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Europe quo vadis? - Regional Questions at the Turn of the Centuryç

EMU: A giant with feet of clay?

Carmen Dolores Wehbe Herrera, Departemento de Economía Aplicada University of La Laguna, La Laguna (Tenerife), Canary Islands, Spain;
E-mail:intecrel@redestb.es

Right from the beginning, the process of European integration has been influenced by the events of the international scene.This is why the memebers of the European Community soon raised the possibility of creating and consolidating a zone of monetary stability,protected from the vicissitudes of the International Monetary System. After more than twenty years of pursuing this goal,the Treaty of Maastricht included Monetary Union as a priority objective for the European Union. However, the fact that we are currently immersed in the process of Monetary Union has meant that the Union has had to put other fundamental aspect of consolidating and strengthening overall integration on the back burner. What is more,if these latter aspect are not given the importance they deserve and are not treated at a suitable level, the whole unique project of co-operation between national states could be put in jeopardy.

The aim of this paper is to provide a more detailed review of the increasingly evident cracks that are appearing in the process of European integration, cracks that have been highlighted by the advance toward Monetary Union. The review is based on a study of the evolution and the influence international events have had on the different monetary aspects that have been addressed by the European Union, on the one hand, and an analysis of the main features of Monetary Union,on the other. Finally,we address the criticism and shortcomings of a process which, in its current fundamental guise,leads us to wonder if we are dealing with a giant with feet of clay, an economic giant but a political dwarf.

The Monetary Union, a giant with feet of clay ?

At the present time, we are witnessing a debate within the European Union in which it is becoming evident that certain aspects that have gradually been postponed will have to be tackled and that the process of European integration itself, currently strengthened by the evolution of the international scene, is undertaking to underline. The Monetary Union and the establishment of the Euro involve a series of responsibilities and implications of political economy that still have no consensus. On the other hand, the future expansion of the EU will make the existing fractures to its core even more apparent. The Economic and Monetary Union (EMU) cannot be interpreted as the relentless pursuit of the unattainable, forgetting the essence of what it stands for, since there is a very high risk of ruining the entire process in this way.

I.- Monetary Union at last!

In recent times, we have been bombarded by a line of argument, from all sides, which publicises the advantages implied by the European Monetary Union and the establishment of a single currency: the Euro, to the point that many citizens may wonder, in the face of such apparent evidence, why this was not done before ? The answer to this question, dealt with by few within the framework of the present debate, reflects the biased nature of this approach. Such behaviour which is naturally not justified from the perspective of mere publicity, but which is totally reprehensible, from the governmental and community perspectives. The EMU is not a natural result of a process[1] and does not only imply benefits, but also a darker side, which is necessary to deal with in order to avoid and smooth over its irregular nature.

The principle of a monetary union, as with the basic principle of European integration, has no fundamentally economic aims or motives, but rather political and strategic ones, irrespective of whether the arguments put forward for its creation have been expressed in terms of economic benefits[2].

At this stage of the so-called EMU, included in the Treaty of Maastricht, it seems quite clear that political criteria have prevailed throughout the entire process, despite the fact that there has been an attempt to neutralise this aspect with the tight corset of convergencia criteria. Indeed, the establishment of these criteria as a requirement for access to the controlling centre of the EU is a clear political option. In no way is it neutral and neither is it a choice of a technical nature. In fact, economy is not engineering. This field of work does not cover objects, but society, and this is anything but a machine. Likewise, we have been able to see how criteria were gradually relaxed in some cases and touched up in others, according to the member in question[3]. Accounting engineering operations occurred to adjust deficit objectives and with the line of argument of the EMU a dangerous dismantling of the Welfare State has commenced. Nevertheless, very soon the corset went from being fitted (one size for all) to adjustable (according to the interests of the leading countries in the UE.).

The attainment of a Monetary Union has been the objective for a good while, and its crystallisation at the present time has been made possible by the characteristics given to the integration process of the EU today. From among the various defining aspects of the European integration process, two are particularly outstanding for our purposes: on the one hand, their supranational nature and on the other,the successive implementation of agreements on the part of the participants in the process, who have gradually provided a content and set a rhythm to which the project should be developed at each moment.

a. - The supranational vocation of the European project is evident; institutions are created that wield a decision-making power far beyond that of the associates themselves. However, this point has been and still is an object of controversy. Thus, throughout the history of the Community, the confrontation between these two positions has been questioned recurrently: on the one hand, those in favour of the so-called Europe of nations, and on the other, those who consider the federalist option. At the present moment, this is still an open debate, and although the power of events and the development of the Community itself seem to tend towards the second, this is an aspect which still needs to be defined.

This characteristic is decisive for the approach of monetary cooperation between Member States; the monetary policy, especially in a unifying process, due to its peculiar nature is not compatible with a multiplicity of independent institutions, which, with very differing interests that do not always coincide and even interests that are contrary in the circumstances of the moment, would make operativity impossible.

b.- The second characteristic of European integration is its essentially dynamic nature which gives rise to its denomination as a “process”. This non-linear dynamic approach, with stops and starts, has had special significance for monetary cooperation in the area. This circumstance has facilitated the fact that the projects and objectives proposed at each moment may be successively taken up again and the process accommodated to the requirements and interests of the factors most imposed in each case.

The most dominating principle at the time of drawing up the Treaty of Rome was a framework agreement, in such a way that it would be the driving force of the Community itself and the powers given to the supranational institutions created to that end that would decide upon the progressive implantation of the objectives pursued by the Treaty: successive and of progressive intensity[4]. The first objective was the attainment of a common market through the instrumentation of four basic liberties: merchandise; establishment and sale of services; circulation of workers and capital. Likewise, the proposal for the progressive implementation of common policies would lead to the Economic and Monetary Union, and in turn, that should enable the arrival at the ambitious objective of the Political Union. The objectives that should be achieved by the entry in force of the common market, essentially the undertaking of the Customs Union, were the target of a precise calendar. A mixed procedure was established consisting of an automatic calendar and a pure procedure of successive agreements, which along with the saving cause led to support for the signing of the Treaty and also to the avoidance of it becoming dead letter, due to the impossibility of fulfilling it.

This process of successive agreement was reinforced by the setting-up de facto of the “summit meetings” of heads of state and government of the Member States from the sixties onwards, as a catalysing mechanism of the crises through which the process of European integration has been through and to define the broad outlines at each moment. These summit meetings were to play an important part in the configuration of the present EU and in the sphere of monetary cooperation.

II.- The road to Monetary Union and the Euro[5].

Initially, the European Economic Community (EEC), the monetary heir of the European Payments Union (EPU) and the European Monetary Agreement (EMA), aspired to continue monetary cooperation at the existing level, set in the framework of the measures and facilities necessary for implanting the common market. Indeed, the monetary clauses contained in the Treaty of Rome are somewhat limited, and these limitations respond to the political and economic context in which it was created. The immediate objective was the attainment of the customs union and, although this was the first step in a more far-reaching project, at that time, the monetary policy had no horizons more ambitious than facilitating the functioning of the common market.

From the political point of view of the transference of powers to a supranational institution, it was totally non-viable to even consider the transference of sovereignty in this matter. The Second World War was still too recent with its aftermath of nationalisms and, therefore, the Community had to be prudent in this matter, in such a way that the advantage of establishing a very general and moderate regulation of the monetary aspects was precisely the way to provide an ample scope for manoeuvre to the parties involved[6]. For most European countries, the monetary worry was to be found at the level of maintaining convertibility for their economic expansion and their commercial exchanges, and from the external point of view, monetary collaboration seemed assured through the EMA and the recently begun international economic order which had still not shown its weaknesses.

In the first ten years of the life of the Community, only one report would be produced by the Financial and Economic Commission of the European Parliament (Van Campen report, 1962), which led the Commission to propose the creation of a Committee of Governors of Central Banks to coordinate the performance of the monetary policy, as well as the extension of the sphere of action of the monetary committee to the coordination of monetary relations overseas. These agreements were adopted in 1964, but the following years were distinguished by a certain indifference in monetary aspects, and the failure of the liberalisation of capital movements, which was proposed by the Commission during these years, is a reflection of this and of the lack of agreement in the monetary and financial sphere.

However, very soon the situation began to change. From the internal point of view, the beginning of the customs union itself demanded common monetary tools for it to function correctly, which were designed along the way. Given the limitations of the Treaty of Rome in the monetary sphere, it was necessary to undertake precise negotiations for the introduction of any innovation, which led to delays in the solutions to the different problems raised. Similarly, a void was soon detected in the provisions that would facilitate the setting of a common posture of the newly created Community in the face of problems of a comprehensive nature, such as the reform of the International Monetary System (IMS), the control of speculative capital movements, relations with the third world...; in short, in the foreign sphere, in matters that went far beyond what was merely commercial.

However, it soon became apparent that it was necessary to study the monetary sphere in depth and that a special monetary policy should be developed on two levels: one towards the interior of the common market that would set the rules to govern monetary relations between the Member States, and the other towards the exterior, where the Community would adopt a common posture in the face of important international matters.

The second period in the monetary development of the EEC began in 1968 and lasted until 1974. This is when monetary matters occupied a preferential place and when the Community initiated a first attempt at integration, the evolution of the international monetary system was once again a deciding factor. With an IMS in crisis and at the height of the weak dollar, the EC was concerned about the effects that monetary instability might have on the relations between Member States, which once the customs union was achieved, saw an increase in levels of internal instability, as a result of the disparity between France and Germany that led to the devaluation and revaluation, respectively, of the currencies of both countries in 1969.

The Commission drew up a report on the coordination of economic policies and monetary cooperation, the Barre Plan, and shortly afterwards, a plan was requested for the constitution of a Monetary Union, which was commended to a commission presided over by Werner, then Minister of Economy for Luxembourg. Two positions came face to face in this committee, known at that time as the "economists" and the "monetarists", which have extended beyond their time and have recurrently manifested themselves whenever the objective of the Monetary Union has been raised[7]. In the last analysis, what these positions reflected were opposing interests; on the part of Germany, which supported the first approach, the fear that a union without the harmonisation of policies would be made at the expense of its resources, which would serve to finance loss-making countries; on the part of France, the need to employ the objective of such a union to manage to discipline economic agents accustomed to working in a relatively high inflationary environment compared to other European countries. Faced with the impossibility of reaching reconciliation in the positions, the committee established the objective of achieving Monetary Union in 1980; but it only specified the measures to be adopted during the first stage, leaving the rest to be determined at a later date. During the initial stage, a narrowing in the intervention margins of community currencies was established, within the broadest limits accepted by the International Monetary Fund (IMF), and backed by a system of credit and by the reinforcement of mechanisms for consultation and policy coordination. And in this way, the so-called "European currency snake" was born.

Although all the Member States participated in the project, its validity was limited. The lack of harmonisation between the policies of the Member States made it impossible to maintain currencies within narrow fluctuation margins, and the rise in oil prices meant a heavy blow, which led the Community to recognise that the objective of attaining a monetary union in 1980 was impossible.

The Community took a long time to recover from this first failure, and the following years were marked by the paralyzation of the monetary issue. This paralyzation was also seen in the international sphere. In order to face the oil crisis, countries opted for conserving a wide scope for manoeuvre to apply their own policies. The free floating of currencies was the logical consequence, and this policy was formally orchestrated in the Jamaica agreements and the Second Amendment to the Constituent Agreement of the International Monetary Fund (IMF). However, the fluidity of the exchange rates in the IMS well underway and the weakness of the dollar made it desirable for European countries to find a mechanism that would provide greater stability for exchange rates between European currencies. This was the beginning of the European Monetary System (EMS).

Thus, in October 1977, Jenkins, the then President of the EEC, relaunched the idea of monetary integration, and a month later, the community summit meeting defended the convenience of an in-depth study in this direction, given the growing degree of interrelation between European economies and the increase in protectionist tendencies, but he also highlighted the need for a clear political disposition in order to be able to advance along this path. The political agreement between France and Germany arrived the following year and, once backed by the Council of Ministers of the EEC, it led to an agreement that came into force in March, 1979.

In this new phase, the continuing weakness of the dollar played a central role. The political disposition to create a zone of monetary stability in Europe in the face of the fluidity of other currencies was a fact, but how to achieve this objective was not so clear. The two opposing positions displayed at the Werner committee still prevailed. And so it became necessary to resort to the same kind of decision as before: an initial period, in this case of two years, the content of which was precise, followed by another with no definition.

The EMS functioned as the system created in Bretton Woods: with fixed but adjustable exchange rates. But from the institutional point of view, while, in most cases, the IMF was limited to accepting the proposals undertaken by countries, community decisions were generally made jointly and, therefore, were more complex, limits being set for the variations proposed by the countries, taking into account the effects that modification in the exchange rate had over other currencies participating. The most important new development introduced by the EMS was the creation of the Ecu, a pool of currencies, established in 1978 as the single currency unit for the EC.

The evaluation of the entire period of the EMS is basically positive. The system propitiated an area of monetary stability in Europe. During its first years of life, parity adjustments were frequent, but it should not be forgotten that the creation of the EMS was followed by the second increase in the price of oil. The first increase in 1973 meant the breakdown of the project for monetary integration that had been started, the second did not break the system. The following years showed a greater stability among European currencies which was only altered at the beginning of the 90's.

Although the EMS was a reasonable success as far as achieving a zone of monetary stability in Europe was concerned, we cannot say the same for the objective of obtaining a symmetrical system of obligations and rights. When the EMS was created, the issue of symmetry was the centre of a good many debates. The creation of the Ecu as the central axis of the system aimed, among other things, to prevent this role being covered by any one specific currency. On the other hand, the divergence indicator was created to signal which currency separated from the others - in terms of its central parity in Ecus - and it was supposed that that country, even if it held the strongest currency, should carry out the adjustment. But neither of the two mechanisms worked as had been initially foreseen, and although the Ecu should have been central to the system, in practice, the German mark became the reference currency of a clearly asymmetrical system.

It is also true that the top-priority nature that monetary stability acquired for countries at the beginning of the 80's led politicians to prefer to tie their own hands by fixing their own exchange rates in terms of the German mark and by renouncing their monetary independence to a large extent, in order to benefit from the credibility of the Bundesbank and reach the objective of stability more easily. On this point, another factor that had repercussions on the loss of monetary independence was the growing mobility of capital, and its implementation within the European context had a decisive effect on the search for the EMU.

The development of the international scene with the growing internationalisation and universalization of financial markets led to a tendency in the 80's to the increasing liberalisation of capital in the main countries of the Community; a circumstance which was backed by the coming into force of the Single European Act (SEA). With the culmination of the Single Market, the idea of a single currency appeared as a desirable accessory. With this, the total liberalisation of capital movement and the free provision of financial services would take on their full meaning. In this manner, the development of the SEA and, particularly, the total liberalisation of capital movement agreed for 1990, reinforced the need to progress in the monetary unification of the Community.

In order to design the programme of action, a committee, presided over by the then President of the Commission, Jacques Delors, was created. The Delors' Committee established a project to achieve a genuine Monetary Union which not only meant the creation of a European System of Central Banks, which had already appeared in the Werner report, but also the creation of a European coin, which would circulate around the different countries participating. In order to achieve this, a system of successive approaches in three stages, which were subsequently decided by the Council, was designed. As in previous experiments, the French and German positions formed the base of the agreement, even though the motivations of both were somewhat different. The French position attempted to avoid the hegemonic position attained, in fact, by the German mark and the German monetary authorities. It was about obtaining a community mechanism whereby France would have an important quota of powers. Germany was interested in the agreement to avoid the problems that the exchange adjustments might provoke for the country with the most stable currency, especially after the single market was completed.

The first steps in the development of a Monetary Union were taken in a climate of stability. In this climate, in 1990,the total liberalisation of capital movement came about, and the "balancing" capital flows (from countries with an excess of balance per current account to others with a deficit) were reinforced, but these flows, after 1992, changed direction and gave rise to the financial instability of 1992-1993 with a strong impact on the IMS and appreciable consequences for the reform of the EMS. The triggering factor of this change in the current of flows was the strong fiscal deficit in which Germany incurred as a result of the reunification process, which was reinforced by the Danish "No" in the referendum on the Treaty of Maastricht.

But despite these difficulties, the European countries finally ratified the Treaty of Union, thus securing the priority objective which was the attainment of the Monetary Union. In 1995, at the Council's meeting in Madrid, "Euro", the name of the single currency, was settled and the process of change that would give rise to the introduction of this currency was established. This process has already begun with the final decision lying with those countries who have joined and with the creation of the ECB and its governing body. The second decisive period for the introduction of the Euro will begin next year when the market exchange rates between the currencies of the 11 participating countries will be replaced by irrevocably pegged translation rates. But the process for the introduction of the single currency is very complex and is in the opening stages. This undertaking involves hazards that may only be considered partially overcome when the Euro is the single currency in circulation in the countries participating in the system.

III.- The EMU: some black spots.

When it comes to systematizing the main aspects of what we have called the dark side of the EMU, we have chosen a systematisation in two large sections or on two levels: the internal and the external. However, it should always be borne in mind that these two levels are not autonomous, or independent from each other. Between both there are reciprocal implications which make their systematisation very difficult. On the other hand, the existing theoretical basis to tackle the multiple impacts of the adoption of a single currency is clearly insufficient. The theories of monetary integration, such as the one for “optimal monetary zones”, reveal themselves to be of very little use for our purposes. Furthermore, the European experience in this issue is lacking in similar historical precedents which could provide recourse. Nonetheless, it is not the first time that the process of European integration has to face insufficiencies of this kind. Indeed, on many occasions, the Commission has commended in-depth studies to accompany the political decision adopted, but in the specific case that we are dealing with here, it is not known whether the European Commission has commended a study, in contrast with the attitude displayed prior to the implantation of the Single Market in 1992, but why?. The situation has changed and the study of these factors allows us to enter directly into the first level of effects.

III.1.-Internal level

III.1.a.-The implantation of the Single Market meant a nasty shock for the then worrying lethargy of the process of European integration. On that occasion, the repercussions of the great internal market were analysed in the entire range of regions with problems. Then the technical difficulties of the analyses did not prevent from arriving at the conclusion that the most economically backward countries and regions would be negatively affected and that it was necessary to set up compensating mechanisms. The results of the periodic reports on the socio-economic development of the regions revealed the significant imbalance in terms of development that existed between the regions of the EU, a process which, far from being softened, was highlighted as the integration process deepened. All these reports backed the demand for the doubling of resources for the structural funds and for the creation of Cohesion Funds agreed at Maastricht, which assuaged the underprivileged countries and gave a definitive push to the Monetary Union. However, currently the wealthiest countries in the EU, Germany included, find themselves in the opposite position by attempting to diminish their net contributions to the community budget, by lending little support to the structural and Cohesion Funds and even questioning their operativity. But in this case, there have been no studies that might shed light on some compromising results. Still, it seems that delving into the regional consequences of the monetary union is of no interest, the data available are insufficient and neither the wealthy countries or the Commission itself seem interested in the results, perhaps because they suspect tendency.

Indeed, the studies undertaken on the impact of the Single European Act and the subsequent analyses of the socio-economic situation of the regions in the EU reveal that the internal market, far from what was stated by the neo-classical theoretical framework, has introduced new factors for activity concentration in the leading countries, increasing the real divergence relative in the Union as a whole. The processes of integration trigger polarising effects that may reinforce the existing problems and deepen the real difference of opinion. In this respect, we may affirm that one of the most important obstacles and the darkest spot found on the road towards the EMU is sustained in the regional basis. The greater the size of the market and the more the process of integration deepens, the more the risk of the territorial, social and sectorial imbalance of economic growth is multiplied. The theory of economic integration promises benefits for all the participating territories, but in no case does it assure an equally shared growth, and much less, an asymmetrical development in favour of the most depressed areas.

The leap towards the EMU to a great extent obviates this confirmation. Monetary stringency, budgetary discipline and “sustainable” convergence oblige weaker countries to make a very important effort in terms of economic growth, with rates higher than the community average. The monetary union will intensify competition within a framework where the lack of real convergence since the beginning of the single market has been and will continue to be constant. However, the EMU will benefit the wealthier regions of the EU to a greater extent, while the more backward regions will see their problems become more acute[8].

The instability of the process of integration in this respect is obvious and contrastable, hence the need to establish policies that tend to reinforce economic and social cohesion in order to soften their consequences with shock financial measures. These actions are now more necessary than ever, since the evolution of the European project reveals the fact that the inter-regional imbalances are on the increase, or at least, persist in the EU and within the Member States[9].

The champions of the trite neo-liberal theses argue that the mechanism for arriving at the adjustment in the more underdeveloped regions when the effects that result from the asymmetrical nature of the process become apparent centres on price flexibility, in particular, on labour costs, and on the mobility of the labour factor. Thus, this would involve substituting the disappeared exchange rate mechanism for a mechanism of flexible and distinctive prices and salaries, completed by a high mobility of the work force. Otherwise, the adjustments derived from these effects would be paid regionally in terms of production losses, real salary reduction and unemployment.

However, it is a fact that real and nominal salaries are already much lower in the poor regions than in the rich ones, which makes it extremely difficult to understand how they may be reduced even more without seriously threatening the economic and social cohesion of these areas. As far as labour mobility is concerned, there is no sign whatsoever that monetary integration will lead to great migratory movements between the North and the South[10]; in any case, the EMU will affect the mobility of the highly qualified work force which will redound even more to inequality with the exodus of human capital : a brain drain from poor regions to developed ones[11].

Within the implications in the internal sphere, emphasis has been placed on the fact that the success of the Monetary Union necessarily depends on the introduction of a broad mechanism of social stabilisation : in short, the reinforcement of cohesion factors. The transfer of power in the sphere of macro economic policies from a national to a supranational scale strengthens the need for greater solidarity. It is important to orchestrate a real European fiscal policy; however, the lack of political disposition in this issue is evident, with confrontations between the positions of the different countries. The lack of budgetary resources in the EU and the absence of harmonisation on an issue of personal income tax and capital duties are a handicap for efficiently studying in depth the lines on economic and social cohesion[12].

III.1.b.- On the other hand, as we have already pointed out, the transfer of power to supranational institutions is one of the characteristics of the process of European integration, and this has been strengthened by stepping towards the EMU, so that national States have seen themselves divested of one of the traditional tools of economic policy. In fact, this has led to many decisions being taken in the supranational authority of the EU. However, it is important to clarify the idea that the national

State, or rather, governments constituted to that end, may have lost predominance. This is certainly true in the sphere that we would call traditional operativity, but they continue to be fully represented in supranational authority, although not all have the same degree of power and therefore decision-making capacity. They are not all the same and so what can be affirmed is that some have lost to the benefit of others ; hence the need to seek alliances and consensus on the part of the weaker countries in order to face the undisputed predominance of the continental area lead by Germany. Therefore, national governments as such have leapt forward in order to be operative within the new framework being designed (regional blocks-universalisation).But those who have actually lost power and operativity are the regional authorities who find themselves under a national government, which in the face of complaints and demands, hides behind an omnipotent EU and does not find appropriate and sufficiently operative channels to convey and defend the interests of the former in Europe.

III.1. c. - For the twenty-first century, the EU will embark in the direction of expansion. This will mean an increase from 15 to 20 Member States with the incorporation, unlike the fourth expansion, of states with a somewhat lower level of development, even lower than the least developed countries within the Union. However, the effects on the existing level of inequality will be very important in that, if the opportune measures are not implemented, we may be faced with a "multi-level Europe" where there would be not one but several peripheries[13]. These dynamics, which are not new, can be seen definitively outlined with a view to the next century, and this certainly would not be the Europe that has been defended for the last forty years: it would be something else. Indeed, the determination of the 11 countries entering the third phase of the Monetary Union consolidates a non-homogenous and controlling core clearly discriminatory against the remaining four countries that are left out and for those on the way. How will relations with them be regulated? How will the real or potential benefits of the most integrated area reach them? Or, is this not even being questioned?

III.1.d.- If to all this are added the increase of neo-liberal tendencies and the fascination for the market as an all powerful agent, although at the expense of the process of historical evolution and acquired experience, we may find that Europe, a role model of development with a significant mainstay in social and mutually binding aspects, is more and more immersed in this neo-liberal drunkenness. The dismantling of the welfare state (pioneered and defended by the Member States), within a framework of growing integration in such delicate areas as the monetary aspect and the introduction of a single currency following the strict criteria of "sustainable" convergence, implies that adjustments will be materialised in terms of employment and discrimination in social conditions, and this is very dangerous, especially since, at decision-making levels on a national and regional scale, options of economic policies are not provided in order to face the need for “real” convergence. Economists know that convergence in real terms is what matters, as the nominal kind is worthless without real convergence, except to upset the balance of benefits in favour of the same ones as ever. Real convergence necessarily leads to nominal convergence; however, the nominal kind alone may worsen the chances of real convergence, and in fact this is what is happening.

III.2. - External level

III.2. a. - From the very beginning, one of the factors in favour of the process of European integration was that Europe, and in particular western Europe, should recover the status lost on a world wide scale. In a context such as the present one, where universalisation is the fundamental feature, this priority clearly emerges when before it had lain in the shadow of other factors. The EU has been and is an attempt to accumulate the combined influence of the countries that form it (albeit with different degrees of power among them, as we have already pointed out) in exchanges, markets and in the new geo-strategic design of the world which is being fashioned.

Thus, the EMU appears as a central tool for this objective and as a need to face and make adjustments to the new requirements of a world framework which is increasingly more universal[14]. The increase of competition for attracting markets and for consolidating traditional areas of influence linked with the appearance of new agents on the international scene and the revitalisation of the power of others, outline an international scene which is extremely unstable. As regards the factor that concerns us here, the EMU coincides with a moment of change in the financial markets of the world. This change began quite some time before the definition of the horizon of monetary unification, but was sufficiently sped up by the process of liberalisation of capital movement at the heart of the single market. The manifestation of this process is the internationalisation of international financial markets.

After the breakdown of the international monetary system, the following additional risk factors appear: the process of deregulation and liberalisation of capital movement and national financial systems; the appearance of new multinational agents of a very different nature with an important role on the international scene has demonstrated that the regulation of liquidity of the system lies in the hands of certain agents which, in fact, do not coincide with those declared on an institutional level. So much so that one of the factors that currently does not restrain the process of monetary unification within the EU is precisely the circumstance that the operational basis is multinational, dynamic, increasingly concentrated and asymmetrical. The absence of rules, regulations and controls that tend to soften or eliminate such asymmetry and concentration means that the risks involved for national States and the agents operating inside them, according to the place occupied at each moment on the power scale, have increased considerably. At this moment, the EMU is useful in order to mitigate these effects for almost all or at least for the forces that must move within the multinational framework and that have applied enormous pressure in this direction, including the national state, although this seems paradoxical.

III.2. b. - Where the role of the “Euro” in the world market is concerned, this currency will have to compete with the hegemonic role of the dollar in the system, and the risks are high. Despite the fact that United States trade supposes only 19.6% of the world total compared with almost 30% represented by the 11 member countries of the Euro, the dollar is presently the world currency of reference, since practically half the international commercial transactions take place in this currency, compared with 15.5% of those referred to the German mark, the only currency that will make up the Euro with certain importance in this aspect[15].

From the financial point of view, the dollar dominates the markets: more than 60% of the central bank reserves are in dollars, compared to the 20.1% of the currencies in the EU (including here the sterling pound, which will not participate in the initial single currency group). The dollar is involved in 41.5% of the transactions in world foreign exchange markets, compared to the German mark, which is represented by18.5%.

If we take note of the composition of international bond issues, those designated in dollars comprise 38.5% of the total, followed by German marks (15.7%) and the yen (12.8%). Until now, the issues designated in Ecus have only made up 1.7% of the world total, but if we add the issues designated in the currencies of the 11 countries that are to participate in the Euro, these represent around 29.5%[17].

However, the Euro, backed by the European Central Bank, is destined to become one of the great foreign currencies of reference, threatening the hegemony that the dollar has enjoyed since the end of the Second World War[18]. Until now, European potential from the commercial point of view has not been transferred to its currencies; however, the road begun with the ratification of the Treaty of the Union and the firm political disposition that has accompanied the entire process indicates that the EU is consolidating as a superpower[19] that will modify the strategy of the organisms for world economic cooperation. What remains to be seen is whether this will serve to soften the markedly asymmetrical nature of the system or, on the contrary, whether it will strengthen even more the centralised and concentrated process of decision-making. Finally, at this stage, we cannot fail to mention that the EU presents an important deficit from the political point of view, not only the much alluded and denounced “democratic deficit”,the solution of which has been postponed and which will create serious problems with the coming expansion, but also the subject of the limited development of foreign policy and common law and order, where the opposing interests of the Member States and submission to the United States continue to be a heavy weight dangling over the possible consolidation of the EU as a superpower on a world wide scale.

III.2.c.- Finally, however much the parities are fixed between European currencies, and between the Euro thus defined and other reserve currencies (dollar, sterling pound, Swiss franc, yen), from March 1998, the markets will be what ultimately defines the exchange rate for the Euro and even the relative parity within the Euro system. The anonymous, collective, universal decision will not only depend on inflation or interest rates in each country, but also on political climates, reactions of collective psychology, information from the media and world events[20].

The latest Asian crisis has demonstrated that the evolution of national economies, even on a relatively healthy basis, depends on financial movements that, once begun,are extraordinarily amplified by the volatile nature of enormous masses of capital that new technological information systems allow to be transferred in a question of seconds from one currency to another, from some securities to others and from some countries to others. And since one of the conditions of the IMF to refloat economies is precisely the even greater liberalisation of capital circulation, what results is the circulation of enormous masses of capital originated and invested in one place which, having lost confidence in those markets, seeks the opportunity of gain among world wide financial turbulence. In this respect, the transition to the Euro will be an especially delicate moment. If the confidence of the large world investors in the Euro, or in one of its components, is lost, there may be an inflexion in the value of the Euro or in one of its currencies. And once an uncontrolled depreciation movement arises, the imbalances of the European financial system, which also exist, may reach significant proportions[21].

IV- Final considerations

Despite the optimism expressed by many and the multiple advantages implied in the monetary union and the adoption of a common currency, as we have already pointed out, there are a number of black spots. It is born with a very important deficit in economic and social cohesion, which appears not to incite sufficient interest in order to be tackled to the depths required. Compensatory mechanisms should be orchestrated and the issue of fiscal harmonisation should be examined in depth. Both these actions are inevitable ; they may be disregarded over time, but should they not be implemented, both the Monetary Union and the EU may find survival seriously awkward.

Since it has been settled on supranational principles, monetary cooperation appears as a nasty shock in the direction of an in depth study reinforcing its economic aspects, but above all, the political aspects emerge in all their strength. Monetary integration is unequivocally linked to the concept of supranationality, but this is not enough. It is essential to go into the issue of political unification or rather into the political model that will define the EU. Without this, the process of deepening initiated midway through the 80's and which has accelerated in the 90's may well collapse. If to this is added the expansion process foreseen for the twenty-first century, just around the corner, this becomes even more pressing, and if it is not dealt with, the EU could find itself in grave difficulties for its consolidation as a superpower ; we would be standing before a giant with feet of clay.

Monetary union has been raised as a previous and necessary step to political union and both one and the other should be based on the criteria of solidarity, a premise which is not only essential as regards the European project, but also on a universal level. The EU has the chance to alter the bases on which an extremely asymmetrical universal system has been established. Another matter is whether the political disposition to do so exists. Let's hope that this is the case.

In the last analysis, for the study of the processes of integration, it is necessary to analyse the tools and policies used and to ask ourselves "who" is behind the process and for "whose" benefit it is being implemented. Given that power and knowledge are unequally distributed, integrating forces often have the capacity of transforming the underlying structures according to their own interests, inside an integrated economic space.

[1] The study of the economy does not respond to a Darwinian principle of evolution.

[2] The economy as part of the substance of international relations is usually confused with the strategy of the protagonists for whom it is both a weapon or an intervention, a means or an objective.

[3] It would have really been unthinkable and what is more a EMU would not have been possible without at least six founder countries of the European Economic Community, signatories of the Treaty of Rome. And undoubtedly it would have been impossible to enter into the process begun at the end of the 80's and ratified in Maastricht without a clear approval of interests on this point between France and Germany; hence, the strategic importance of the so-called Paris-Boon axis.

[4] This circumstance is highlighted by Hallstein, W.: "It has been rightly said that the EEC is like a remote-controlled pacific projectile in three phases: the first is the customs union; the second is the economic union, and the third is the political union" [Hallestein, W.: "NATO and the EEC " in "The Common Market, progress and controversy", a, London, 1964, page. 53. In the context wherein the author makes this statement, the simile includes the characteristics of the historical moment, but regardless of this, it would be convenient to ask remote-controlled by whom?, against whom? and in favour of whom?.

[5] The monetary history of the EEC has traditionally been considered as a succession of periods of unequal interest and concern for monetary objectives, which only acquire a complete meaning against the background of the general evolution of the IMS [See Varela, M. and Varela, F. "Sistema monetario y financiación internacional" Ed. Pirámide, Madrid, 1996, especially Ch. 4]

[6] It has been easier, within the judicial framework of the treaty, to gradually give greater intensity to monetary actions to be undertaken, and even the creation of new tools, than to repeal, suspend, or modify some of the points originally agreed upon.

[7] The first of them was based upon the idea that in order to achieve fixed and unchangeable exchange rates, a harmonisation of economic policies and especially monetary policies was required beforehand. The second aimed to obtain the same result, but considered that to do so, first of all it was necessary to establish fixed exchange rates, and this would make governments harmonise their policies.

[8] From the theory, it is indicated that the monetary union will have had greater benefits for those regions open to international trade, with greater flexibility in prices and salaries and greater functional and territorial mobility of production factors; these are characteristics that come together in the wealthier regions of the Community. In backward regions, there is usually a series of characteristics, such as the relative inflexibility of prices and salaries, closed economies and an

economic cycle which is not well synchronised with the one corresponding to more developed countries.

In these circumstances, the disappearance of the mechanism of the exchange rate, of the scene of economic policy, and the implantation of a monetary policy connected to the cycle of the leading European regions, worsen the existing real divergences even more.

[9] On this point, vagaries are of no value, nor requesting the citizens of less developed regions to be patient, since the evolution itself of the process commending the market with tasks that it cannot undertake has demonstrated that difficulties, far from being solved, increase.

... If the European regional economies automatically converged on the levels of average product per employed person and on the rate of unemployment, among others, we might be able to console ourselves. But this does not happen, and, therefore, an active regional policy continues to be essential and requires a new impetus with the implantation of the Euro. [See ESTEBAN, J. and VIVES, X. (Ed.) "Crecimiento y Convergencia regional en España y Europa", IAE, CSIC, Madrid, 1997.]

[10] On this subject and several considerations concerning labour mobility in Europe [see COLLINS, S.M.: "Economía Política del mantenimiento de la integración monetaria : un punto de vista sobre la UME" in MUNS, J. (dir.): "España y el euro : riesgos y oportunidades", Colección Estudios e Informes de la Caixa, nº 9, Servicio de Estudios de la Caixa, Barcelona, 1997.]

[11] The reaction of the wealthier Member States to the proposals of the Delors Plan II, the same as the unhidden intentions of countries such as Germany and Holland regarding the Structural Funds in the debate "Agenda 2000", reveal that the idea of a "common European house" is not in the minds of the architects who are directing the European project at this moment in time. Solidarity is definitely not the guiding line behind these actions. [See VAN DER WEE, M.: "European integration and inter-regional solidarity in the Community", Commission of the European Communities. Brussels, 1994.]

[12] International experience in this point reveals that higher levels of fiscal harmonisation are necessary (less subsidiarisation) and a common budget in agreement with the real and potential dimensions of the EEC, which via a policy of compensatory transfer, may face up to the intrinsic imbalances in the process and the problems of the crises that particularly affect some areas or territories of the Union. It is curious how the economic model of the United States, which the defenders of neo-liberalism in Europe usually take as an example for a good part of their arguments, is not up for imitation in this question.

[13] After all, economic and political "satellization" is also a form of integration.

[14] "... individually and independently European states cannot make their authority felt enough, neither can they create a counterweight against economic superpowers, such as the American area of free trade with Canada and Mexico (TLC), the forum of Asia Pacific Economic Cooperation (APEC) or the future China ... the creation of a large enough counterweight in international politics will probably have more meaning at the end of this century and at the beginning of the twenty-first century.

"...But if a common currency is not achieved, nor a common central bank, nor a common monetary policy, the EU will decline and will be merely an area of free trade with some structural appendices and it is possible that Germany will be newly isolated". [See SCHMIDT, H.: "Why I defend the Monetary Union", in AA.VV.. "A favor y en contra de la moneda única", Fundación Argentaria, and Estudios de Política Exterior, Madrid, 1997, page 32 and 35].

[15] European Commission, Bank of International Settlements and OECD

[16] Ibid.

[17] Ibid.

[18] In this respect, in a report by the International Monetary Fund on this subject, it is written that "The Euro has the necessary potential for reforming the European financial market and for transforming the international financial market".

[19] In this respect, to point out that the population of the eleven countries that comprise the third stage of the monetary union is 290 million people, higher by 8% than that of the United States, doubling by far the population of Japan ; its gross domestic product will be almost the same as that of the United States and far superior to that of Japan.

[20] "...Capital has demonstrated extraordinary instability, with changes in the flows that depend not only on the coherence of the policies followed by countries, but also on the perception that the investors may have of possible changes in these policies. This capacity of capital flows for a change of direction has been fostered by the concentration of investments in the hands of large institutional investors, who manage common information flows and whose action is rapidly known on the markets" [See VARELA, M. and VARELA, F.: "Sistema monetario y financiación internacional" De. Pirámide, Madrid. 1996, page 166]

[21] [See CASTELLS, M : "De te fábula narratur" in El País, 7th February 1998, p.56]