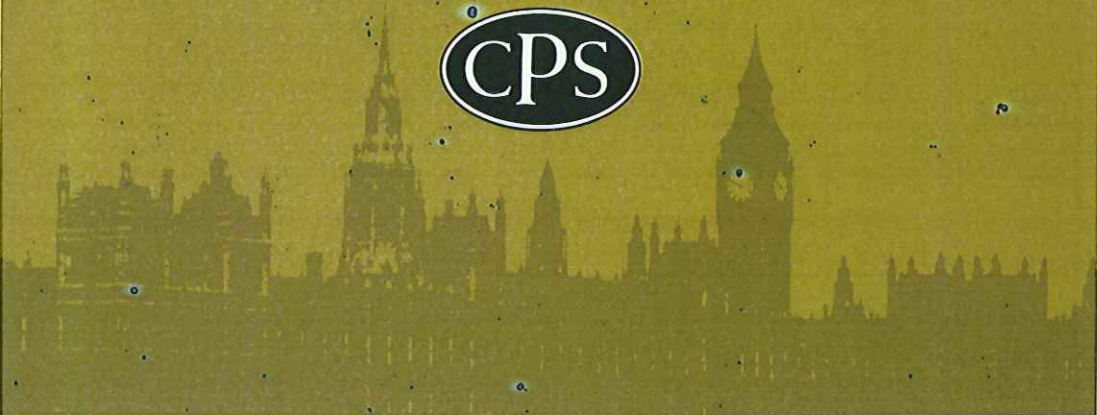


CENTRE FOR POLICY STUDIES

# The Creation and Destruction of EMU

WALTER ELTIS





POLICY STUDY NO 155

# **The Creation and Destruction of the Euro**

WALTER ELTIS

CENTRE FOR POLICY STUDIES  
57 Tufton Street, London SW1P 3QL  
1997

## THE AUTHOR

Dr Walter Eltis is an Emeritus Fellow of Exeter College, Oxford, and Visiting Professor of Economics in the University of Reading. He was Director General of the National Economic Development Office from 1988 to 1992, and Chief Economic Adviser to the President of the Board of Trade from 1992 to 1995. His books include *Britain's Economic Problem Revisited* (with Robert Bacon) and *The Classical Theory of Economic Growth*. He wrote *The Key to Higher Living Standards* for the Centre for Policy Studies in 1996. The present paper is developed from the article, 'Will EMU Fracture?', which *The International Bank Credit Analyst* published in Montreal in July 1997.

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# CHAPTER ONE

## INTRODUCTION

IT IS BECOMING CLEAR that the United Kingdom will be fortunate not to be a founder member of EMU when it is launched on 1 January 1999. Once they have embarked, all those countries which do join will have the same short-term interest rates – yet the representatives of each country will only have the influence of a single vote over their determination.

Twice within the last decade attempts to align British with European interest rates to control the level of sterling produced catastrophic effects. In 1987-89, Nigel Lawson's shadowing of the Deutschmark produced interest rates which were far too low, leading to explosive monetary growth and inflation of nearly 10%. From 1989 to 1992, Britain's brief membership of the Exchange Rate Mechanism produced interest rates which were far too high, an actual decline in bank lending and a deep recession with disastrous economic consequences.

The British economy is particularly vulnerable to inappropriate interest rates and exchange rates: the City of London is more deregulated than the financial sectors of France and Germany. As a result, too low or too high an interest rate does far more damage in Britain than in France or Germany. Real spending is more interest-elastic (sensitive to the rate of interest), so getting the interest rate wrong produces greater inflationary expansion or else contraction than in France and Germany.

The British exchange rate also has a markedly different impact because there is a far greater high-technology component in British than in French or German trade. Britain's high-technology competitors are mainly United States and Japanese, and partly for

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that reason sterling moves more closely with the dollar than the continental currencies. If Britain lost the flexibility to move with the dollar, British high-technology industries would be undermined whenever the dollar fell in relation to the continental currencies. The British economy will repeatedly pay a heavy price if British interest and exchange rates are again locked into those of France and Germany.

But there is now another reason why Britain is fortunate to be free of any obligation to participate in the forthcoming Euro. It is beginning to be understood that its creators perpetrated an incredible blunder by leaving it wide open to international speculation for 36 months between the start date of 1 January 1999 when all the participating currencies will remain legal tender and 31 December 2001 when they will finally be superseded by the Euro. During these 36 months, French and Belgian francs and the peseta and the lira, if Spain and Italy are included, will all remain legal tender alongside the D-Mark and the Dutch guilder. During these three years the world's financial community will be able to arrange to owe French francs and peseta or lira and to be paid in D-Marks or guilder, in case any element in the 'irrevocably' fixed exchange rate structure of 1 January 1999 breaks.<sup>1</sup>

A collapse during the three years in which national currencies remain legal tender would create an opening for banks and hedge funds to profit hugely at the expense of participating governments. As in 1992, some of Europe's governments will have an inescapable obligation to defend with all the resources at their disposal the exchange rate structure agreed at the end of 1998, while George Soros and others who command international financial resources will be free to express a costless preference for

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<sup>1</sup> See Tim Congdon, 'The Coming Collapse of EMU: The Maastricht Treaty is impractical to the point of impossibility', *Gerrard and National Monthly Economic Review*, August 1996, for an account of the conditions which will prevail between 1999 and 2002 if EMU is established.

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the D-Mark or the guilder, over the lira, the peseta, or the French franc. A breakdown in the agreed exchange rates cannot possibly result in a rise in their value against the D-Mark. But if there is any breach in the EMU dykes, hedge funds will again make billions from the resulting fall of the lira, the peseta, the French franc, or the Belgian franc (or indeed, sterling, if it enters and is again allowed to collapse, despite all assurances). The creators of EMU have astonishingly agreed to offer the world's financial community three complete years of costless one-way options.

The vulnerability of EMU to international speculation during this extensive transition period is beginning to be recognised. Martin Taylor the highly-regarded Chief Executive of Barclay's Bank astonished a St Gallen bankers' conference at the end of May by declaring that, if exchange rates for the start of EMU do not reflect true convergence but are politically imposed, it will become the duty of speculators to 'drive them apart'. Alan Greenspan the Chairman of the United States Federal Reserve also believes that the Euro will be vulnerable: he has been quoted as saying, 'The Euro will come but it will not be sustainable'. Niall FitzGerald the pro-European Chairman of Unilever commented in a lecture on 12 June 1997 that, 'Starting rates and participants will have to be carefully judged to avoid political tensions that might in due course tear the currency apart... if the Euro is set up on the wrong basis, the Single Currency could be blown apart within a few years – never to be seen again.'<sup>2</sup>

This condition, where the Euro will be extremely vulnerable to international speculation, has come about because it is a political construct. Its creators believe, despite accumulating evidence to the contrary, that governments are more powerful than the foreign exchange market. As Pierre-Antoine Delhommais commented in a series of documents on, 'La guerre des monnaies', published by *Le Monde* in March 1997:

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<sup>2</sup> Niall FitzGerald, *Tomorrow's Europe*, Lecture at the London School of Economics, 12 June 1997.

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The great majority of the French political class is persuaded that the actions and will of States are sufficient on their own to allow them to fix the course of exchange rates at the levels they desire.

Economists are aware of the power of the foreign exchange market but some believe that this can be disciplined by governments. A so-called Tobin tax (after James Tobin, the United States Nobel prize-winner in economics) has been proposed on all dealings in foreign exchange to limit the power of speculators to destroy currencies. Even if, which would be astonishing, the governments of all the G7 countries and every member of the European Union agreed to impose such a tax, a currency which the international financial community regarded as vulnerable and which therefore offered vast profits to hedge funds, could be destroyed in Swiss markets (for Switzerland would scarcely agree to cramp the scope of its highly profitable banks by agreeing to tax financial transactions in Zurich or Basel) or in Singapore or Hong Kong (if China is willing to profit from 'capitalism's internal contradictions'). If vast profits become available from the destruction of the lira or sterling as in 1992, no committee of Nobel Prize-winners, or Heads of State, or Finance Ministers can ring-fence them from the foreign exchange market's attentions. The distinguished Cambridge Professor, Wilhelm Buiter, a member of Gordon Brown's new Monetary Policy Committee, commented recently that 'foreign exchange dealers are moved by bandwagon effects and swept along on waves of euphoria or pessimism. Firmly held views are changed at the drop of a hat', and 'it is important for governments not to stand too much in awe of the market'; but he adds perceptively that governments have to pay attention to dealers 'in the same way that adults have to pay attention to children armed with Uzis' (*Economic Policy*, April 1997).

This paper will open with an account of how European politics is creating a list of EMU starters which will not converge

## INTRODUCTION

sufficiently to protect them from the pressures of which Martin Taylor, Alan Greenspan and Niall FitzGerald have spoken. It will continue with an account of how international speculation will then destroy the single currency.

The Conservative Party in Britain has been undermined for almost a Parliament by the debate on the merits of British participation in EMU. This debate was mainly about the single currency's implications for national sovereignty without any recognition of its potential vulnerability. Any temptation by the new Government to seek to enter, should be tempered by Martin Taylor's comment that no one presently knows at which point between 2.30 and 2.90 D-Marks the sustainable exchange rate of sterling lies. If the United Kingdom decides to participate, it could easily emerge that it has again entered a European exchange rate system at the wrong exchange rate. Prudence is likely to prevail, especially as there are some in the Labour government who are as suspicious of EMU as the most sceptical Conservatives.

If Britain remains outside EMU, the City of London will retain the same opportunities as Switzerland to be one of the world's leading financial centres. The Swiss franc is stronger than the D-Mark and it is likely to become far stronger in comparison with the Euro. Sterling's advantage could be similar if the Euro is weak while the Bank of England's new power to determine interest rates gradually raises Britain's anti-inflation credibility. The City of London has vastly more international financial business than Frankfurt and Paris combined and the advantages which have produced this will remain – and even grow, if the Euro proves vulnerable.

On June 24 1997, Eddie George, the Governor of the Bank of England was asked after his Mais lecture in the City University whether it would be damaging to postpone the single currency. His response was, 'I find it difficult to accept that if you see a precipice coming and you're running in a crowd, you say, "We can't stop now because someone might fall over us".' (*The Observer*, 29 June 1997).

## CHAPTER TWO

### HOW EMU WILL BE ESTABLISHED

EMU IS STILL LIKELY TO PROCEED on the agreed start-date, 1 January 1999. Many countries including Germany will find it difficult to meet the Maastricht criteria but the political will to go ahead is likely to overrule the economic realities, at least in the short term.

The German Government is taking the lead in the establishment of EMU. However, the majority of Germans do not wish to give up the D-Mark, and many fear its replacement by a 'Palermo mark'. As a result, German money has flooded to Switzerland, despite the fact that Swiss interest rates are 2% below Germany's (a reflection of the greater credibility of the Swiss franc). But there is a long-standing tradition in German politics that the opinions of the German people are a challenge for their leaders to overcome whenever they contradict the judgements of those who govern Germany. Bismarck set the scene with his description of universal suffrage as, 'government of a house by its nursery. But you can do anything with children.'<sup>3</sup>

Chancellor Kohl and those close to him are determined, for over-riding reasons of state, that EMU will begin on time. Gerhardt Schröder, a possible leader of the opposition Social Democrats, favours the retention of the D-Mark, but he is not yet the official opposition candidate. Kohl may win the German elections in 1998 if he faces an unreconstructed opposition. Should that happen, EMU will continue to be driven remorselessly forward.

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<sup>3</sup> *Geoffrey Madden's Notebooks*, ed. J A Gere and John Sparrow with an Introduction by Harold Macmillan, Oxford University Press, 1981, p.48.

## HOW EMU WILL BE ESTABLISHED

It is now certain that Germany will technically fail to fulfil the Maastricht criteria. Its budget deficit became uncontrollable by orthodox means after unemployment shot up by more than 400,000 in a single month. During 1996, 40 billion D-Marks of investment by German companies was made outside Germany, and German labour costs are still, despite the recent fall in the D-Mark, far above those in any other country except Switzerland. Private sector employment has been falling in Germany and there is continuing job-destruction while employment is exported East and West: more than 1,000 German companies manufacture in Britain, led by Siemens which is investing £1.3 billion in a semiconductor plant. German unemployment will continue to grow during 1997, and because unemployment destroys budgets, the deficit on which Germany's fulfilment of the Maastricht criteria will be judged will be substantially above 3%.

Kohl will have to acquiesce in the dilution of the criteria by which Germany's deficit and therefore everyone else's will be judged. The European Commission, which is also determined that EMU should go ahead, takes technical advice from Eurostat, the statistical office of the Commission. Eurostat has agreed that all kinds of one-off payments may count towards the calculation of Europe's deficits, including the most notorious case of them all: the 0.5% of GDP that France-Telecom paid the French state in return for a take-over of its future pensions liabilities. This will improve the French budget during 1997 and produce a budgetary deterioration in later years as the state has to pay pensions which would otherwise have been the responsibility of France-Telecom. France will require further tolerance as its newly elected Socialist government seeks to introduce new 'employment-creating' expenditures. Its first proposals are to raise substantially the taxation of profits. This will cut the deficit in the short term – but go on to damage long-term employment, so after an initial improvement, France's budgetary situation will deteriorate.

There has been agreement by Eurostat to regard Italian capital transfers as deficit-reducing within the current year, and to accept a

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one-off Italian Euro-tax as an indicator of long-term convergence. The Italian Government has even promised to refund part of the Euro-tax to taxpayers in 1999 when its budget will swing back into larger deficit after entry into EMU is achieved: Albert De Michaelis, a senior Eurostat official, has said that this promise to reimburse the Italian taxpayer does not invalidate the Euro-tax as a deficit-reducing measure. The promise to pay the tax back in 1999 is not legally binding because it is no more than 'a political commitment' (*Financial Times*, 22 February).

Germany's expedient to get its prospective deficit below 3% was to have been a revaluation of the Bundesbank's gold reserves but this has been successfully resisted by the Bundesbank. It is likely that Kohl will now seek alternative capital account adjustments which will satisfy Eurostat without outraging the Bundesbank.

Kohl will also have to resist the possible challenge from Gerhard Schröder and scrutiny by the German Constitutional Court which can declare that any dilution of the agreed criteria has invalidated Germany's signature of the Maastricht Treaty. If he can overcome those obstacles, an acquiescent Eurostat, a determined Commission and a qualified majority of the Council of Ministers will ensure that sufficient countries qualify for EMU, and that the project will go ahead. Because Germany will only qualify through acquiescence in a confusion of capital with current transactions or else a bending of the criteria, others whom Germany would prefer to exclude will also have to be admitted. A dilution of statistical scrutiny for Germany is bound to loosen the criteria by which the budgets of others are judged.

Belgium's debt to GDP ratio is still 130%, more than twice the permitted maximum, and it is at the heart of the Commission's list of EMU starters. It already enjoys monetary union with Luxembourg, the most impeccable of candidates. But if Germany has to be finessed through the criteria and there is also acquiescence in Belgium's 130% debt to GDP ratio, who can be excluded? Greece will fail on all the criteria and it does not expect to enter, while Denmark has the right to stand aside, and Sweden

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may prefer to retain its right to devalue which has figured so successfully in its economic policy in the last decade. Britain is entitled to keep well clear of EMU. It is probable, therefore, that the first wave of EMU entrants will comprise 11 members (that is, the 15 members of the EU, excluding Greece, Denmark, Sweden and the UK).

How can Italy be excluded if Spain and Portugal are admitted? France will favour the inclusion of Spain and Italy because French employment and tourism have been severely damaged by the devaluations of its southern neighbours. France would also welcome the presence of Spanish and Italian directors in Europe's new central bank. It has not relished the domination of the Bundesbank over French monetary policy for more than a decade, and it hopes that the submergence of a single Bundesbank director within a board that includes many non-German directors will give France the opportunity to recover a degree of influence over its monetary policy. That is likely to remain the view of the new French government because it reflects the assessment of the nature of French interests of all Socialists and most Gaullists.

## CHAPTER THREE

### EUROPE'S PREVIOUS MONETARY UNION

FEW REMEMBER FRANCE'S PREVIOUS leadership of a European Monetary Union. In 1865 France, Belgium, Italy and Switzerland formed a Latin Monetary Union and were soon joined by the Papal States (on their union with Italy) and Greece.<sup>4</sup> This used the French franc as its common unit of account, and silver coins of equal weight were minted in each country. These were called French francs in France, Belgian francs in Belgium, Swiss francs in Switzerland, lira in Italy and drachmas in Greece.

Difficulties arose in 1866 after Italy printed paper money in time of war and France also printed money in the débâcle of 1870-71. Later in the 1870s, the Union's silver coins became seriously overvalued after a collapse in the price of silver in relation to gold. This meant that, like today's paper money, the Union's silver coins were worth more as legal tender than the metal they contained. Germany and Holland unloaded all the over-valued silver coins they could find on France in exchange for gold which was worth more. Italy's small silver change disappeared overseas and Italian businesses had to use stamps as currency in place of coins. It was in the interests of each country in the Union to issue as many over-valued coins as possible to gain

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<sup>4</sup> This chapter draws heavily on the article, 'Latin Union' in Palgrave's *Dictionary of Political Economy*, London: Macmillan, 1900, vol. II, pp. 570-4. *The New Palgrave Dictionary of Economics*, edited by John Eatwell et al. in 1987, has omitted this article and failed to replace it with another which includes an account of the Latin Monetary Union. 'Those who forget their history are sentenced to repeat it.'

## EUROPE'S PREVIOUS MONETARY UNION

purchasing power at the expense of the others. They had to be restrained from doing so. Exceptions were made for Greece and Italy which had special needs for extra resources.

Finally, the dissolution of the Union became a possibility and the other countries asked France for a guarantee that, in that event, they would be repaid the gold value of their reserves of silver francs. France declined to give that exchange rate guarantee, Belgium walked out, and the Union dissolved in acrimony, but it had lasted, much diluted, from 1865 until the 1890s. Will a new EMU survive as long?

Can it actually survive its critical three years of transition if it includes some of Europe's most financially vulnerable economies?

## CHAPTER FOUR

### THE VULNERABILITY OF EMU BETWEEN 1999 AND 2002

EUROPE'S UNEMPLOYMENT IS HIGH and rising. Spanish unemployment exceeds 22% while French and Italian unemployment exceed 12%. In the short term, extra public expenditure can preserve jobs which are otherwise threatened by market forces, while tax-cuts can be targeted on the costs of employing labour. This the European Commission supports as a means to raise employment.

There will be elections in Europe in 1999, 2000 and 2001 and electorates are desperately concerned to contain unemployment. European governments will want to introduce job-creating strategies which cost public money, and if they have gained entry to EMU through creative accounting, there will be still less resistance to its use afterwards. It is therefore certain that some budgets will move even more strongly into deficit. The sophisticated analysts of the world's capital markets will immediately understand what is happening. It is only Eurostat and a few of Europe's governments which will assert that all is under control.

As with the nineteenth century Latin Monetary Union, the countries which succeed in running the largest deficits will attract real resources from those with sounder finance. Those with the soundest budgets will resent this, but there will not be a majority of directors in Europe's new central bank to prevent it. With confused accounting, those continuing to run sound budgets will not even be able to establish the existence of anything untoward.

A further difficulty is that some of the exchange rates which will be 'irrevocably fixed' on 31st December 1998 will subsequently

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become inappropriate. The DM 2.95 at which sterling entered the ERM in October 1990 proved unsustainable. France will support the admission of Italy and Spain into EMU but it will exact the price of high initial exchange rates for the lira and the peseta to restore some of its lost competitiveness. Italy and Spain will accept that price to gain admission, but their companies will be embarrassed afterwards as Britain's were between 1990 and 1992.

Italy held back growth during 1996 while it tightened its budget to qualify for EMU; now it is behind France and Germany in the economic cycle. That will give it all the more reason to expand exceptionally during 1999 and 2000, and, with its exchange rate almost certainly overvalued, its currency will come under pressure in the first years of EMU. Strains will then emerge within Europe. The old safety-valve for these was a lower exchange rate, but that solution will no longer be available. The mechanism for redistributing employment within a single currency area, such as the United States, is falling pay in regions where jobs are lost, and rising pay where labour is scarce: such developments have produced great internal migrations. That can not occur in Europe, which lacks a common language and where governments pay sufficient unemployment benefits to persuade many who lack jobs to remain where they are. According to Rudi Dornbusch, one of the world's most distinguished international economists:

The United States has substantial flexibility in both wages and labour market institutions. With such arrangements it could conceivably enter a regime of fixed exchange rates. Europe has neither flexible wages nor functioning labour markets, but already has mass unemployment. EMU will add to it, both on the way there and once the system is trapped in fixed rates across divergent countries. If there was ever a bad idea, EMU is it.<sup>5</sup>

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<sup>5</sup> Rudi Dornbusch, 'Euro Fantasies', *Foreign Affairs*, vol. 75(5), September/October 1996, p.124.

## THE CREATION AND DESTRUCTION OF EMU

Much will be expected from Europe's fixed currency bloc if it begins to operate in 1999. When Britain entered the ERM in October 1990, the Chancellor, John Major, was immediately able to announce a 1% cut in bank base rates from 15% to 14%. His successor, Norman Lamont was able to cut them further to 10% by May 1992, and inflation was reduced from 9.5% in 1990 to 3.7% in 1992. Much could be said in favour of the policy to join the ERM, and it was, but in September 1992 the world's foreign exchange markets demonstrated that continuing membership was unsustainable. The world's foreign exchange transactions exceed \$1,400 billion a day, while the aggregate reserves of all the world's governments total no more than \$1,400 billion. Governments are impotent where there is any lack of confidence in a politically-engineered exchange rate structure. A week before sterling fell, Lamont obtained a 25 billion D-Mark loan. The chairman of one of London's merchant banks remarked, 'For a day everyone was very impressed. The next day they said, "thank you very much" and took the money.'

It took almost two years for sterling to encounter this insurmountable pressure. EMU might have an easy ride at first. But the political pressures to reduce unemployment will eventually strike one or more governments, and a continuation of fictitious budgets will arouse the suspicions of the international financial community. All those who operate in a country's currency will then take evasive action the moment critical articles on the budgetary policies of any European government begin to appear. The world's plethora of 'teenage scribblers' is paid to write striking articles each week. Journalists pick these up quickly.

Imagine that it is Italy (it could just as well be France or Spain). Then everyone will be conscious of their exposure to the lira and they will not need to hold any. At the irrevocably fixed exchange rates, there will be no penalty in switching lira deposits into D-Marks. Even if the option of switching into Euros exists and the Euro is available as transactions money before 2002, most will prefer D-Marks. In the event of an EMU breakdown, it will prove

## THE VULNERABILITY OF EMU BETWEEN 1999 AND 2002

more profitable to switch from the lira to the D-Mark or the Dutch guilder than from the lira to the Euro. That Italy will be behind Germany and Holland in the cycle will strengthen the case for holding Dutch or German currency if there is any possibility of an EMU breakdown.

There may be an initial agreement in 1999 to convert all the government bonds of EMU members into Euro-denominated bonds. In the absence of such an agreement, those who hold lira denominated bonds – and Italy's debt to GDP ratio is more than twice Maastricht's permitted 60% so there are plenty of them – will prefer to have their wealth denominated in D-Marks. They will therefore sell Italian and buy German bills and bonds. Here they will sacrifice some interest: Canada has a single currency, and oil rich Alberta pays 0.60% less interest than the resource-poor maritime provinces and more heavily-indebted Quebec. The explanation of North American interest rate differentials within single currency areas is the additional default risk in heavily indebted cities and provinces. If French-Canada can be required to pay more interest than English-Canada, more interest can also be required from Italian-Europe than from German-Europe if it follows less disciplined policies.

If suspicion falls on Italy or Spain, money will flood away from Italian and Spanish bank deposits and into bank deposits denominated in other currencies. This will add to the interest rate differential against Italy or Spain which will be much discussed in the world's financial press.

All the money that leaves Italy or Spain from holders of bonds and bills, and from exporters and importers who manage to reduce their exposure to the lira or the peseta, will seek a home in bank deposits and in bills and bonds denominated in D-Marks or guilder. In principle, that vast monetary movement could be contained by an equivalent creation of D-Marks by the Bundesbank. The new European Central Bank will be able to print Euros, but it will not be free to print D-Marks. Will it

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concern the Bundesbank if it has to keep buying liras or pesetas and selling D-Marks which it has to print in response to the flood of liras or pesetas which the world is seeking to unload at the irrevocably fixed exchange rates? If the Bundesbank is willing to be an unlimited buyer of liras or pesetas and issuer of D-Marks, the world will be able to change its liras or pesetas into D-Marks if that is what it desires, and the fixed exchange rate will be sustained. All the liras and pesetas and D-Marks will be due to become Euros in 2002, so where will the problem lie?

The difficulty is that a massive printing of D-Marks will leave most Germans, and not least the directors of the Bundesbank, more than unhappy. The situation would be containable if the European Central Bank gave an exchange rate guarantee to all holders of liras and pesetas including the Bundesbank that in 2002 these would unquestionably be exchangeable for Euros at the irrevocably fixed exchange rates. Professor Congdon has pointed out that this guarantee has not been offered and that it can only be offered by Europe's governments. Only they have the real resources to back up a guarantee that, in the event of an Italian or Spanish departure from EMU, all liras and pesetas will be convertible at the previously agreed exchange rates. In the absence of such a guarantee, Germany and the Bundesbank acting on its behalf will be unwilling to flood the world with D-Marks in exchange for liras or pesetas. In the nineteenth century Latin Monetary Union, France declined to offer an exchange rate guarantee in the event of dissolution. Germany will similarly decline to guarantee the currencies of countries which are allowed to slither into EMU during 1998.

The new European Central bank may have the legal authority to *instruct* the Bundesbank to print an unlimited quantity of D-Marks; but if that instruction is compromised by injunctions in the German courts, where the loss of the D-Mark will have many opponents, the Bundesbank could stall, as it stalled while Sterling foundered.

As soon as the possibility of the departure of one or more countries from EMU between 1999 and 2002 is recognised,

## THE VULNERABILITY OF EMU BETWEEN 1999 AND 2002

movement towards the D-Mark will not be confined to those who are exposed to weaker currencies through trade or holdings of debt denominated in their money. There will be staggering opportunities for profit at the expense of those who, like the British government in 1992, seek to hang on to exchange rates which they cannot in the end sustain. George Soros will be there. He has already written:

In all likelihood the Euro will be introduced in 1999 as specified in the timetable... People will direct all their anger and resentment over unemployment at the single currency. There may well be a political revolt – particularly in France, notorious for such rebellions – and it would likely take a nationalistic anti-European direction... mounting popular discontent would likely sweep away present policies, including the single currency.<sup>6</sup>

It is to be hoped that the warnings from Dornbusch and Soros and many others will alert Europe's leaders to the cliff-edge before it is too late. Many have warned that the project will end in disaster if the entry conditions are politically manipulated, as they are now bound to be if EMU is to go ahead. Our Duke of Wellington remarked nearly two centuries ago, 'Any one can get 10,000 men into a square but it needs a real general to get them out again.'<sup>7</sup> Has Europe the real generals it will need to march eleven governments out of Maastricht?

Those determined to persist with monetary union will need to learn from Chancellor Kohl's unification of the Ost-mark with the West-mark in a single day. They will need to create a new detailed administrative programme for instant monetary union, and as its

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<sup>6</sup> George Soros, 'Can Europe Work?' *Foreign Affairs*, vol. 75(5), September-October 1996, pp. 10-11.

<sup>7</sup> Elizabeth Longford, *Wellington: Pillar of State*, Weidenfeld and Nicolson, 1972, p.61.

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development, and the negotiations leading to its adoption, are bound to take time, the implementation of monetary union will need to be delayed. Any postponement of the start date without an equivalent postponement of the 31 December 2001 end-date for the period of transition will narrow the period in which the Euro is vulnerable to the world's currency markets.

But the creation of a Euro that survives into 2002 would still leave the task of reducing Europe's unemployment without the advantages that exchange rate flexibility now offers to individual European economies with high unemployment. Will the younger generation of Europe's politicians, which has already taken over in one country, be willing to take the risks with employment that the Euro will inevitably create?

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