how most European citizens feel about their identification with the European project.

No one would suggest, however, that the success of the euro would be the only motivating factor for the Europeans to accept and identify themselves with the integration on the Continent. Nobody should forget that the history of this European construction is entirely linked to the preservation of freedom against totalitarianism and to the recovery and consolidation of democracy. Spain and Portugal are good examples of the latter.

My generation in Spain in the 1960s and 1970s perfectly understood the linkage between welfare and freedom in all aspects of life, and we adopted these European ideals. At the time, we did not know much about Europe as this topic was not taught at home, at school, and much less at the University. But we were guided by instinct or by the unconscious comprehension and the same reasoning that led the United States to support the economic recovery of Europe and its integration.

Unlike the largely isolationist foreign policy that the United States pursued following WWI, the United States was actively involved in Europe in the post WWII period. It was a policy implemented to achieve clear U.S. objectives: keeping communism at bay, avoiding another major conflict in Europe, and resuscitating the global economy, including the U.S. economy. This more active approach has proven to be one of the utmost successes of American foreign policy in the last sixty years.

President Truman agreed with the objectives and Secretary of State George Marshall offered the Europeans the help of the United States in his famous statement at Harvard University on June 5, 1947. The positive reactions from the European side led President Truman, with the backing of Congress, to sign the Foreign Assistance Act and approve the European Recovery Program, more commonly known as the Marshall Plan.

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* Santiago Gómez-Reino has a law degree from the University of Seville, a degree in micro-economics from the Instituto Católico de Artes e Industrias, and a European law degree from the College of Europe. He has served as the Head of the European Delegation in Zimbabwe, and as Director of the European Commission Humanitarian Office in the European Commission. Mr. Gómez-Reino was also Deputy Director General in the Directorate General IB of the European Commission (responsible for Latin America, the Mediterranean, and South and Southeast Asia). Currently, he is Deputy Director General in the Directorate General for External Relations of the European Commission.

The Marshall Plan ended in September 1951, having injected more than 14 billion dollars into the European economy, the equivalent of more than 100 billion of today's dollars.

All of this is history and it is very well known. At the end of the day, the essential point is that the American strategy vis-à-vis Europe in the 1940s and 1950s played a key role in Cold War politics and that a big part of what the European Union is today should be credited to that American foreign policy. America stayed in Europe. America made possible the recovery of the Continent and America paid for it. This decision was quite wise and Jean Monnet perfectly summarized it when he stated that "For the first time in History, the most powerful country in the world helped the others to stand united instead of playing the old adage: divide and rule."

But what is less known about the U.S./EU relationship is the fact that the European economic cooperation started as a result of the conditions imposed by the United States for its aid. The American administration realized that its aid would be wasted if Europe, divided at that time in tiny, closed national markets, did not evolve towards integration, including financial integration. This point was expressed in October 1949, by the Director of the Economic Cooperation Administration (ECA) (the Federal Agency responsible for the implementation of the Marshall Plan), when he called for the removal of the monetary obstacles to intra-communitarian payments.

In December 1949, under the patronage of the United States, the European Economic Cooperation Organization (EECO) started the negotiations that led to the signature of the European Union of Payments (EUP) in September 1950. The capital for this monetary system ($350 million, equivalent to more than $2 billion today) was provided by the United States. It is impossible to imagine a free trade and customs union without a truly automatic mechanism of payments. And this was precisely what the EUP offered, thanks to the United States, to the countries that participated in the Messina Conference where the Treaty of Rome was negotiated.

The first decade of the Cold War was consecrated by Europe to implement the first phase of the customs union and was extremely conducive to a close relationship between the United States and Western Europe. Things started to change in the 1960s and 1970s, a period during which the United States and the European Community cooperated in key areas and had significant confrontations in others, above all in agricultural matters. Two important events of this period deserve to be stressed because of their contribution to the economic and monetary evolution of Europe. Both were negative events and the United States was involved in both.

First was the failure of President Kennedy's attempts to develop a mutually beneficial partnership between the United States and a united Europe as it was proposed in the "Declaration of Interdependence." The Trade Expansion Act passed by Congress in 1962, sought to eliminate tariffs for most industrial goods between the United States and the European Community, and to provide an economic basis for a political partnership that would form the core of a global partnership among non-communist countries. The failure of this project was the result of the French vetoes in 1963 and

1967, to the British attempts to join the European Community, and because of Charles de Gaulle's policy of *chaise vide* stemming from his opposition to the supranational aspects of the European Commission's proposals regarding the powers of the European Parliament and an independent source of financing for the European Community.

The second important event was the turmoil of the international economy in the 1970s. By the early 1970s, the international economic order created at Bretton Woods was in serious trouble, intensified by a worldwide recession. The U.S. trade balance fell into deficit in 1971, for the first time since 1930, and U.S. companies discovered that they had to compete with strong European and Japanese rivals.

The United States was also experiencing trouble in international finance. The U.S. gold reserves dropped dramatically and facing a balance of payments crisis, the Nixon administration in early 1973, ended the convertibility between dollars and gold. The fixed exchange rate system ended and an era of floating exchange rates, whereby the value of the dollar was determined by supply and demand in the money markets, began.

It was in this context of international financial turmoil that serious progress toward EMU was made. The Werner Plan was followed by the intra-EC arrangements that limited Member States currencies to fluctuate within 2.25% of each other (the mechanism known as the "monetary snake"). Although this arrangement was not remarkable, for it was practically limited to the DM, the Benelux and some Scandinavian currencies, it paved the path for further progress.

The initiative for the revival of the EMU –as a shared political will of Helmut Schmidt and President Giscard d´Estaing- was formally made by a British man, the former President of the European Commission, Roy Jenkins, in his speech in Florence on October 27, 1977. One month after the Commission presented a communication about the perspectives of the Economic and Monetary Union, and after a year and a half of tough negotiations, on March 12, 1979, the European Council of Paris decided to establish the European Monetary System (EMS) based on a currency unit called the ECU. This system was designed to stabilize the exchange rates of the national currencies and counter inflation.

But the final push in favor of a single currency was made some years later. The Single European Act signed in February 1986, in Luxembourg, made economic and monetary union an objective of the European Community. The Delors Report, submitted by the President of the European Commission, Jacques Delors, in April 1989, was approved by the European leaders in the first European Council under the Spanish Presidency in June 1989. This report provided for the model of monetary union later integrated into the Maastricht Treaty which was signed on February 7, 1992. The Treaty of Maastricht elevated the project of European integration to a new and more ambitious level by setting the stages leading to the Monetary Union and to a single currency, the euro.

After ten years of meticulous implementation, the euro arrived, but what is going to happen now? The euro offers the opportunity to deepen European integration. It should not be forgotten, however, that the main objectives of its introduction were economic stability, inflation control, implementation of a tough fiscal and budgetary policy, and confidence in a strong and safe currency. All of these goals have been reached over the past three years. However, the effort should be maintained if Europe wants to avoid the negative consequences of the international economic cycles that are not going to disappear after the introduction of the new currency.

As President Prodi said in the European Parliament in December 2001, the European objective must now be "*One currency, one financial market and one economy"*. If this is the objective, and most observers and economic actors agree, some important and delicate reforms must be made. Institutional reforms, in addition to the economic, will be required, as emphasized by President Prodi.

What the President thinks and says is shared by most experts and politicians. They consider that one of the most important reforms will certainly be to restore balance to the Economic and Monetary Union, taking into account that there is now a solid monetary base but a distinctly feeble economic area. It is almost unanimous that in the long term this simply can not work. Europe needs to strengthen the coordination of member states' economic policies through compulsory mechanisms if necessary, and to initiate reforms in issues such as finance, fiscal policy, labor markets, and research and development. The Commissioner for Economic and Financial Affairs, Mr. P. Solbes, has stressed this point on many occasions. Some of these tasks will surely be undertaken during the Convention for the Future of Europe as provided for by the European Council of Laeken in December 2001.

As far as the international economic community, most economic analysts conclude that the European Union's attempt to create a monetary union may be the most ambitious undertaking in EU history. Whatever the opinion on this matter, the fact is that the monetary union has fundamentally changed the structure of international monetary relations and consequently the creation of the euro raises a host of questions for the United States: the impact the euro will have on the dollar if euro-based financial assets markets become established and popular; the extent to which the euro will challenge the dollar as an international reserve currency; the level of international monetary cooperation –improvement or decline- with the consolidation of the euro zone; the contribution of the euro to international financial stability; and the need to modernize international institutions. All of these topics and others will surely be analyzed, discussed and handled at every political and economic level in the coming months and years.

On this side of the Atlantic the level and quality of the studies about the impact of the euro and its future will certainly improve, substituting for the recent skepticism, anecdotes, and jokes made by the media. As an example, Mr. Feldstein[1] announced

[1] Martin Feldstein, "EMU and International Conflict," *Foreign Affairs*, November/December 1997, pp. 60-73.

Europe's return to battles and wars, and Mr. Buchanan[2] concentrated on pathetic appeals for more nationalism in the European countries.

The euro was not born against the dollar, but as a necessity for and a consequence of European integration. More accurate, from the political, economic and historic point of view, was the position taken by President Clinton on January 4, 1999, the first business day after the introduction of the euro, when he recalled that "a successful economic union that contributes to a dynamic Europe is clearly our long-term interest." We can compare this statement with the silence of the United States on January 1, 2002, well noticed by the European Commission in its official papers, and the failure of President Prodi's first trip to Wall Street since the introduction of the euro.

Nevertheless, at the end of the day, if the European monetary union is geo-politically in the interest of the United States, and if the current problems around the world require transatlantic solutions, the United States and the European Union, as Charles A. Kupchan has pointed out, "need to work to ensure that partnership prevails over rivalry"[3] in sensible issues. Consequently, the European Union and the United States should avoid official competition over the international use of their currencies in a particular monetary field.

As Simon Serfaty commented, "History and common sense suggest that Europe is far more likely to emerge as a counterpart than a counterweight to the United States….The EU has hardly been an obstacle to a progressively integrated Euro-Atlantic economic area whose scope and strength are unprecedented."[4] The integration of the transatlantic economy "through the cooperation in the development of rules of corporate engagement"[5] is one of the main challenges of the coming years.

The euro and the imminent economic developments of the European Union will inevitably lead to such cooperation, above all, after the expected and desirable integration of the United Kingdom into the euro zone in the near future. On November 24, 2001, Tony Blair, at the University of Birmingham revealed that "the tragedy of the political class in Great Britain was that it did not notice the emergent reality of the European integration…" "Europe is more necessary today than ever,"[6] he concluded.

According to many analysts, this statement was the starting point of his campaign in favor of joining the euro. Forty years ago the Kennedy administration made it clear to British Prime Minister Harold Macmillan that the United States did not want Western Europe divided between two main organizations: the European Community and EFTA. Consequently, the government of the United Kingdom applied to the European club. We can hopefully expect that something similar is going to happen in the near future.

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[2] *The Wall Street Journal*, 1 January 2002.
[3] Charles A. Kupchan, "US-European Relations," *FDCH Congressional Testimony*, Statement to the Sub-Committee on Europe, 25 April 2001.
[4] Simon Serfaty, "A Euro-Atlantic Ostpolitick," *Orbis*, Vol. 45, Fall 2001.
[5] Simon Serfaty, "US-European Relations," *FDCH Congressional Testimony*, Statement to the Sub-Committee on Europe, 25 April 2001.
[6] *El País*, 24 November 2001.

The utopia of a European single currency has already been achieved. Perhaps we are now on the way to achieving the utopia put forward by Keynes in 1944, in Bretton Woods, when he proposed a World Central Bank and a single world currency with the name of "banker".

The history of the European construction is the history of a long-lasting battle for a destiny perfectly described by Schuman as "the solidarity of nations guided by a common spirit, accepting common endeavors within a common interest."[7] Overcoming the horrors of two wars, the forgiveness of all atrocities committed, the failure of the first attempts of cooperation, the ups and downs of the 1960s, the troubles of the international economy in the 1970s, the new reality created by the extinction of the Soviet Union were all obstacles to be overcome. Europe managed to do so, and at the same time making remarkable progress towards integration. It took time, a long time, and it will take even more. As Schuman said forty years ago, "Europe will not be made in one day and smoothly. To build something to last can not be accomplished easily."

Mr. Schuman´s words explain better than anything the long path to the euro. The birth of this currency was complicated. Today it is surrounded by expectations. Its future, of course, will not be a walk in the park, but any obstacle will be overtaken thanks to the resolution of the European leaders, the skills of the economic and monetary authorities, and the identification of the European citizens with a successful economic and social model of which the euro is a tangible piece.

[7] Nagel, "Pour l'Europe," 1963.

THE EURO, EUROPEAN IDENTITY AND U.S. PERCEPTION

-Joaquín Roy*

When an officer of the European Commission was once asked what he did for a living, he answered: "I work for the European Union". "Oh, I did not know that you were in insurance" –responded the apparently surprised U.S. businessman. "I am" –the witty officer cleverly retaliated. We are all in fact involved in the business of insuring the European future. The euro, the new currency, is now the new Portuguese *escudo* (shield).

A New, Bold Action

Since Robert Schuman, French Minister of Foreign Affairs, issued his famous "Declaration of Inter-Dependency" (as scholars like to call it) on May 9, 1950, announcing the establishment of the European Community of Coal and Steel (an original idea of his adviser Jean Monnet), no other European Union (EU) move has been as important as the adoption of the euro. On January 1, 2002, twelve European countries began to use a common currency. The culmination of a long series of efforts to respond to the formidable challenges in this new and crucial stage in the history of the European Union is more of a political than a financial operation. It marks the end of a cycle that began in the mid 1980s (during the uncertainty of the political changes to come) when what was then still the European Community (EC) decided to take the road that led to the Single European Act of 1986 and the Maastricht Treaty of 1992. The euro is a new "bold act," as was Schuman's declaration.

In the closing act of the Belgian presidency at the Laeken European Council, and as a prelude to the Spanish presidency, the European Union opted to hold a convention presided over by the former president of France, Valèry Giscard D'Estaing. This extraordinary convention will hopefully adopt a real constitution that will supersede the series of treaties that have held together the European project for half a century. Modeled after the U.S. Constitutional Convention at Philadelphia, this gathering of European notables will participate in an intergovernmental conference to decide the future structures of European integration.

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This extraordinary activity is happening while the European Union is facing the consequences of the decision taken during the French presidency at the Nice European Council in December 2001. A green light was given for the most spectacular enlargement operation of the European Union's history. The current 15 members of the European Union may reach a total of almost 30 by the end of the decade, leaving out of Europe (temporarily, according to certain experts) only Russia and certain of her former satellites.

Of all of the previous developments in EU history, none carries greater symbolic weight than the adoption of the euro, which is the logical resolution of a decision in the mid-1980s to complete the common market, the subject of the 1957 Treaty of Rome. Since then, the vague direction in which the European Union was headed has evolved into a definitive course. The goal was always to create a novel form of cooperation between states that was different from the traditional structures of federations, confederations, nation-states (in the traditional sense), and international organizations built around an intra-governmental logic (like the United Nations).

In the humorous definition of Jacques Delors, the former president of the European Commission and engine behind the drive towards Maastricht and the euro, the European Union is a UPO -- an unidentified political object. The rest of the world will have to get used to the fact that the European Union is different, although it is rather convoluted and confusing to foreign observers in its institutional and negotiating dimensions. U.S. Secretary of State Madeleine Albright, frustrated and fascinated in dealing with Brussels, once said that in order to understand the European Union you must be French or very intelligent –or both. The same logic for not understanding the aim and purposes of the euro apparently dominates the views of extremist U.S. observers who, for example, predicted the new currency would cause wars among Europeans and pose a threat to the United States.[1] No wonder that with this attitude the presentation of the euro on Wall Street by the President of the EU Commission, Romano Prodi, turned out to be an attendance disaster.[2]

While the European Union may still be unknown or opaque, it has followed a steady path of European integration. The adoption of the euro will help to consolidate the message of unity, though not as the sublimation of what Winston Churchill called the "United States of Europe" in Zurich in 1946. Well before that, a group of European leaders and commentators, mostly French, had alluded directly to the same project. From Victor Hugo in the mid-19th century to the German socialists in the early 1900s, from the visionary Hungarian Count Coudenhove-Kalergi in the 1920s to Ortega Gasset in the context of "The Rebellion of the Masses" in 1930, all shared the obsession of the French Minister of Foreign Affairs Aristide Briand with forging a solid federation, later buried beneath the ashes of the Second World War.

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[1] Martin Feldstein, "EMU and International Conflict," *Foreign Affairs*, November/December 1997, pp. 60-73.

[2] Isabel Piquer, "Nueva York desprecia al euro en una visita de Romano Prodi a Wall Street," *El País*, 13 enero 2002.

From the evolution of experiments in integration, two models have emerged. One involves the tenacious integration of all sectors of the economy to inexorably include politics as well; the other consists simply in the elimination of tariffs and the advancement of free trade. The essential difference of the EU project is that each advance in the process of integration is another step towards the apparently impossible goal of maintaining the nation-state while simultaneously constructing another entity to administer a shared sovereignty. This common basket (the first pillar, in euro-speak) has been growing tenaciously since 1950, to the point that only a few detectable dimensions of national sovereignty seem to remain today -- defense and justice, the second and third pillars, respectively.

Nostalgia for National Sovereignty

However, the fever for integration and the commitment for inter-state cooperation co-exist with a healthy resistance to a potential loss of national identity. A cursory analysis of the bank notes and coins of the euro reveals a fascinating picture worth exploring.

Owls, swans, lions and eagles; doors, bridges, windows; Zeus and Venus; Marianne and Brandenburg; Beatrice of Holland, Albert of Belgium and Juan Carlos of Spain; Mozart and Celtic harps; Dante and Cervantes. It seems that anything goes in symbolizing Europe and its nationalities. On what grounds did George Wills,[3] among other U.S. columnists, claim that the new European money is “bland” and “not pretty”?

The bank notes, elegant and sober, have been unfairly criticized for their apparent neutrality and alleged lack of identification. On the contrary, there is nothing more explicit of European self-identity than the historical and cultural stages depicted as illustrations for the 5, 10, 20, 50, 100, 200 and 500 bills. With the virtual drawings made by Robert Kalina, an Austrian artist, different variances of windows, doors, arches and bridges (intended to express communication and integration) are used to graphically showcase the fundamental periods of European civilization and architecture: Classic Greco-Roman, Romanesque, Gothic, Renaissance, Baroque and Rococo, Iron and Glass, and modern of the Twentieth Century. What unites (or should) the Europeans is a point of reference (to themselves) in each of these eras and is worthy of a long meditation, not only an op-ed piece, but also a whole book and an academic thesis.

A different, but just as complex, terrain for research is present in the inspection, not of the constructivist and shared identity reflected in the bills, but of the election of the national symbols and images used for the € 1 and 2 coins, and in the smaller pieces of 1, 2, 5, 10, 20, and 50 cents. By just concentrating on the € 1 and one cent coins, there is ample field for speculation. Germany, Spain and France do not surprise with their traditionalism (the Brandenburg gate, Cervantes and republican symbols), while Greece and Portugal demonstrate their geniality and tenacity.

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[3] “In Europe, it’s a bland new day,” *The Times-Picayune*, December 30, 2001, p. B-7; Tom Zeller, “The color of consensus,” *The New York Times*, January 6, 2002.

In general, in the coins of lesser value, France seems to try to make a solid statement with the inclusion of classic Marianne - young, feminine and republican - which represents, according to official statements, a "solid and solitarian Europe". While parliamentary monarchies in the Netherlands, Luxembourg, and Belgium insist on using the images of current kings and queens, Spain has decided to trace back its roots of national identity to Santiago de Compostela, including the more traditional option of the portrait of Cervantes, all reinforced by King Juan Carlos I on the € 1 and 2 coins. Austria has preferred to self-illustrate in a musical and ecological fashion Mozart and diverse flowers, among them the mythical edelweiss. Ireland endorses this musical resonance with a Celtic harp, and the name of the country, Eire, in Gaelic. The native Luxembourger language makes a similar linguistic point in all its coins. Animal symbols are not absent. Germany responds with the predictable eagle and Finland gets romantic with swans.

Italy outpaces all the rest with exuberance: Roman emperors, amphitheatres, and coliseums, and Renaissance palazzos accompany Boticelli's Venus, works by Raphael, Boccioni, and Antonelli, Dante's portrait, and Da Vinci's drawing that the U.S. took to the moon. It seem as if the Italian designers wanted to remind the rest of the continent that without the richness of Italian art, Europe would not be the same. This message served to counterbalance the (wrong) perception that the current Italian government is ambivalent to the deepening process of European integration. With the introduction of the euro, Italy's Minister of Foreign Affairs, Renato Ruggiero, resigned over a polemic involving Prime Minister Silvio Berlusconi and other members of the cabinet, who questioned the efficacy of the new currency.[4] Nonetheless, historians know very well that while the foundation of the European Union is credited to the Franco-German alliance, a European Union without Italy would be inconceivable.

In addition to the fact that the euro sign (€) is an adaptation of the Greek letter epsilon, Greece captured the top prize for originality with an enigmatic owl, originated in the now defunct drachma coins, the oldest currency of Europe. Moreover, perhaps to remind the rest of Europe that Greece was at one point in danger of remaining out of the euro zone for lacking certain economic indicators, el rape of Europa by Zeus, transfigured as a classic bull, is illustrated on the 2 € coins. Just in case, other euro coins minted in Greece add portraits of thinkers and political leaders who contributed to forge Greek nationalism and a Balkan confederacy free from Turkish domination.

A message of sobriety and tenacity is present in the coins produced by Portugal. Feeling the loss of references to Henry the Navigator, Pedro Alvares Cabral and Vasco da Gama, the Portuguese wanted to get the record straight.[5] Their early royal seals of the 1100s reinforce Portugal's deanship as the oldest European well-defined nation-state (territory, people language, state), interlacing castles and shields with the current

[4] Reuters, "Berlusconi under attack ad Foreign Minister quits," *The New York Times*, January 6, 2002; David Williams, "Italy's Foreign Minister resigns," *The Washington Post*, January 6, 2002, A18.
[5] Alan Cowell, "Portugal is losing a history told in bank notes," *The New York Times*, December 30, 2001.

European symbolism. The euro is the current *escudo* (shield) in the sense of economic protection. After all, this is the ultimate goal of the European Union.

The Next Step

Political theory teaches that national sovereignty is defended through the control of territory (with its economy regulated by transactions in a given currency), and the monopoly of force (exercised by the police and the armed forces). With the national currencies no more, what remains is maintaining domestic order and an army as the remnants of traditional state sovereignty. There are signs that these two elements are in the process of being eroded and pooled. Since September 11, 2001, there has been spectacular progress in the adoption of a common judicial space, at least in reaching a continental definition of what constitutes a terrorist threat.

With the euro in circulation, all that remains is the integration of the national armies. Though the road will be long, about 100 military officials from the 15 EU countries are meeting in Brussels to work out the logistics for the deployment of 60,000 soldiers to conflict zones as part of the Rapid Reaction Force, the nucleus of the future European army. The Portuguese may then claim that the *escudo* has a new shape. It will be a European *insurance* policy.

PART III

ECONOMICS AND FINANCE

THE EURO: FINANCIAL DEVELOPMENT AND CONSEQUENCES

-Victor Balestra*

First of all, I want to thank the Miami European Union Center for the opportunity to participate in this event. Working for an institution from one of the euro countries, my remarks will focus on how the euro has affected banking activities in Europe. Other panelists will focus on the effect of the euro on the Americas, especially Latin America.

January 1, 2002, marks the beginning of the last stage in the process of the introduction of the euro: the official replacement of local currency banknotes and coins for the newly printed and minted euro notes and coins. Both old and new notes will co-exist for a few months while the old legacy currencies are retired.

This process, which commenced in Maastricht in 1991, with the decision to adopt a single currency, which has now became legal tender, is now complete. It represents the most sweeping change in monetary policy in history and a major step towards European integration. This new currency was adopted initially by 12 countries, namely Spain, Portugal, France, Germany, Italy, Austria, Holland, Belgium, Ireland, Finland, Luxembourg and Greece. It is expected to expand in the future.

The main reason for the creation of the euro was to create price stability across Europe over the medium and long term so as to foster a climate for controlled growth over time. At the macroeconomic and political levels, the introduction of the euro implied the severing of the traditional link between money and state sovereignty; and with this step the countries in the euro zone have in effect become one economy, with one currency issued by one Central Bank. This has meant an adjustment of fiscal and monetary policies over the past decade, so as to reduce government deficits, to balance or even create a surplus in the medium term.

Much has been written in the press about the changeover of January 1, 2002, as it was a very tangible and visible action affecting more than 300 million people in 12 countries. But to determine the effects of the euro in the banking system we have to look back over the past 4 to 5 years. In fact, the debut of the euro as a currency was in January 1999, (at a rate of 1.17 U.S.$ - it is now at approximately 0.89 cents; having reached 0.80 cents in the past) and it impacted the banks right away.

The effects of the introduction of the euro in the different banking systems created enormous challenges and opportunities and its impact can be seen nowadays and for many years to come.

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The main effects can be summarized as follows:

An equalization of interest rates across the euro zone. Gone are the days of different interest rates in the various countries which have adopted the euro. Thus, the interest rate hedging activities of banks disappeared. Coupled with this equalization, a decrease in absolute rates also took place with mixed effects. On the positive side, lower interest rates (such as those in the United States) have brought about an increased demand for real estate investments and consequently higher levels of credit extended for this purpose. Lower rates have also allowed banks to benefit from capital gains in their securities portfolio. On the negative side, lower rates have adversely affected the income that banks derive from investing their own capital and free funds. Finally, the equalization of interest rates has also translated into increased competition which causes declining interest margins.

There has also been a reduction in foreign exchange activities and income derived from them. Intra-European foreign exchange activity disappeared overnight and European banks, which were major market makers in their respective currencies, lost a substantial source of revenue. Today the market is reduced to the Arbitrage of euros/dollars and/or euros/yen primarily. This income loss was fully absorbed in 2000, and has since been replaced by other sources, such as securities trading.

The euro has also caused increased depth and liquidity in financial markets and has allowed increased access of companies to the markets, thus reducing intermediation. This situation is now similar to that of the United States. This has permitted multinational companies to centralize their Treasury functions based on fiscal considerations and to reduce the number of banks with which they work.

The increase in competition and consequent lowering of spreads and profit margins has forced banks to concentrate on information technologies, and developing additional and more innovative products and channels of distribution. A stronger emphasis on the cost to income ratios of banks can be seen across the board.

Banks experienced a shift of assets from public to private sector debtors as a consequence of the reduction in government deficits and lower public debt, due to the implementation of the Stability & Growth Pact. This in turn has caused the development and fine tuning of risk management techniques to much higher levels than before.

For banks, like ours, which operate in countries which in the past had large emigration; emigrant remittances have been a stable and profitable source of funding. The introduction of the euro was seen as a threat to this continuing source of funds as the incentives given by the home country in terms of interest rate differentials would disappear. However, 3 years after the introduction of the euro, this has not happened and emigrant remittances from the euro zone continue to be as strong as before. This is expected to decline as the first generation retires.

The long announced changeover of notes, along with the registration requirements for the exchange of large amounts of cash, presented a serious challenge to those who had for years "hoarded" national currencies. To avoid potential fiscal consequences, this wealth was invested or spent in cash transactions of real estate and luxury automobiles.

In terms of banking structures, we have seen and can expect to see more bank mergers and acquisitions, both intra-countries and across borders. These mergers are either strategic in nature, to become a major international player or defensive, to gain efficiency (intra country). Most mergers so far have been in the domestic arena, with the exception of Spain, making substantial investments in Latin America.

Regarding the process of account conversions, banks spent sizable amounts of money in educating their clients and introducing gradual conversion procedures. At our banks, employee accounts were converted in March 2001 (so as to test the system), and customer accounts began to be converted in September 2001. By December 31, 2001, 100% conversion had been achieved.

Finally, in regards to the recent event of the introduction of the physical currencies, the challenge was to have enough of the new currency and coins to satisfy the public demands. This required a massive logistical effort on the part of the central banks, the commercial banks, the cash-transporting companies, ATM suppliers and other industry vendors.

Euro coins were supplied to banks as early as September 2001. Euro notes were distributed later, in November and December, in order to minimize the risk inherent to their large denominations. In summary, around 70% of the notes and 80% of the coins were distributed to banks before January 1, 2002, which was a decisive factor in the smooth transition to the new currency. Euro coin kits were made available to the public by banks as of mid-December 2001, to allow the public to familiarize itself with the new coins. This was coupled with massive advertising and educational campaigns.

The excitement (or anxiety) was such that the public acquired more than 150 million starter kits, worth €1.6 billion. In the case of Portugal, among others, there was such demand that banks were allowed to make their own starter kits and sell some of their bulk stocks.

In terms of distribution of notes, around 70% were put in circulation through ATM machines. This meant that over 200,000 machines had to be refitted to accept the new Euro notes. This was accomplished in less than one week.

Today our colleagues in Portugal report that a short three weeks after the introduction of the new currency, over 90% of the commercial transactions are being conducted in euros, which far exceeds the original expectations.

In summary, the long process of European integration, if not finished, has made a tremendous step towards its goal of becoming one single market with one currency.

ECONOMIC INTEGRATION AND SOCIAL COHESION: THE IMPACT OF THE EURO

-Beatriz Danguillecourt[*]

With the introduction of the euro in 1999, the final stage of the Economic and Monetary Union was completed. This final achievement came as the result of a lengthy process of European integration which started with the signing of the Treaty of Rome in 1957, the Treaty leading to the creation of the European Economic Community (EEC).

The goal of Economic and Monetary Union (EMU), as originally envisioned with the creation of the EEC, was above all political. In purely economic terms, it could be argued whether a single market needs monetary union, whether a monetary union really needs a common currency, and whether the European Union is actually an optimum currency area. Optimal Currency Area (OCA) theory argues that a region in which the countries do not need to change prices or incomes amongst each other, but only with extra-regional partners, might benefit from having a common currency.

Economist Martin Feldstein[1] argues that Europe is not an optimal currency area, and thus, would incur more costs than benefits from the introduction of a common currency. The elimination of national currencies makes it impossible to use exchange rates as an adjustment mechanism. Thus, a country experiencing an economic shock will lose the capability of devaluating the currency. Traditionally the loss of this tool could be offset by wage flexibility and labor mobility, but these two conditions are not prevalent in Europe.

The positive side of the economic argument is that there is a subset of countries (Germany, France and the Benelux) that did form an optimal currency area. While there are disparities in Europe, this is also true for other economic regions with the same currency, like the United States. Structural and regional funds are aimed at closing the gap. In addition, with regards to labor mobility, the common market encourages it, but language and cultural barriers remain impediments to this process. The European Commission has developed an European Employment Strategy with the aim of creating greater flexibility in the labor market. At the same time "the EU today ranks as one of the economically most strongly interlinked and--despite all its differences--homogenous

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[1] Martin Feldstein, "EMU and International Conflict," *Foreign Affairs*, November/December 1997, pp. 60-73.

regions in the world. Two necessary preconditions for the existence of an "optimum monetary area" are thus fulfilled to a high degree."[1]

The debate in the Commission, however, was not *whether* EMU should be implemented but *when*. EMU became another step in the process of integration. Politically, a Monetary Union would mean the final and irreversible confirmation of a single European market and a unified economy. Two key reports, the Werner Report (1971) and the Delors Report (1989), made the connectivity between the need for common economic policies, a monetary union, and a common currency.

In 1969, at a conference held in The Hague by the Heads of State of the European Community, it was decided to create a proposal for further monetary union. From this conference came the Werner Plan for economic and monetary union. The reasoning behind the plan was that the move towards further market integration would produce general economic imbalance in the member countries, unless there was complete harmonization and coordination of economic and monetary policies. It added that the introduction of a common currency at the economic level might not be so important but at the political and psychological levels it was crucial to the 'irreversibility' of the project. Although the Werner Report was not implemented at the time, it served as the blueprint for the later attempts at integration, including the Delors Report.

In 1986, the signing of the Single European Act prompted a further step in the integration process. It included the creation of a common market by 1992, and the inclusion of a social component to the Treaty. The first major revision was the inclusion of a Title on Economic and Social Cohesion. Economic and Social cohesion stemmed from the anticipation of the possible negative effects of the common market project, and was meant to be a corrective measure to reduce the social and regional gaps in the member countries, focusing on reducing the obstacles to economic take-off in some regions. The concept of cohesion is important and represents the first commitment to create a social counterpart to economic integration. At the economic level the underperformance of the weaker regions could lead to the reduction of consumer demand, distorting competition in the single market and ultimately reducing the EU competitiveness in the global market. At the social level, the goal of the European Union is to move forward towards a cohesive European society with better quality jobs and sustained economic growth.

The Single European Act (SEA) brought a renewed commitment to integration and the logical next step in the process became monetary and economic union. The Hanover Summit (1988), attended by the heads of government of the EC countries concluded "that, in adopting the Single Act, the member states confirmed the objective of progressive realization of economic and monetary union."[2] As the project of a common market became closer to reality in 1989, the President of the European Commission at

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[1] Joerg M. Winterberg, "Central Bank Independence and Monetary Stability in the EU," *Aussen Politik*, Vol. 48, 1997, pp. 211-219.

[2] Niels Thygesen, "Why Economic and Monetary Union is an Important Objective in Europe," *SAIS Review: A Journal of International Affairs*, Vol. 14, No. 1, 1994, pp. 17-34.

that time, Jacques Delors, started to make a linkage that one market needs one money**.** The Delors Committee was assigned to create concrete steps for the creation of economic and monetary union. The key point of the Delors Report (1989) was that "the completion of the single market will link national economies much more closely together and significantly *increase the degree of economic integration* within the community."[3] By advocating EMU, Delors was pursuing the long-term objective of European integration.

In November 1993, the Maastricht Treaty came into effect and the new European Union was created, envisioning a new era of integration. The articles of the new Maastricht Treaty and its related protocols made provisions for the centralization of monetary and exchange rate policies in the final stage. The Treaty also provided for the establishment of EMU in three stages. The first stage in 1990, consolidating the policies already in place. The second stage started in 1994, with the goal of obtaining economic convergence and creating a European System of Central Banks. The most crucial part was the third stage, irrevocably fixing exchange rates and transferring monetary policy to the European institutions.

The convergence criteria to join EMU was exclusively based on monetary variables:

- Sustainable price performance- the rate of inflation does not exceed that of the best three performing countries by more than 1.5%
- The deficit should not exceed 3% of GDP
- The public debt is not to be above 60%
- Interest rates should not be 2% over the average of the three lowest countries

The European Commission and European Monetary Institute were responsible for evaluating the countries readiness for entry based on these four criteria. There was talk at one point of a two track entry into EMU, in which the most advanced countries would join first but by 1999, eleven countries met the criteria, and Greece joined two years later. The UK, Sweden, and Denmark opted out of joining EMU. But after the successful introduction of bank notes and coins in January 2002, Sweden and Denmark have already announced referendums for next year on whether to join EMU, and the pressure is mounting for the UK to follow suit.

With the final stage of EMU monetary policy was no longer set by individual central banks. The new European Central Bank in conjunction with the national central banks now established monetary policy for all countries in the euro zone. As outlined in the Delors Report the Central Bank's main objective would be price stability. The Bank would be responsible for the formulation and implementation of monetary policy, exchange rate and reserve management, and for maintaining a payment system. This institution would be formed on the principles of independence and accountability. The Central Bank would be independent of national institutions and governments and from

[3] Stephen F. Overturf, *Money and the European Union*, New York: St. Martin's Press, 1997, p. 209.

Community authorities. And, it would be accountable to the European Parliament and the European Council.

Germany, a strong proponent of monetary union, emphasized the need for creating a central bank that resembled the Bundesbank. In order for Germans to give up their beloved D-Mark they needed to be sure that the European Central Bank's main goal would be executing anti-inflationary policies. Germany also took a strong position in having all countries meet a strict convergence criteria to join EMU due to the disparities in economic performance among Community member states and also introduced the unpopular concept of a two-track entry system into EMU.

The difficulty in the ratification of the Maastricht Treaty with the initial Danish 'no', in addition to the economic conditions of the period 1992-94, with a European recession and the highest rates of unemployment, led the European elites to realize that if European citizens could not experience the benefits of the Union, furthering the integration process would become increasingly difficult. How could the idea of this great Union be sold if European citizens failed to see how it could improve their standard of living? How could they explain that the Union was beneficial when they were faced with one of the worst economic and social problems: unemployment?

As the European Union continues to develop, the need to provide European integration with a social component becomes stronger. One of the results of the Lisbon Summit was the emergence of a new concept based on the linkage between economic strength and the European social model. Thus, a strategy was formed to modernize the European social model by having economic, employment, and social policies working together in a mutually reinforcing way. A new concept of social policy emerged; one in which passive policies such as doling out massive amounts of money give way to more active policies. This concept of integration is grounded in the neo-liberal theories of market liberalization and the primacy of economic ideas, but also focuses on the principle of solidarity. The economic and social components of integration have to be conceived as complementary and not opposing forces. Social investment should be geared toward investing in human resources, training the work force, and helping with reintegration into the labor market, versus the concept of giving large amounts of unemployment benefits.

The European Commission, with the objective of "shaping a new Europe" will focus on achieving the economic and social objectives agreed upon in the Lisbon European Council (2000). The goals are to make Europe more competitive within the following strategic objective: "to become the most competitive and dynamic knowledge based economy in the world, capable of sustainable economic growth with better jobs and greater social cohesion". This new agenda is based on the concept that the social implications of economic policies do not only have economic but also social value.

As the European Union continues deepening its integration process, the introduction of the euro produces important economic and political effects for the future of the Union. Economically, it creates price stability in the euro zone. The European Union has built its monetary union on the basis of its reputation for monetary stability of its least inflationary member states. It also promotes sound economic policies. The Broad Economic Policy Guidelines approved by the finance ministers of the member countries in the EcoFin Council consist of growth and stability oriented macro policies and focus on reform of the labor, capital, and product markets. Due to different economic conditions in the member states the overall strategy and policy priorities might differ from one country to another but as a whole they pursue the same strategic objective.

In addition, the introduction of the euro strengthens the single market, making the euro zone a more competitive area in which to operate. It lowers the cost of managing cash. The cost of exchanging national currencies disappears, with particular benefits for small and medium size companies, and cross border transactions become faster and cheaper. It also lowers currency risk. The elimination of exchange rate fluctuations eliminates the exposure to losses associated with such movements, an thus, the need to hedge business transactions against exchange rate risk.

And finally, the euro has more weight as an international currency. In 1999, the largest single country in the Euro zone accounted for 4% of the world GDP, the Euro area as a whole accounted for 15%. This is less than the United States at 20.5% of the world GDP, and around twice that of Japan with 7.8%.[4] The euro has become the second largest currency in the world.

Politically, the introduction of the euro has had several implications. First, it represents one more step towards the completion of an 'ever closer union'. The founding father of the EEC Treaty considered economic integration as the means to avoid new conflicts between the European nations that fought the Second World War. Following that reasoning, EMU was also motivated by political reasons: to advance the political integration of the union. The preamble establishing the European Community lay down the foundation of an ever closer union among the peoples of Europe, to ensure economic and social progress and eliminate the barriers which divide Europe, removal of existing barriers to create balance of trade and fair competition to strengthen the unity of its economies, to ensure harmonious development among the regions, to create a common commercial policy, and work towards the abolition of restrictions in international trade.[5]

The provisions of the Treaty on economic and monetary policy are based on the creation of a customs union with the aim of becoming a common market. When the EEC Treaty came into effect there was a global monetary network that did not seem to require specific obligations regarding the coordination of monetary policies. The Bretton Woods System of fixed but adjustable exchange rates was working. As the international financial system failed, efforts to establish an area of monetary stability resulted in the European Union's economic and monetary union.

Second, the introduction of the euro represents the largest pooling of national sovereignty on the European level. The completion of EMU with the introduction of the Euro transfers monetary and exchange rate policy to the EU level. Economic policy of

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[4] Federal Reserve Bulletin, *The Launch of the Euro*, October 1999.
[5] Preamble to the Treaty of Rome.

the EU member states is set in accordance with the Broad Policy Guidelines established by the Commission and the Ministers in the EcoFin Council. It is non-binding but subject to “peer review”. The ECB implements monetary policy for the euro zone, setting interest rates and exchange rate control. The primary objective of the ECB is price stability, and should support the general policies of the Union. Being such an important political issue, the key question that arose during the negotiation of EMU was the question of sovereignty. The United Kingdom particularly afraid of giving up national sovereignty was concerned that EMU might lead to ceding power over tax and spending issues (currently administered at the national level) as well. The United Kingdom chose to opt out of EMU as did Sweden and Denmark with concerns over having to reduce their welfare systems (also controlled at the national level).

Third, it creates a common European identity. The use of the currency becomes a symbol of union and common identity since identity is greatly shaped by having citizens share the same symbols. The European Union, with the introduction of the euro, is creating a social identity based on modernization and economic progress. Until now, most Europeans identify themselves as being from their own country and from Europe. The more visible Europe becomes, the easier it becomes to identify with it.

And finally, the introduction of the euro creates a larger voice in the international system. The weight and financial strength of the euro, creating a market of over 300 million people, will lead to a greater voice in the international arena. The common currency will facilitate the formulation of common approaches on economic and financial issues, and will create a more balanced relationship among the key world players. At the same time EMU will mean that the European Union is in a better position through its unity to have a larger voice in the international community, and have more power and influence to negotiate policies at the international level that better complement its ideals.

HEDGING EURO STRATEGIES: HOW TO PROTECT AND BENEFIT WHEN DEALING IN EUROS

-Rubén Saavedra*

In today's global economy, more and more companies are being exposed to some form of foreign exchange risk. Business involving foreign exchange has remained complicated for American companies as volatile rates of exchange, lack of understanding, inflexibility and dramatic market movements have made it difficult for these companies to negotiate with potentially very profitable foreign sources, and even more so to "manage" payments to foreign vendors. However, foreign exchange continues to be one of the most overlooked and under-utilized tools for increasing competitiveness and profitability.

InterCredit, Inc., a licensed funds transmitter, proudly presents a set of tools that will help your company:

*Ease the complexities of foreign exchange payments

*Minimize financial risk

*Use foreign exchange as a profitability tool

Payment Instruments:

Electronic Funds Transfers (E.F.T.)

Timing is everything, especially when it comes to cash flow. Meeting terms on foreign payments can oblige you to release funds before it is ideal to do so. It can also hamper your recipient's cash flow as funds clear through international bank channels.

International wires (or Electronic Funds Transfers, as they are sometimes called) provide a means of retaining funds as long as possible while ensuring the satisfaction of beneficiaries. With international wires you can:

- Enjoy the security of knowing your instructions are fully traceable
- Take advantage of low, per-wire, flat rate fees

We maintain an array of correspondent's bank accounts of over 50 different currencies, enabling the execution of EFT's in a quick, secure and efficient method to electronically transfer funds abroad.

* General Manager of InterCredit, Inc.

Foreign Bank Drafts:

Paying foreign suppliers in domestic funds can easily result in underpayment or, equally unfortunate, overpayment, as currencies fluctuate between the time payments are issued and the time they clear. Foreign suppliers may also be displeased as they await clearance of your check.

From the convenience of your office you can place an order with us. InterCredit, Inc., can provide your company with foreign drafts drawn on major U.S. or foreign banks, denominated in more than 36 currencies. Drafts will be delivered per your instructions and in most cases we will pick up your payment at your location.

Foreign exchange drafts allow payment in your beneficiary's currency without imposing lengthy delays while awaiting clearance of a check from abroad.

Through InterCredit, Inc., you can:

- Dramatically reduce the time required to access funds
- Issue drafts in a wide variety of currencies
- Save money with an economical way of making global payments

Strengthen global business ties by providing exact payment in a timely manner with foreign currency drafts.

Hedging Tools

Foreign Exchange Forward Contracts

For companies anticipating foreign transactions within the next year, forward contracts are hedging tools that will help them manage their foreign exchange risk, enabling them to buy or sell foreign exchange at a fixed rate for settlement at a pre-determined future date.

By using forward contracts, you can:

- Protect costs on products and services purchased abroad
- Protect profit margins
- Lock-in exchange rates as much as a year in advance

Forward contracts are used as a method of hedging commercial risk against rate fluctuations; therefore, such a contract may not be used for speculative purposes as it is prohibited by Federal Reserve Board regulations.

There are two types of forward contracts:

1. Open Forward Contracts:

This instrument calls for a flexible payment period (window) prior to the maturity date of the contract. This product is used when the client is uncertain of the specific date of payment during the open period of the contract.

The contract may be utilized at any time during the open period and must be used in full by the maturity date. Commonly the flexible payment period or window is from one week to one month.

2. Closed Forward Contracts:

A closed forward contract is settled on a pre-determined and specifically agreed upon maturity date. This type of contract is used when there is certainty that payment must be made by a specific date, therefore not requiring a flexible payment period within the life of the contract.

Foreign Currency Accounts:

Foreign currency accounts give corporations the ability to purchase blocks of foreign funds when the exchange rate is favorable.

InterCredit, Inc. holds funds in reserve until the company draws on the funds as invoices become due.

Foreign Exchange Check Collection

InterCredit, Inc., provides foreign check processing services. Because of the competitive nature of international business today, many companies find that they can enhance customer services and increase sales when they are prepared to accept foreign currency checks as payment on international transactions.

Solutions for Importers

Scenario 1

A U.S. importer places an order for goods from France, payable in euros in 60 days. The current dollar /euro market conditions are currently favorable to the importer.

Q: How can this importer protect himself from the unforeseen foreign currency fluctuations in the next two months, which can significantly alter the outcome of this transaction?

A: With InterCredit, Inc., doing business beyond your borders does not compound risk. We have a variety of hedging tools available that will help you manage the risk inherent in currency markets by predetermining the rate and date on which you will purchase or sell a given amount of foreign exchange.

Using forward contracts, you can:

- Protect costs on products and services purchased abroad
- Protect profit margins on products and services sold abroad
- Lock-in exchange rates as much as a year in advance

InterCredit, Inc. offers two types of forward contracts: closed and open.

Closed Forwards specify an exact settlement date.

Open Forwards provide for a window of time – from one week to three months – for settlement.

Scenario 2:

Q: A U.S. importer receives an invoice in euros and forwards payment with a check in U.S. dollars using the newspaper exchange rate. Is this beneficial to the importer and its business relationship with its supplier?

A: Paying foreign suppliers in domestic funds can easily result in underpayment or, equally unfortunate, overpayment, as currencies fluctuate between the time payment is issued and the time it clears. Foreign suppliers may also be displeased as they await clearance of your checks.

Foreign currency drafts provide payment in your beneficiary's currency without imposing lengthy delays while awaiting clearance of a check from abroad. We can:

- Dramatically reduce the time required to access funds
- Issue drafts in a wide variety of currencies
- Save you money with an economical way of making global payments

Scenario 3:

A U.S. company pays a supplier in Europe on a regular basis and locks in a forward rate at $0.8879 per euro for a payment due in six weeks.

Six weeks later, when the payment is due, InterCredit, Inc. assesses the current U.S. dollar market condition and realizes the dollar is 3% stronger at $0.8612.

Q: How can the importer benefit from the current stronger dollar situation, considering the fact that he already locked in the forward rate at $0.8879?

A: At this point, our risk management expertise is put into place. Because of the higher current dollar value and customer's profile, it is suggested to rollover the forward contract and cover that payment with the current better rate. In this way our customer will be able to take full advantage of the current market condition.

Due to our expertise and large volume of transactions, we are able to offer this uncommon level of flexibility that no other financial institution is willing or able to offer.

Solutions for European Exporters:

Scenario 1:

Q: A Spanish company that exports to the United States invoices and gets paid regularly in checks in U.S. dollars is frequently displeased with:

- The amount of time it takes for a check to clear
- The possibility of the check being rejected for non-payment

A: InterCredit, Inc. collection services offers this Spanish company a quick and efficient way to have access to these funds. With the company's authorization, InterCredit, Inc., will collect the payment in U.S. dollars from the client and within 24 hours will:

- Confirm good funds on the check
- Immediately forward the counter value in Spanish pesetas to the company, by DHL overnight

With InterCredit, Inc., you have control over the rate of exchange at time of final payment:

- Depending on your company's instructions, you decide whether you lock the current exchange rate, or
- Keep the rate locked for you at time of invoice; whichever is more favorable to you.

APPENDIX

PROGRAM

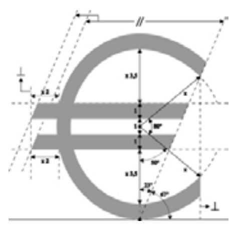
The Miami European Union Center,

in cooperation
with the Consuls General
of France, Germany, Italy, and Spain,
the British Consul,
and the Chambers of Commerce
of France, Germany, Italy, Spain, and the United Kingdom,

Present a Seminar on

The Euro:

Europe's Common Currency



http://64.192.171.177/euro/index.html
http://www.miami.edu/international-studies/euc/Frame/

This seminar will deal with the various implications of the introduction of the new European common currency, the euro, in 12 countries of the European Union. Focusing on such issues as the impact on businesses and the consumer, likely consequences for the United States and Latin America, and the growing political and economic integration of Europe, the seminar is open to all interested in the European Union or European affairs generally.

Date: Friday, January 25th

Venue: Biltmore Hotel, Coral Gables

Program:

1000 Welcome: **María Anderson**, Vice Mayor of Coral Gables
Introduction: **Andy Gómez**, Dean, School of International Studies,
University of Miami

1010 Panel I : "The Euro: Banking and Economics"

Chair:
Ralph S. Clem, Florida International University
Co-Director, Miami European Union Center

Participants:

Hugh Simon, Florida Under Secretary of State for International Affairs
"Perspectives on EU-Florida cooperation"

Victor Balestra, Espiritu Santo Bank, Miami
"Financial Development and Consequences"

Beatriz Danguillecourt, University of Miami
"Economic Integration and Social Cohesion"

1100 Break

1115 Panel II: "The Euro: Europe and the Americas"

Chair:
Joseph Jupille, Florida International University

Participants:

Santiago Gómez-Reino, European Commission/ North-South Center
"Memories of a Project and Current Reflections"

Raquel Rodríguez, Greenberg Traurig
"Legal Aspects of the Euro—Are there lessons to be learned from Argentina?"

Rubén Saavedra, InterCredit, Inc.
""Hedging Euro Strategies: How to Protect and Benefit when Dealing in Euros"

Commentary and summary:

Joaquín Roy, University of Miami
Co-Director, Miami European Union Center
"European Identity and Perception in the Americas"

1230 Lunch

Introduction: **Javier Vallaure**, Consul General of Spain
Speaker: **Thorsten Ruelle**, Dresdner Bank, Germany
"Euro's impact on the International Financial Markets"

Presentation: Spain in the European Union,
The Jean Monnet Chair, University of Miami
Ricardo Mayo, Chair of Advisory Committee

The Miami European Union Center is a consortium of the University of Miami and Florida International University. A member of the Network of European Union Centers funded by the European Union, the Miami EUC was established in 2001, and has as its mission the promotion of European Union studies and a greater understanding between the peoples of the United States and the member states of the EU through teaching, research, and outreach activities.

Cooperating institutions: School of International Studies (University of Miami), Center for Transnational Studies (Florida International University), Jean Monnet Chair (University of Miami), the Dante Fascell North-South Center, and European Commission.

For reservations ($35, including seminar and luncheon), call the U.S. Spain-Chamber of Commerce, 305-446-1992.